



**Management Letter on the Audit**

**of “Fondul pentru Tineri – Bălți și Săngerei”**

**Grant no. 612**

**Beneficiary: Public Association “Caroma Nord”**

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PRIVATE AND CONFIDENTIAL

**To the management of Public Association "Caroma Nord" Pirlita village  
Falesti region, Republic of Moldova**

**Subject:** Financial Statement of the Grant No. 612 „Fondul pentru Tineri – Bălți și Sângerei” (Fund for Balti and Sangerei Youth - FY) for the period April 02, 2018 to November 30, 2020

### **LETTER TO THE MANAGEMENT**

We have recently completed the audit of financial statements of grant no.612 “Fund for Balti and Sângerei Youth” for the period 02.04.2018-30.11.2020. The purpose of this letter is to draw your attention to several findings depicted by us throughout the audit. The respective issues are presented further on the pages of the attached report.

Our objective while drawing up this report is to use the gathered information during audit in order to make certain comments and suggestions useful for you. However, please note that the primary objective of our verification is to express an opinion on financial statements, and therefore we do not aim at a specific testing of 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 of responsibility to settle an adequate internal control system.

This report is a part of our continued dialogue between the Association "Caroma Nord" and us, which has been intended solely for use of the management of the Caroma Nord and donor East Europe Foundation (further EEF).

For this reason, it is our consideration that the given report shall not be made available for third parties, and in case if third parties shall obtain a copy of report without our written prior consent we shall not be held liable for their relying on it.

We also note that the Caroma Nord'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 bank accounts;
- Accounting records and systems;
- Managing procurement of goods, works and services;

We would like to point to your attention some observations, which might have been more detailed, if we had performed a detailed internal control assessment.

### **Standards and Ethics**

Our engagement was undertaken in accordance with:

- The International Standard on Auditing (with the application of ISA 800 "Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks" and ISA 805 "Audits of Single Financial Statements and Special Elements, Accounts or Items of a Financial Statement";
- The Code of Ethics for Professional Accountants issued by the IFAC.

### **Sources of Information**

The Report is based on 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 audit objective.

This letter is prepared solely for your internal confidential use and solely for the purpose of submission by you to the donor in connection with the Grant Contract.

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

This letter relates only to the Report for Expenditures Verification specified above and does not extend to other financial statements.

This information is intended solely for the management of Caroma Nord and donor EEF while Audit Firm ALKONT is not responsible before the third parties that could use this information for any purposes.

Auditor

January 25, 2021



Alla Kulikovskaia

## **REPORT OF FACTUAL FINDINGS**

### **I. General Information about the Agreement of Cooperation**

#### **Contractual Conditions**

The Agreement of Cooperation was awarded to implement the Project entitled “Fund for Balti and Sangerei Youth” no. 612 The contractual conditions for the Project are set out in the following documents:

- The Grant Contract signed by EEF and Caroma Nord on April 02, 2018;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on November 20, 2018 with annexes;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on January 2, 2019 with annexes;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on December 5, 2019 with annexes;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on January 2, 2020 with annexes;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on September 24, 2020 with annexes;
- Additional agreement to Grant Contract no. 612 signed by Caroma Nord and EEF on October 30, 2020 with annexes.

**The budget** of the Project No.612 was **USD 68,799** for the period April 2, 2018 – November 30, 2020.

**The costs of the Project** for the period April 2, 2018 – November 30, 2020 was **USD 66,699,05**.

**The implementation period of the Project** covered 32 months, from April 2, 2018 – November 30, 2020.

### **II. Procedures Performed and Factual Findings**

We have performed specific procedures for expenditure verification of the grant no.612.

These procedures include:

- General Procedures
- Procedures to Verify Conformity of Expenditure with Budget and Analytical Review
- Procedures to Verify Selected Expenditure

Within this expenditure verification, we have applied the rules of expenditure selection and the verification coverage principles and criteria under Caroma Nord Project No.612. The total expenditure verified by us constitutes 90%.

We have verified the selected expenditures. For each selected items, we have carried out the verification procedures specified under points 2 and 3 of this report. We report our factual findings resulting from these procedures below.

## **1. General Procedures**

### **1.1 Terms and Conditions of the Agreement of Cooperation**

We have obtained an understanding of the terms and conditions of this Grant contract no.612 in accordance with the EEF requirement for audit of Project.

