

Report on review of Soros Foundation Moldova's internal control system

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Executive Summary

This report has been commissioned by Swedish International Development Cooperation Agency ("SIDA") after SIDA received information about possible mismanagement within one of three project areas managed by the Soros Foundation in Moldova (SFM"), a project which is financed by SIDA.

SFM is a non-profit and non-governmental organization. Its goals and objectives are to support the development of open society in Moldova by providing help to entities and individuals in areas such as education, publishing and public health, etc.

In accordance with the requirements stated in the Terms of Reference, EY has performed a review of SFM's accounts as well as an assessment procedure of SFM's internal control system. This report will focus on SFM's internal control system and compliance to Sida's general conditions.

The result of our observations, inquiries and walkthrough test procedures based on work performed during September 2013, is hereby presented to SIDA at their request. Upon receipt of further information and performance of additional procedures, conclusions and recommendations could change.

Based on performed reviews and analyses we are able to conclude that the overall level of internal controls is adequate, our key findings are presented in Annex 2.

1 Introduction

1.1 Background

SFM has its seat in Chisinau, Moldova and is a non-profit and non-governmental organization. The organization's goals and objectives are to support the development of an open society in the Republic of Moldova by providing support to initiatives of legal entities and natural persons within the areas of education, publishing, public health etc.¹

SIDA is financing SFM's programme within the following three project areas:

PROJECT AREA 1: Legal empowerment of rural communities through a community-based paralegal network;

PROJECT AREA 2: Empowerment of women from rural communities;

PROJECT AREA 3: Strengthened regional media network for informed citizenry, participatory governance and accountability.

Information about irregularities within SFM, and then specifically within project Area 3 "*Strengthened regional media network for informed citizenry, participatory governance and accountability*" (the "Media project"), was given to the Swedish Embassy in Chisinau and brought to SIDA's attention on June 5, 2013. The Swedish Embassy in Chisinau was approached by additional persons on the July 19, with more allegations of serious irregularities in SFM's use of SIDA's funds - again specifically within the Media project. Based on this information, SIDA commissioned EY to perform a review of SFM's internal control, in combination with an in-depth financial review, in order to ensure that SIDA's funds have been used for in a proper manner and for intended purposes. This report will focus on EY's review of SFM's internal control system and SFM's compliance to Sida's general conditions.

The Media project is one of three areas for which SFM receives grants through the SIDA Contribution agreement No. 55030037. The Media project is the third consecutive project targeting regional broadcasting in Moldova and it has been administrated by SFM since 2006. The main purpose of the Media project is to promote a pluralistic, editorially independent and financially sustainable regional broadcasting media sector in Moldova. To achieve this, SFM has planned a series of activities and objectives. One of these is an increase of the regional media network's

¹ Statutes of the Soros Foundation Moldova

capacity to offer diverse and relevant information to a rural audience through the production of programs by an association of regional broadcasters' (hereinafter "Meridian") central studio and local stations.²

1.2 Method

This review has been performed by analyzing the documentation given to us from SIDA and SFM and also by the holding of interviews with key personnel. The assessment has as well been carried out by means of interviewing the personnel from several regional stations (please refer to Annex 1 for detailed information).

1.3 Reporting

This engagement is being reported through this written report and orally during a meeting.

1.4 Purpose

The purpose of this review is to review SFM's internal control system.

1.5 Aim

The aim of this review is to determine if SFM's has satisfactory internal control system to manage funds from Sida. It has also the aim to determine if SFM's is in compliance to Sida's general condition to the agreement between Sida and SFM. Below are our main questions.

- Examined whether or not the agreement between SIDA and the organization has been followed
- Examined whether or not the programme's internal controls are satisfactory
- Examined whether or not the provisions in SIDA's general conditions are being followed
- Examined procurement routines as well as the organization and personnel in the purchasing department
- Assessed the reliability and relevance of the systems for operational and financial management and control of SFM, and to what extent these systems are adhered to, and implemented, on all levels of the organization

² Project proposal "Boosting the democratic process in Moldova through empowerment and engagement". 2012

- Assessed SFM's system for assessing the capacity of partner organizations when SIDA funds are sub-granted
- Assessed whether SFM's control system ensures that partner organizations receiving sub-granted funds do, in fact, comply with the terms and conditions stipulated in the agreements between SFM and its partner organizations

1.6 Limitation

The scope of the engagement has been limited to financial review and testing procedures required by the Terms of Reference signed by both SIDA and EY.

