



On 2023.01.01
Budget 2023

Management Letter on the Audit of Projects

For the Period from 1st of January to 31st of December 2023
to the Public Association "Transparency International – Moldova"

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PRIVATE AND CONFIDENTIAL

To the management of Public Association Transparency International - Moldova (TI-M), Chisinau, Republic of Moldova

Subject: Audit of the Financial Statements of TIM activities for the period
January to December 2023

MANAGEMENT LETTER

We have recently completed the audit of the financial statements of the Public Association "Transparency International - Moldova" (hereinafter "TI-M") activities for the period 01.01.2023-31.12.2023. The purpose of this letter is to draw your attention to the findings documented by us throughout the audit. The respective issues are further described in the attached report.

Our objective while drawing up this report is to use the information gathered by us during the audit to make certain comments and suggestions that would be useful for you. However, please note that the primary objective of our verification is to express an opinion on financial statements; therefore we do not aim to specifically test the internal control system. Thus, this verification should not be relied upon to detect all material misstatements and shortcomings that may exist. In addition, this report is not to be considered as an attestation opinion, neither shall it diminish or exempt you from your responsibility for setting up an adequate internal control system.

This report is part of our continuing dialogue between the Association "Transparency International - Moldova" and us, and has been intended solely for the use of the management of TI-M and donors.

We also note that the TI-M's management is responsible for the design and implementation of a proper internal control system. As part of the internal control system, we have analyzed the control environment by looking at the following areas:

- Managing project accounting according to donors' budgets per projects;
- Managing bank accounts;
- Accounting records and systems;
- Managing procurement of goods, works and services;
- Managing costs of salaries and honoraria;
- Reporting to donors and local tax authorities.

Standards and Ethics

Our engagement has been undertaken in accordance with the:

- ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and ISA 710 "Comparative Information Corresponding Figures and Comparative Financial Statements"
- IFAC Code of Ethics for Professional Accountants.

Sources of Information

The report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records.

Use of Information

This information is intended solely for the purpose set forth above under the objective.

This letter is drafted solely for your own confidential use and solely for the purpose of submission by you to the donor in connection with the Agreement.

This management letter may not be relied upon for any other purposes, nor may it be distributed to the third parties.

This letter relates only to the report specified above, and does not extend to other financial statements.

This information is intended solely for the management of TI-M and donors while Audit Firm ALKONT is not liable before the third parties that could use this information for any purposes.



Alla Kulikovskaia

July 18, 2024

REPORT OF FACTUAL FINDINGS

Reason for the Audit

The audit had been foreseen in the 2024 Annual Audit Plan and was performed based on Contracts No.06-08-24-NGO (dated 01.06.2024).

1. Financial Information Subject to Audit

The information subject to audit covers financial statements stated in TI-M accounting system of the project activity for the period from 1 January to 31 December 2023.

We provide evidence of a sufficient number of audited financial documents and calculations to support the declared costs of assets and liabilities in the financial statements, as well as costs of project expenditure based on materiality and risk.

Within this expenditure verification, we have applied the rules of expenditure selection and the principles and criteria for verification coverage under TI-M's activity.

The total financial data verified by us amounts to EUR 506 503 and is summarized in the table below. The overall Expenditure Coverage Ratio is 93%.

Financial Items	Reported	Verified	Verified
	EUR	EUR	%%
Balance items			
Long-term Assets	4 084	4 084	100%
Inventory	826	420	51%
Receivables	3	0	0%
Cash	84 124	84 124	100%
Other assets	3100	1500	48%
Targeted Financing	84 124	84 124	100%
Liabilities	171	171	100%
Project Financial Statements:			
Revenues	222 203	222 203	100%
Expenditure:	148 035	109 877	74%
<i>Salary costs and social insurance</i>	73 447	73 447	100%
<i>Third-party services</i>	26 014	18 056	69%
<i>Rent and utilities</i>	6 799	4 273	63%
<i>Transportation</i>	2 030	1 560	77%
<i>Local taxes and bank services</i>	609	241	40%
<i>Other costs and services</i>	39 135	12 300	31%
Total amounts	546 670	506 503	93%

We have verified the selected amounts as shown in the above summary table (see Financial Statements page 4-6), and for each selected item we have carried out the verification procedures specified under points 2 and 3 of this report for audit purposes.

2. General Procedures

2.1 Terms and Conditions of Grant Agreements

The main purpose of the audit control was to determine the reliability of financial statements and compliance of economic and financial operations carried out by TI-M with the conditions stipulated by the donors on project implementation and standard acts of the Republic of Moldova.

Source documents and accounts of the organization were verified and analyzed within the audit, including the control of:

- Targeted financing received for project purposes;
- Source documents on the use of donated funds and their record in accounting books;
- Record of expenditure according to budget items;
- Transactions implying relations with the Moldovan tax authorities.

The control was performed in compliance with the Law on Accounting, International Auditing Standards, and National Fiscal Rules.

The control was performed on sections of the financial statement based on the detailed and selective methods.