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 Caroma Nord with the conditions stipulated by donor on implementation of the EEF Project and standard acts of the Republic of Moldova.

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

- Targeted financing received for project purposes;
- Primary documents on application of donated funds and their record in accounting books;
- Record of expenditure according to budget items;
- Operations that imply relations with tax authorities of the Republic of Moldova.

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

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

### **Anti-Corruption Policy**

Fighting corruption is the main principle in the cooperation with foreign donators. Partners receiving donations from EEF are required to implement measures in order to prevent, discourage and detect all illegal and inappropriate methods of project management or other forms of grant utilization.

**Audit Findings:** *The Anti-Corruption Policy of the Caroma Nord is described in Minutes approved by Administration Council. The Caroma Nord's internal policy is drawn up in accordance with local legislation. The Anti-Corruption Policy is to be revised by Caroma Nord administration in order to align it with legislative rigors every two years as noted in the minutes.*

*As a result of our audit, no situations were identified that would cast doubt on the legality or adequacy of the grant project management.*

## **1.2 Financial Report for the “Fund for Balti and Singerei Youth” Grant no. 612**

The audit has examined the report for the period of April 02, 2018 – November 30, 2020.

**Audit Findings:** *The report is based on the actual data from accounting books. The auditors have compared the data presented in the report with the primary documents and entries in accounting books. Financial data presented in the narrative report does not contradict the amounts of expenses in the report.*

## **1.3 Rules for Accounting and Record Keeping. Significant Accounting Policies**

The financial schedules of the grant No. 612 are drawn up in accordance with the National Accounting Standards adopted in 1998 based on the International Financial Reporting Standards (IFRS).

The amounts in financial statements are expressed in MDL and USD. The main principle used in accounting is the principle of assessment according to the initial value.

**Audit Findings:** *At drawing the financial statements the accrual method is used, which means that expenditures related to the use of targeted financing are recognized in accounting books at the moment of their incurrence. Such accrual basis accounting principle is acceptable for this type of Caroma Nord's financial report.*

## **1.4 Reconciling the Financial Report to the Beneficiary's Accounting System and Records**

We have audited a sample of 90% of accounts reflecting financial transactions, payroll accounting, accounts receivable and payable, as well as tax and fee obligations.

**Audit Findings:** *The financial report on the project was prepared on the basis of primary financial documents, the completeness and reliability of which does not raise doubts for the auditor.*

### **1.5 Accounting records and financial statements presented in foreign currency**

We verified the exchange rates used to translate transactions recorded from MDL into USD for inclusion in the Financial Report.

Payments in Moldovan lei received from FEE via bank accounts are recorded in the accounting system of Caroma Nord in local currency (MDL). However, the financial statements use the USD exchange rate proposed by the FEE donor on the date of receipt of the funds. Project expenses were recorded in the accounting records in the local currency, while the US dollar equivalent was reflected at the exchange rate at the date of the donation transaction. These are recorded in the 1C accounting software in MDL and in XL tables in MDL and USD.

*Auditor's findings: in the explanatory notes to the financial statement are correctly presented amounts received and spent in MDL and equivalent in USD according to the exchange rate indicated by the financier. For the audited period, the MDL / USD exchange rate fluctuation was from MDL 16.33 –for 1 USD to MDL 18,04.*

### **1.6 Revenue / Overall Funding**

The amounts disbursed to Caroma Nord in relation to the grant activities were confirmed by the donor organization - EEF, and the auditors confirmed these amounts with the figures included in the Beneficiary's Financial Report.

*Audit Findings: Upon the review of compliance with contractual terms and conditions, criteria for accuracy, recording, completeness and Financial Report disclosure, we have audited the proper calculation of the project income to the EEF Project funds.*

*In addition to the funds received from the EEF, the organization had other sources of funding (indicated in paragraph 4 of the Explanatory Notes to the Financial Statement)*

*The auditors have checked the assets received and their use for the grant activities is beyond doubt. All receipts are fully accounted for in accordance with the agreement.*

### **1.7 Staff Remuneration / Calculation, approval and payment of salary**

The costs of staff assigned to the Project have been calculated based on the salary agreed in the Project budget. The Accountant of the Project prepares the payroll calculation on a monthly basis. The Executive Director validates and approves the payroll documents. After review of payroll documents, the Accountant initiates the payment into on-line banking system for approval. The Executive Director of the Caroma Nord approves the payment.