1.7 Restrictions

The following restrictions have been recorded in this engagement

- We have not reviewed the financial statements or internal control system of Meridian.

2 Internal control review

We have conducted a review of SFM's internal control system. The following areas have been included.

- Month-end closing process
- Budget process, General accounting
- Payments, cash management
- Accounts-payable process
- Procurement process
- Forwarding of funds and sub-granting
- Payroll and HR process.

Furthermore, we have conducted a review of SIDA's general conditions.

During 2011, SIDA commissioned a system-based audit of SFM. The audit was performed by Konsortium Professional Management – Swedish Development Advisers. As a response to the audit an action plan was produced by SFM. We have obtained both the system-based Audit Report and the updated action plan. The scope of this report does not include our commenting on the progress of SFM's action plan.

2.1 Book-keeping/accounting

2.1.1 General accounting

SFM has documented the accounting guidelines in the document Financial and Administration Procedures ("FAAP"). The FAAP was produced by Open Society Institute ("OSI") in support of the Soros Foundation Network of which SFM is a part. This document was presented to SFM's Board in January 2009. The FAAP describes such topics as final reporting, account management, budgeting, cash management, foreign exchange, banking and other topics.

In some parts the FAAP also describes key controls as well as responsibilities and segregations of duties in the accounting process. It does not describe all significant transaction flows and it lacks a connection to significant risks in each of the significant transaction flows.

The Board has also adopted a Local FAAP that is in effective from January 1, 2013. As of the date of this report, the local FAAP has parts in it that is still under review and has not yet been adopted by the Board. If the document should be used actively in SFM's internal control system it should be complemented by a risk evaluation and a clear connection with mitigating key controls. Furthermore, it should also contain a description of all significant transaction flows.

The accounting principle for the project is cash-based and not accrual accounting (e.g. costs are recorded for the period when the invoices are received and paid)

The accounting principle for the organization's financial statements follows the historical cost basis and the principle of accrual accounting. This principle is used to report the annual financial statements and the monthly report package to OSI. This has been verified by the organization's auditor and also becomes clear when you read the FAAP.

SFM uses the Grant Management System ("GMS") as an accounting system. The System is specifically tailored to meet the needs of the Soros network and also contains reporting schedules, budget templates and a specific Grant Management

system. The system is managed by a team of programmers that are contracted by OSI. All digital data is stored on servers at the SFM's premises.

2.1.2 Month-end closing process

The monthly reconciliation process is a key element of the financial internal control since this is where the financial management is both able to and should pick up variances of material nature. At SMF, the books are closed on a monthly basis and the CFO reports the book-end to OSI in New York, USA. The CFO reconciles balance accounts on a monthly basis. We have noted that there is no clear segregation of duties in the process as the CFO prepares and approves reconciliations. To strengthen this process, we recommend that SFM should change the process in such a manner that one person is appointed to perform and document the reconciliation and that a second person, as reviewer, should approve the document itself.

Manual journal entries may only be made by the accounting team and must be approved by the CFO. The CFO may perform journal entries in order to adjust previous postings. Nobody has been appointed to approve the CFO's entries. It is our recommendation that the Executive Director should receive an audit trail report of all journal entries that have been prepared and executed by the CFO.

According to the organization, they are not obliged by Moldavian law to submit year-end financial statements - a fact that was verified to us by the organization's external auditor.

A cash-flow forecast is performed once yearly by the CFO and is then sent to OSI's head quarter. Monthly, SFM, review a cash flow plan and sends it to OSF Representative as part of confirmation of needed amount of funds for the next month. The request for the Credit line is signed by the Executive Director (or Deputy Director) and contra signed by the CFO.