2.2. Anti-Corruption Policy

The TI-M's policy is drawn up in accordance with the local legislation. The Anti-Corruption Policy is to be revised by the TI-M administration to align it with the legislative rigors every two years, as recorded in the minutes. It should be noted that the last revision meeting was held in January 2023.

***Audit Findings:** During the reporting period, TI-M had complied with the anti-corruption policy provisions and the auditors did not notice any deviations. As a result of our audit, no situations were identified that would cast doubt on the legal or proper management of the grant projects and sales policies.*

2.3 Accounting and Record Keeping Rules. Significant Accounting Policies

The project financial statements are drawn up in accordance with the National Accounting Standards adopted based on the International Financial Reporting Standards (IFRS).

The amounts in the financial statements are expressed in MDL, USD and MDL/EUR. The main accounting principle applied is assessed according to the historical cost.

***Audit Findings:** When drafting financial statements to donors, the cash-basis accounting method is used, which means that expenditures related to the use of targeted financing are*

recognized in accounting books at the moment of their paid. Such cash-basis accounting method is acceptable for this type of financial reports by TI-M.

2.4 Revenues

Amounts transferred to TI-M in connection with project activities had been verified by donors, and auditors reconciled those amounts with the numbers in the Beneficiary's financial report.

Audit Findings: *After checking compliance with contractual provisions, accuracy criteria, accounting, completeness and disclosure of financial statements, we verified the accuracy of project income calculation. All revenues are fully accounted for in accordance with the Agreement (see p.IV. of the Financial Reports, page 7-8).*

All receipts from donors in EUR are reflected in the accounts in foreign currency and converted at the rate of the National Bank of Moldova to the national currency (Moldovan lei) on the day of recognition.

All receipts from donors in MDL are reflected in the cash accounts in full.

2.5 Project Financial Reports

The audit examined the project reports for the period of January-December 2023.

Audit Findings: *The reports are based on the actual data from accounting books. The auditors have compared the data presented in the reports with the source documents and entries in accounting books. Financial data presented in the narrative reports do not contradict the expenditure amounts in the project reports (see Financial Reports per Projects page 08-13 and Annex 1).*

2.6 Cash and Bank Accounts

TI-M operates through bank accounts and uses petty cash in its transactions only 0.3%.

The accountant prepares payment documents, uploads the files to the online banking system for approval, and makes records of project activities in the accounts. TI-M uses e-Banking for payments. The Executive Director and Accountant are the persons authorized to sign payment orders for bank transfers.

Specifically, expenditures agree with supporting documents, the location and timing of occurrence, as well as payment record.

Audit Findings: *The closing balance as of 31 December 2022 equals the opening balance as of January 01, 2023. Cash transactions comply with local law and account balances are confirmed by bank statements and accounting records:*

On 31.12.2023, total cash in bank accounts in MDL – 1 123 228,42;
 Petty cash in MDL – 411,98; bank accounts in USD – 29 000,00
 and bank account in EUR – 0.

The organization tries to keep records of funds in separate accounts.

2.7 Exchange Rates

We have examined the exchange rates used to translate transactions received in USD and EUR and record them in local MDL currency. Exchange into local currency is actually carried out at the commercial bank's rate (Victoriabank S.A., Chisinau Centru).

Project expenditures of funding organizations with contracts in United States dollars are recorded in local currency ledgers, and the dollar equivalent is recorded at the commercial exchange rate at the date of exchange.

TI-M used the average annual rate of 19.5881 lei per EUR to compile total project reports in EURO.

In addition, funds received in the MDL from various donor representatives in the Republic of Moldova are reflected in the exchange rate of the MDL/EUR of the National Bank of Moldova. The average cost is 19.5881 MDL per EUR.

Audit Findings: At the end of the reporting period, all balance sheet accounts in local currency were translated in the auditor's report according to the official exchange rate of the National Bank of Moldova as of 31 December 2023 – 19.3574 lei for 1 euro, solely for clarity of balance sheet items.

Exchange differences have been fully accounted for in books in accordance with local legislation.

3. Procedures to Verify Conformity of Expenditures with the Budgets and Analytical Review

3.1 Project Expenditure Budget

We have carried out an analytical review of the reported expenditure.

Checking Project Budget Plan Implementation in 2023

Projects	Budget		Actual costs		Budget execution
	MDL	USD	MDL	USD	%%
Project: SINLEC-20-GR3112		264 750		86 760	33%
Grant No. SMD70023GR0036		24 778		24 778	100%
Pr. Funky Sitizens		53 005		26 066	49%
Pr.00120215 UNDP	1 127 448		76 234		7%
Pr. "Consolidation of integrity in public procurement" IDIS		22 034		5 833	26%

We have compared the budget statements in the Financial Reports with the budget approved in the Agreement with donors.

Audit Findings: *The budget presented in the project financial reports is identical to that specified in the Agreement with donors. The financial reports of the TI-M projects include a comparison between the approved budget and the actual costs for each aggregated budget line for the reporting period.*

3.2 Amendments to the Project Budget

We inquired whether there had been any changes to the budget for this reporting period and were informed that there had been no such changes.