The calculation of salaries and their related contributions is performed in the automated accounting system (1-C program version 8) and corresponds to the financial and bank documents.

The distribution of the remuneration of the staff of the Caroma Nord across all the activities for the duration of the audited period from April 2018 to November 2020:

<b>Employers</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total Salary</b>	<b>budget</b>	<b>Budget Execution</b>
Director/project manager	1 527,39	3 150,00	3 025,00	7 702,39	7 708	100%
Singerei Project coordinator	1 036,44	780,00	880,00	2 696,44	2 701	100%
Manager Public relation and communication		2 310,00		2 310,00	2 310	100%
Project assistant	1 036,44		1 650,00	2 686,44	2 691	100%
Accountant	1 281,92	1 950,00	2 310,00	5 541,92	5 547	100%
Medical and social insurance				4 886,93	4 867	100%
<b>TOTAL</b>	<b>4 882,19</b>	<b>8 190,00</b>	<b>7 865,00</b>	<b>25 824,12</b>	<b>25 824</b>	<b>100%</b>

*Audit Findings: We have to mention that social and medical contributions were correct. These were calculated according to local legislation. The calculation of taxes and salary contributions was automatically calculated by accounting software. Testing of the salary program did not reveal deviations from tax legislation.*

*The auditors believe that such measures are sufficient and necessary for the Project Activity.*

## **2. Procedures to verify conformity of Expenditures with the Budget and Analytical Review**

### **2.1 Budget of the Grant**

We carried out an analytical review of the reported expenditure.

We compared the budget statements in the Financial Report with the budget approved in the Grant Contract no.612 with EEF.

*Audit Findings: The budget presented in the financial report of the grant is identical to that specified in the agreement with EEF.*

## **2.2 Amendments to the budget of the Project No.612**

We inquired if there had been any amendments to the budget for this reporting period and we were informed that all the amendments were performed according to additional agreements with EEF.

*Audit Findings: As a result of the grant expenditures control, the auditors have revealed that project management has fully respected the budget.*

## **2.3 Cash and bank accounts**

The Caroma Nord generally operates only via bank accounts and uses petty cash only for less than 5,7% (MDL 65 305 / MDL 1 144 469\*100). The Accountant prepares the payment documents, uploads the files to the on-line banking system for approval and registers project activities in the accounts. For payments, the Caroma Nord is using Client-Bank. The Executive Director and accountant are the persons authorized to sign payment orders or bank transfers.

The Caroma Nord had a separate dedicated bank account in MDL for the grant, all the expenditures was valid. Specifically, the expenditures agrees with the supporting documents, the location and timing of occurrence, as well as payment registration.

*Audit Findings: Cash transactions comply with local law and account balances are confirmed by bank statements and accounting registers.*

## **2.4 Managing Procurement of Goods, Works and Services**

During our audit procedures and tests performed we were guided by the instructions set out in the EEF Grant Contract no.612 (p.8).

We have identified that:

- Cash payment is accepted only based on supporting documents. This condition is respected by the organization on mandatory basis;
- All the source documents at the basis of accounting records are fulfilled out in compliance with the legislation in force and have supporting signatures, tax codes and stamps;
- Expenses have been reflected in accounting in compliance with project budget items;
- Consumables agree with the inventory documents as of the corresponding date;

*Audit Findings: The auditors have not revealed any cases of covering personal expenses of the staff or making other payments not stipulated in the budget;*

*There were no other issues identified by us under the "Managing Procurement of Goods, Works and Services";*

*The organization conducted tenders as indicated in business correspondence with various organizations and the results are reflected in the minutes of the administration.*

## **2.5 Analytical Reports**

According to item 13 of the Grant Contract no. 612, Caroma Nord has to provide analytical and descriptive report on project progress as well as activity results for every reporting period. This report shall be based on the business plan for project activity for the reporting period (annex 3 of the contract No 612) and shall explain the logical framework that clearly describes the link between project activities, and the obtained results.

*Audit Findings: The Caroma Nord is performing quarterly reporting on activity including the information requested by the donor. Auditors have examined these analytical reports and conclude that project activity occurred and that the information provided in these analytical reports on quarterly basis does not disagree with financial reporting.*

## **3. Procedures to verify selected Expenditures**

### **3.1 Eligibility of Costs**

We have verified the eligibility criteria per each selected expenditure item.