2.1.3 Budget/reporting

SFM annually prepares a budget in accordance with requirements sent from the head-quarter of OSI. This budget, when approved by the OSI, is recorded on account level in GMS' system. SFM does not have a routine in place where the management of SFM receives financial reports containing deviation analyses where the actual outcome is compared to the budget. Instead, monitoring and reporting activities are carried through during informal meetings between the Executive Director, the CFO and project coordinators. These meetings are held when it is considered necessary.

This lack of formalized monitoring activities may lead to ineffective management of SFM's operations, and it is our recommendation that SFM should implement and document all regular monitoring activities at both management and board level.

- **It is our recommendation that the Executive Director should receive financial reports from the project coordinators on a regular basis. We also recommend that the actual financial outcome should be compared with the budget and that significant variances should be explained in writing.**
- **It is our recommendation that the Executive Director should receive an audit trail report of all journal entries that are prepared and executed by the CFO.**
- **It is our recommendation that SFM should implement a routine where all significant accounts are reconciled against underlying documents. This control should be documented and reviewed by the management.**
- **It is our recommendation that SFM should identify and evaluate the significant risks in its financial process as well as the key controls that could mitigate these risks. This could be done by documenting the transactions flows.**

2.2 Account payables and cash disbursements

SFM lacks both a documented transaction flow and written documentation regarding the process, identified significant risks and mitigating internal controls for the general account payables process. SFM has documented routines for sub grants that, in some parts, describe the account payable and cash disbursements process. According to the CFO, all payables are recorded in a sub-ledger.

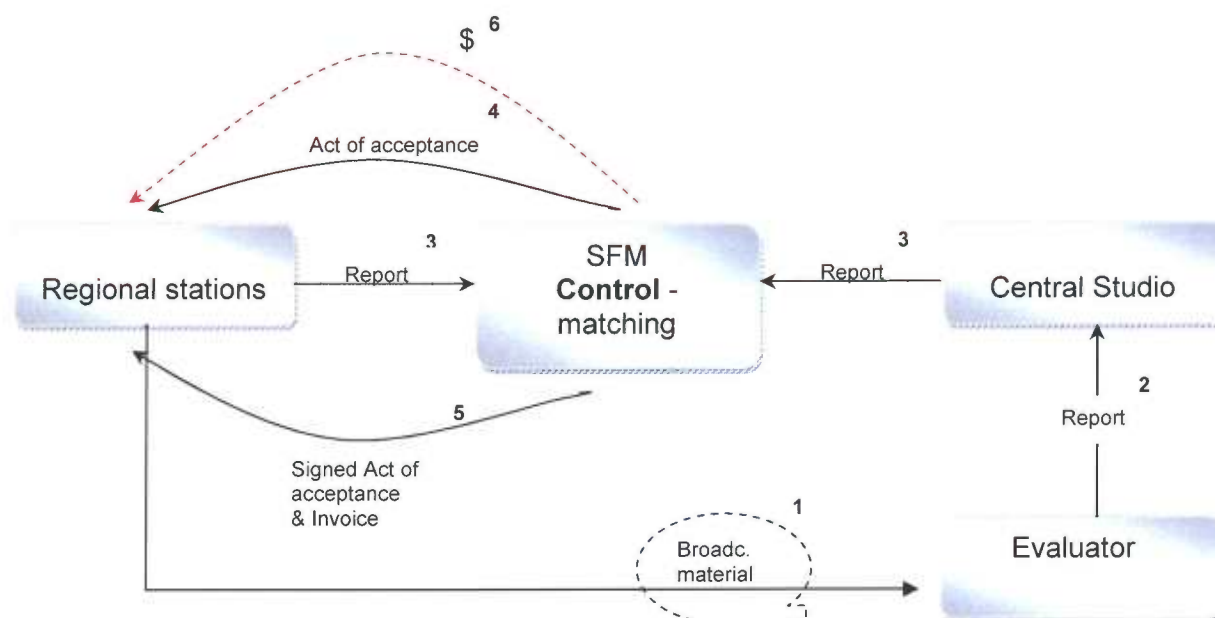
- **It is our recommendation that SFM should identify and evaluate the significant risks in its financial process as well as the key controls that could mitigate these risks. This could be done by documenting the transactions flows.**