Audit Findings:

As a result of monitoring project costs, auditors have not identified any signs of changes to the budget by project coordinators in business correspondence.

3.3 Managing Procurement of Goods, Works and Services

During our audit procedures and performed tests, we were guided by the instructions set out in the donor agreement for projects.

We have identified that:

- Cash payment is accepted only based on supporting documents. This condition is properly fulfilled by the organization;
- All the source documents at the basis of accounting records are filled out in compliance with the legislation in force and have supporting signatures, tax codes, and stamps;
- The received tangible assets have been registered based on payment documents and tax invoices according to the amounts indicated in the supporting documents;
- Expenses have been reflected in the accounting based on retirement records of tangible assets, in compliance with project budget items;
- Consumables agree with the inventory documents as of the corresponding date.

Audit Findings: *For the period from January to December 2023, TI-M had procured goods and services. Asset costs correspond to the local prices for similar products and services. The organization processes major procurements of goods and services based on contracts with suppliers.*

The auditors have not revealed any cases of staff covering personal expenses or making other payments not stipulated in the budget.

4. Report of the Auditor's Assignment follows up on the Auditing Contracts No.06-08-24-NGO on the auditing of projects and financial activity dated 01 June 2024 and signed by TI-M.

4.1 We examine the propriety of project accounting records and their conformity with the project agreements in all their parts, as well as with relevant local regulations.

Audit Findings: *TI-M keeps project accounting records in accordance with the project agreement and approved budgets for all their items. Accounting is consistent with the local tax law and accounting practices in NGOs.*

4.2 We examine whether the person(s) enjoying the power of disposal over the bank account is/are the same or among those officially authorized to act on behalf of the organization.

For the audited period, the officially authorized representative of the TI-M's activity is the executive director Lilia Cravcenco who has signed agreements with donors. The bank account is managed by the executive director, Lilia Cravcenco and financial manager, Nadejda Ojog.

Audit Findings: *This information complies with official TI-M documents, as well as orders and appointments.*

4.3 We examine various project bookkeeping accounts with their supporting documents of receipts and payments in the national currency and verify whether a clear distinction is maintained between amounts actually paid out at the point of time when the accounting period ends.

Audit Findings: *It should be noted that all payments covering project costs have been made based on submitted bills, contracts, and tax invoices.*

4.4 We examine whether any bank interest has been gained from disbursements by TI-M and/or any third party.

Audit Findings: *For the audited period, the auditors have not found any interest either in TI-M's bank accounts or in accounting books.*

4.5 We examine any depreciation that does not represent actual payments in the sense of a receipts and payments account.

Audit Findings: We confirm that depreciation of fixed assets has been included in the report to local authorities and is not present in the TI-M's accounting books for project expenditure purposes.

4.6 We examine staff payrolls and salaries paid their being in accordance with the grant contract and whether the salary costs debited to the project are regularly entered in accounting in a systematic way throughout the year.

The TI-M's accountant prepares the payroll calculations monthly for each project according to budget lines. The executive director then validates and approves the payroll documents. After payroll documents are reviewed, the accountant initiates payments in the online banking system for approval. The TI-M's executive director then approves the payment. Calculation of salaries and related contributions is done in the automated accounting system (1-C version 8) and corresponds to the financial and bank documents and tax reports.

Audit Findings: We must mention that social and health insurance contributions have been correct. The tax and salary contribution calculation function are automated and performed by accounting software. Payroll software testing has not revealed significant deviations from salary records and tax legislation. The auditors believe that the costs of staff and other specialists assigned to projects have been calculated based on the salary agreed in the project budgets.

Results of the audit of the financial activities of TI-M

Having performed the audit procedures, we can state with a sufficient degree of certainty that financial statements correspond to the accounting data and supporting source documents:

- The organization's accounting policies comply with the legislation and practice of accounting in non-profit organizations. TI-M complies with the main provisions of the accounting policy for 2023;
- The salary costs were debited to the projects and verified based on supporting documentation. Direct personnel costs agree with gross salaries (including social and health insurance) and with the tax reporting;
- All the money transfers were made on the basis of received invoices, and all the essential expenses incurred on the basis and agree with the conditions of the agreements with the related organizations and annexes to those agreements;

- The financial report includes a comparison between the actual costs of activities and budgeted costs for every budget item as approved by TI-M. Project expenses correspond to budget items;
- The auditor did not identify expenses not supported by documents;
- Organization complies with tax laws as part of the activities;
- TI-M complies with the procurement conditions adopted by law and the contractual provisions of donors;
- The accrual accounting method is used when drafting financial statements, which is acceptable for this type of TI-M's financial report to local authorities.
Cash method is used to report on targeted financing to donor organizations;
- Accounting books correspond with cash flow in bank accounts;
- The assets reflected in the financial statements exist and belong to TI-M and are fully reflected in the accounting records;
- All the transactions in the accounting books are reflected as of the time of their actual occurrence.

Auditor   Alla Kulikovskaia

The report was read by:

 Executive Director
Accountant



Lilia Cravenco

Nadejda Ojog

Chisinau, July 18, 2024

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