The eligibility of expenditure was evaluated by us by performing tests of details and procedures to verify:

- whether the expenditure was incurred by the Beneficiary within the Project implementation period as stipulated in the Agreement;
  - whether the expenditure was recorded in the accounts of the Beneficiary and can be identified, verified and substantiated by original copies of supporting documentation;
- and whether it complied with the following criteria:
- accuracy of recording and classification;
  - reality (occurrence/existence); and
  - compliance with the applicable procurement, nationality and origin rules.

For staff-related expenditure, the auditors reviewed the direct payroll costs to determine

- (i) whether salary rates were reasonable and complied with the relevant internal rules and other human resource policies of the Beneficiary as to employment contracts and other conditions,

- (ii) whether payroll costs were supported by appropriate payroll records.

**Eligibility criteria**

*(1) Actual costs incurred*

We verified that the expenditure for a selected item has actually incurred by and pertained to the grant no. 612.

*No factual findings have arisen from this procedure.*

*(2) Cut-off – implementation period*

We verified that the expenditure for a selected item was incurred during the implementation period of the Project Activity.

*All the expenditure incurred, was recognized and was reported during the project activity period.*

*(3) Budget*

We verified that the expenditure for a selected item was indicated in the Project Activity budget.

*No factual findings have arisen from this procedure.*

*(4) Necessity*

We verified whether it was plausible that the expenditure for a selected item was necessary for the implementation of the Project Activity and whether it incurred within the contracted activities of the Project, by examining the nature of the expenditure from supporting documents.

*No factual findings have arisen from this procedure.*

*(5) Records*

We verified that the expenditure for a selected item was recorded in the Beneficiary's accounting system in accordance with the applicable accounting standards of the Republic of Moldova where the Beneficiary is established and the Beneficiary's usual cost accounting practices.

*No factual findings have arisen from this procedure.*

*(6) Applicable legislation*

We verified that expenditure complies with the requirements of tax and social security legislation. According to the tax legislation of the Republic of Moldova, Caroma Nord carrying out economic activities must calculate and pay the following taxes and fees: individual income tax, social and health insurance dues, and individual pension dues. Within the audited period, Beneficiary regularly calculated and paid all the taxes and fees and reported to the corresponding state authorities.

*No factual findings have arisen from this procedure.*

**(7) Reasonable**

We made sure that the costs of the selected item are confirmed by evidence, in particular supporting documents, as indicated in the articles of the project agreement.

*No actual findings were obtained from this procedure.*

**(8) Valuation**

We made sure that the monetary value of the selected *expense item is consistent with* supporting documentation (for example, bills, payroll statements) and that the correct exchange rates were used, if necessary.

*No actual findings were obtained from this procedure.*

**(9) Classification**

We examined the nature of expenses for the selected item and made sure that the items of expenses were classified under the correct heading/sub-heading of the Financial Report.

*No actual findings were obtained from this procedure.*

**(10) Compliance with procurement. Nationality and rules of origin**

Where applicable, the Auditor verified which procurement, nationality and origin rules apply to a specific (sub) heading of expenses, class of expense items or expense items.

*No actual findings were obtained from this procedure.*

### **3.2 Non-eligible costs**

We verified that the expenditure for a selected item did not concern a non-eligible cost.

*No factual findings have arisen from this procedure.*

## **4. Results of Activities**

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

- The salary costs were debited to the grant no. 612, and were verified by supporting documentation. Direct costs of personnel 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 of these transfers and agree

with the conditions of 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 EEF. Project expenses correspond to budget items;
- The auditor did not identify expenses without supporting documents;
- Organization complies with tax laws as part of project activities;
- The Caroma Nord complies with the procurement conditions specified in the Agreement with EEF;
- At drawing the financial statements, the accrual accounting method is used, such accrual basis principle is acceptable for this type of Caroma Nord 's financial report;
- Accounting books correspond with cash flow in bank accounts;
- The received funds are registered in accounting books in the total volume;
- All the operations in the accounting books are reflected as of the period of the actual incurrence.

Auditor



Alla Kulikovskaia

The report was read by:

Executive Director



Rodica Frecăuțanu

Accountant

Gabriela Ivanov

Chisinau, January 25, 2021