All payments are processed by the accounting department on the basis of approved primary documents: invoices, waybills or acts of acceptance. Before initialization of the payment process, waybills and acts of acceptance are approved by the appropriate programme coordinators and then handed over to the accounting department for processing of disbursement. The responsible accountant verifies the

primary documents by, matching them to the contracts. He/she then checks whether or not the waybills and acts of acceptance are authorized by both parties, i.e. SFM and its supplier. If no issues are identified, all documents are stamped and payment requests are prepared in the GMS system. Payment requests are then printed out and approved by the CFO and the involved programme coordinators.

Once the payment requests have been authorized, bank orders are prepared in the GMS system. Electronic bank orders are automatically transferred from GMS to the bank-client system, where they are approved by the Executive Director and the CFO (first right of signature) or the Deputy Director together with the Chief Accountant (second right of signature). Once the bank orders have been approved in the bank-client system, the disbursement process may be considered as initiated.

The process of invoicing and payment to the regional stations is presented below.



1. Regional stations send all broadcasts materials for evaluation to the expert evaluator.
2. The expert evaluator hired within the project evaluates all broadcast materials/news from the reported month and sends the evaluation report containing the list of materials/news and grades to the Central Studio.

3. A report containing the list of approved materials / news is prepared and delivered from the Regional stations to the SFM programme coordinator. The SFM programme coordinator verifies the report by tracing it to another report received from the Central Studio. The Central Studio's report also contains the list of materials / news delivered by the regional stations to the Central Studio during the reporting period.
4. When both reports have been matched, SFM's programme coordinator sends the act of acceptance to the regional station for approval.
5. The regional stations sign the act of acceptance, prepare an invoice for payment and send such document packages back to SFM.
6. Once the accounting department has received all the approved primary documents, it disburses the appropriate amount of money.

2.3 Procurements

The procurement process for SFM is described in the Regulation of Procurement of Services and Goods which was approved by the Board in 2009 and revised by the Executive Director in 2011. SFM also adheres to a document describing the transaction flow for purchases. This document, however, lacks risk assessments and procedural identification of key controls to counter these risks. Segregation of duties is not mentioned explicitly, but by reading and understanding the manual it is clear such segregation of duties is in place. All procurements are currently decentralized and are mainly handled by project coordinators with help from the finance administration.

The manual states that SFM strives to ensure full and open competition. Proposal selection is to be based on comparisons between offered solicitations, prices, quality, deadlines of delivery, warranties, accountability of the service and other relevant factors.

The regulation has laid out the following thresholds in order to ensure this open competition:

- Purchases of a value lower than USD 1 000 - only one quotation is needed.
- Purchases of a value greater than USD 1 000 but lower than USD 10 000 require at least three quotes.

-Purchase of a value greater than USD 10 000 and Editorial purchases with a value higher than USD 5 000 require an extended open process with advertisement on the official web site and on printed media with national circulation.

We have verified this by sample testing of two tenders in the Sida funded project without any remarks. The evaluation that has been performed seemed reasonable and transparent.

2.4 Forwarding of funds/sub granting

SFM has presented diagrams and flow charts for key steps, roles and responsibilities when writing legal agreements with sub-contractors and paying sub-contractors. However SFM has not documented a risk assessment where significant risks are identified in the process or the key controls that should be in place to mitigate identified significant risks. This is a recommendation that we have highlighted in this report.

SFM has a process where an assessment of the project partner capacity is performed before an agreement is signed. In order to perform the assessment, SFM requires the project partner to submit the following information of the association; statutes, project budget, personnel CV and audit reports. The assessment is then documented either in special evaluation form or in the project proposal to the donor. In the case where the organization is described in the project proposal we have noted that the project partner is named with English name rather than its legal name. This may cause confusion when an external part wants to link the project partners' application with the project proposal.

SFM uses GMS to manage the process of forwarding funds to project partners. The system has standardized agreement templates in place which are tailored to different donors' requirements. We have reviewed the standardized agreement template used for Sida project against the Sida agreement without any exception.

SFM regulates its project partners' reporting requirements through the Project Partner Agreement and through the policy SFM Requirements to Grantees. SFM requires that the project partner submits reports in the form of formalized templates. Financial reports and narratives are both required reports. SFM also requires its project partners that are sub-granted by SIDA funds to submit copies of supporting documentation of all expenses. In those cases where the project partners do not have an independent auditor, or if the sub-grant amounts to more than USD 40 500, SFM will procure an external audit of the project. We have verified this by reviewing one of the sub-grants granted in a SIDA project.

SFM regularly monitors projects with grantees by requesting, in the grant agreement, that they regularly send financial reports showing actual results against budgets, as well as qualitative reports with descriptions of the status of agreed upon project activities and objectives. Payment is made only after key milestones are achieved and the deliverables are submitted. If this is not performed, the scheduled payment of the agreement is postponed. The standard template of research agreements includes a conflict of interest document as an appendix. This document demands adherence to the applicable ethical, regulatory and professional standards in all matters related to projects.

We have performed a walkthrough of one sub grant in the Sida project to verify the process. The walkthrough was performed without exception. In the Media project between 2012 and 2013, no sub grants have been performed. Instead of sub grants SFM has signed agreements with all local media station in Meridian, stipulating the service fee that they can receive after submitting news bulletins. The fee size depends on the quality of the material and of the amount of approved news bulletins.

We have performed review of a sample of service fee expenses in the project, and we can conclude that all service fees were paid in accordance to the contracts. The Contracts that were reviewed were signed between SFM and the local station.

Considering that sub-grants constitute a significant transaction flow, SFM should perform a risk assessment as well as documenting key controls in order to assess significant risks.

- **It is our recommendation that SFM should identify and evaluate the significant risks in its financial process as well as the key controls that could mitigate these risks. This could be done by documenting the transactions flows.**

2.5 Payroll process

2.5.1 Hiring personnel

There is no a separate HR department within the Organization. All significant HR functions are divided between the Financial Director and the Deputy Director. Programme managers are involved in the process of hiring personnel if it concerns positions under their supervision. There are two types of replacement in SFM: internal replacement and external replacement.

Regarding internal replacements, these decisions are made jointly by the top management of SFM headed by the Executive Director. As for external replacements (hiring of new personnel), the available position is announced and published in local newspapers and magazines as well as on the SFM website. Usually, the applicants submit the following documents; CV, Cover letter, copies of received degrees and diplomas as well as recommendation letters.

The aforementioned documentation is assessed by the responsible programme manager and the Deputy Director. As a result of this screening, 5-6 of the best candidates are invited to attend interviews. A committee of 3 SFM representatives is formed in order to conduct the interviews with the selected candidates. Members of the committee exchange opinions, ranks the candidates and select the most appropriate one for the position. The decision to employ the chosen candidate is made after discussions among committee members as stated in the Meeting minutes (MM).

The selected person signs both a labour agreement and a job description and, at that time, also submits all appropriate documents to the accounting department. These documents include labour book, application for employment, statement of financial responsibilities, copies of ID card and medical insurance, etc. Newly employed personnel are asked to complete a form of affiliation (which contains information concerning family members and previous employments) as well as a conflict of interest declaration, if needed.

Based on the submitted documents, an Order of employment is issued and approved by the Executive Director.

In order to review the D & I (design and implementation) of the control activities within the process, as well as their compliance with the internal policies, we performed a walkthrough test procedure. We selected one employee and tracked his records throughout the period June'12 - July'13.

No notable issues or deficiencies within the design and implementation of the internal control activities were identified.

2.5.2 Recording time

At month-end, each employee fills-in his/her time report (Excel template) and submits a printed version to be approved by the management. The appointed supervisor reviews the work description performed during the reporting period, approves it by signing its hard copy and hands that hard copy over to the Deputy Director for approval. When time report has been approved by the appropriate supervisor and the Deputy Director, it will be considered as basis for proper salary calculation.

Note: In case an employee is involved in more than one Soros project, the timesheet template will include a percentage separation for each project from which they will be paid.

No notable issues or internal control deficiencies within this sub-process have been identified.

2.5.3 Calculating payroll

The payroll is calculated by the Financial Director (FD) based on all approved time sheets. It is performed manually in Excel template. Before any salary disbursement is made, the hard copy of calculations is printed out and approved by the Executive Director. An SFM stamp should be printed on the payroll calculation register.

Based on the above mentioned payroll register, a chief accountant performs the proper system transactions and also prepares a special payment requests in GMS. Then payment request is then printed out and approved by the Financial Director.

Once both the payroll register and payment requests have been approved, the official employee list, containing salaries and bank accounts, is prepared for submission to the bank. This list is authorized by both the Financial Director and the Executive Director and is then handed over to the bank by the accountant. In the same time the Finance Director complete a special data base file requested by the Bank with the same information which is presented in the authorized list(s) is sent to the Bank on hard copy. These bank files contain the Name of Employee, amount of net salary and the personal account number. Then all the bank files are sent to the Bank Cards Department via e-mail.

In our opinion, the Excel template cannot be considered as a proper tool for salary calculations. Apparently, all calculations (salary, tax, other withdrawals, etc.) are performed manually, thus creating a risk of error even though a control/review of the calculations is performed by the chief accountant.

- **In order to reduce the risk of errors and mistakes, we recommend the application/implementation of the appropriate GMS module (or another accounting system, which may be integrated with the GMS) for automatic salary calculations.**

2.5.4 Disbursing payroll

Once the CFO and the Executive Director have signed the employee list for the bank, bank orders are prepared in the GMS system by the chief accountant. An electronic file with bank orders is then sent through the Bank-Client system.

The electronic file is signed by the following people:

First right of signature:

1. Executive Director or Deputy Director

The second right of signature:

2. CFO or Chief Accountant

We have reviewed the bank-client system and are thus able to confirm that each aforementioned employee has his/her own unique electronic key. No internal control deficiencies within this sub-process have been identified.

2.5.5 Terminating personnel

There are several types of termination:

1. Contract expiration
 2. Voluntarily leaving the employment
 3. Restructuring of the organization
1. SFM's administration sends notification regarding contract expiration and information regarding possibilities to prolong it two months ahead of time.
 2. An employee who decides to leave his/her employment is obliged to send in a written request for termination. Internal orders are then issued, making it possible for the employee to leave the organization.
 3. In case of restructuring of the organization, all employees are treated the same and will receive appropriate compensation packages in accordance with the organization's statutory requirements.

During the performance of walkthrough test procedures we were not able to identify any notable issues or deficiencies related to compliance with the internal rules and policies.

2.5.6 Maintaining payroll master file data

Information about a newly employed individual is entered into the system by a number of different people - mostly supervisors and/or project managers. However, this filing of employee data may just as well be performed by accounting personnel and others. During our inquiries we found out that access to the payroll master file

data (personal information) is granted to all employees who are working with the GMS programme. There is, in other words, no proper segregation of duties, and each employee is able to change information (such as names, addresses, bank accounts, etc.) already entered into the system.

There is, at present, no possibility to substantiate or document changes that have been made in the master data file. The implementation of proper control activities would reveal whether or not the newly added information had been processed in a timely manner, if it is accurate and if it is based on the appropriate documentation - thus proving/disproving the validity of the changes.

SFM has no formalized procedure in place for entering or deleting (blocking) employee data in the payroll master file. Thus, the risk of intentional manipulations as well as common errors is great. In order to eliminate this risk and strengthen the internal control system the following recommendation should be taken into consideration by the organization.

- **It is our recommendation that SFM should formalize the procedure of entering and deleting (blocking) personal information of employees in the GMS system. This work should be assigned to an employee who is not involved in payroll calculations. In this manner, proper segregation of duties is maintained and unauthorized employees would be blocked from entering data into the payroll master file data.**

2.5.7 Allowances and other forms of remuneration

It is SFM's policy that all advances paid to employees must be settled within one month. The CFO monitors all advances to vendors, consultants and employees on a monthly basis.

Through corroborative inquiries, EY has found that SFM offers several kinds of remuneration. The organization covers the programme coordinators' telephone costs, gives managers an opportunity to use the organization's vehicle, and provides employees with medical and health insurance, etc.

Concerning health and medical services, SFM provides employees with advance payments on top of the normal salary which they may spend during the upcoming year to cover any and all health or medical related costs. At year-end, each employee must submit an expense report detailing the amounts he/she has spent on this. This practice was applied during 2013 and the aim was to satisfy the needs of all employees. Thus, they may make a selection between different health activities (such

as sport clubs, swimming pools, etc.) or medical services (e.g. health examination at the hospital, etc.). This is an exception to the policy and it should be documented.

- **It is our recommendation that SFM should update its allowance policy in order to incorporate the special allowances for health and medical services.**

2.5.8 Travel expenses and per diems

Two types of travel expenses are reimbursed by the organization:

1. Travel expenses for SFM employees.

Once an employee has to go on a work related business trip, an internal order about this is issued. All expenses incurred during this business trip are reimbursed on the basis of such an order and later submitted expense reports. The expense report is signed by the employee himself and approved by the chief accountant and the Executive Director. All appropriate primary documents should be attached to the Report.

In certain cases subsistence allowances are paid to the employee in advance. SFM transfers the appropriate amount of money to the employee's bank account. Such transfers can only be processed if the internal order has been approved by the Executive Director.

If the employee exceeds the received subsistence allowance, he/she must submit an expense report and, based on this report, the accounting department will reimburse his/her expenses by transferring the proper amount of money to his/her bank account.

Per diems are standardized by the government of Moldova and stated in the organization's Travel policy. EY has obtained and reviewed the travel policy of the organization. No discrepancies within design and implementation have been identified.

2. Participants' travel expenses during different meetings, conferences and trainings

Programme coordinators will reimburse participants of conferences or trainings for any and all travel expenses. All participants who are eligible to be reimbursed for travel expenses must be named on the list of participants and a copy of their passport must be submitted. Programme coordinators are required to reimburse these expenses from their own pockets, but are then reimbursed by SFM based on submitted Lists of Participants, passport copies and travel tickets.

While performing a corroborative inquiry we found that a possibility does exist to reimburse a person's travel costs without any supporting documentation. In case where supporting documentation, such as tickets, receipts, etc., were not provided by a participant, the reimbursement would be approved and processed on the basis of official tariffs (at a lower rate) approved by the Transportation Agency of Moldova. This procedure is in accordance with local legislation, but only for travel inside the country.

2.6 Audit and risk management

2.6.1 Audit

According to the SFM's statutes, the annual financial statements shall be audited by an independent auditor. SFM's current auditor is PwC (according to our information they have been elected auditors since 2012). According to the audit opinion, the audit is performed in accordance with International Standards on Auditing "ISA"). In addition, SFM also procures independent audits for projects where they are given grants and where they are required to do so by grant agreements.

SFM has in its local FAAP description of procedures related to audits and audit reports. SFM's management submits audit reports and action plans to the Board for their review and approval. The routine does not describe the procedures that the audit results must be circulated among the parties contributing to the project.

During our site visit, we interviewed SFM's auditor. According to the auditor, the financial statements are normally audited during January. PwC uses a substantive audit approach since the organization's internal control is not formalized enough to allow testing of internal controls alone. The auditor annually issues a "Report of independent auditors" as well as a "Management Letter". The Auditor's report for the financial year 2012 was unmodified.

The Management Letter issued for 2012 raised some minor issues relating to the procurement of office space in project area 3. The raised issues were deemed as minor and did not affect the audit opinion. Based on this Management Letter, SFM has prepared an action plan aimed at strengthening the internal control system.

According to the auditor, the organization does follow up on raised issues in a timely and proper manner.

2.6.2 Risk management

According to SFM's statutes, the National Board is the highest governing body of the organization. The National Board's responsibilities include, among others, the

governing of the organization through defining general principles and the strategy of the organization. In our opinion, proper governance of the board should also include a responsibility to decide how SFM should address and mitigate significant risks that may have an impact of the organization's ability to reach its strategic goals. We have noted that the Board does not receive a Risk Management Report from SFM's management.

In our opinion, SFM could strengthen the board's governance by ensuring that the Board receives annual risk management reports from the management, and that such risk management reports do encompass the overall significant risks as well as plans for the following year's activities. The report should also be formalized in such a manner that becomes an obligated strategy plan on which the board may agree.

- **It is our recommendation that SFM should formalize its procedures in order to ensure that the National Board receives a Risk Management Report which, retrospectively, addresses significant risks and also provides a forward-looking analysis. Furthermore, this report should constitute an obligated annual strategy document on which the National Board may decide.**

2.7 Miscellaneous

Audit of Meridian

After our review of the media project, we can conclude that SFM has not procured an audit of the organization Meridian.

According to SFM this was due to the fact that the amount of grants given from the Open Society Program to Meridian did not supersede the threshold for mandatory audit that SFM has in its Grant policy. SFM can also procure an audit if there are signals that could cause serious doubts on the performance of the Beneficiary in grant implementation. However and according to SFM, this has not been the case with Meridian.

3 SIDA Agreement and general conditions

Often, SIDA attaches General Conditions to its contributions agreements. In this instance, though, SIDA has not attached the General Conditions, but have instead specified certain conditions in annex 1-5 (see below).

1. Project proposal
2. Budget
3. Soros foundation Moldova's procurement Regulation
4. Instructions for reporting
5. Standard Terms of Reference for annual Financial Audit

SIDA's General Conditions stipulate that an organization is required to

- Follow Swedish and/or international tax regulations
- Follow Generally Accepted Accounting Standards
- Be aware that advances are only to be paid one month ahead
- Be aware that Financial Reporting can be traced to the organizations bookkeeping
- Ensure that salaries are to be recorded in the General ledger on specific projects
- Follow correct procedures for cash management
- Document conclusions on the auditor's report
- Report to SIDA whenever any irregularities are discovered

Swedish and international tax rules

SFM is a Moldovan entity and follows local legislation. We have not noted any deviation from Moldovan legislation.

General Accepted Accounting Standards

We have noted that SFM records all transactions in their accounting system using accrual accounting. When SFM submits financial reports to SIDA, they report their expenses using cash based accounting. Both of these accounting standards fall under approved General Accepted Accounting Standards in Moldova. This has been verified by SFM's independent auditor.

We have not found any transactions that were recorded in an improper manner.

Advances to vendors

SFM does not pay advances to its vendors under the SIDA agreements. This is monitored by the CFO through her approval of any and all payment request.

Regarding payments to Grantees, they are only performed through tranche agreements. Also required is approval by the Grant manager and a review of the project period's previous financial report. We have reviewed samples of expenses under the SIDA agreement and found no discrepancies'.

Advances to employees are only to be paid one month ahead

It is SFM's policy that all advances paid to employees must be settled within one month. The CFO monitors all advances to vendors, consultants and employees on a monthly basis.

The Financial report is connected to the organization's general ledger

Through a comparative analysis, were we compared expenses reported in the financial report to those in the general ledger and vice versa, we were able to confirm the existence of audit trails between the two reports.

Cash management

SFM has two separate bank accounts that are held for the SIDA contribution. We have reviewed both of them and have found nothing to note.

Document conclusion on the auditor's report

Se section 2.6

Report to SIDA concerning any and all irregularities

SFM has a documented process and anti-fraud policy in place, describing how the organization should act when they receive information about irregularities in a project and/or their operations.

Based on our review, and in our opinion, we are able to conclude that SFM does adhere to SIDA's General Conditions.

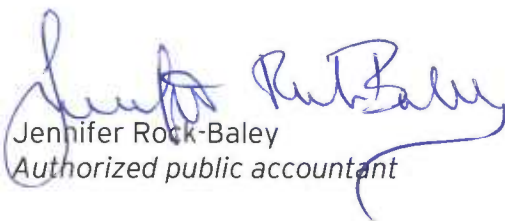
4 Conclusion

Following our observations, and based on our interviews with representatives of SFM, the study of numerous policies as well as sample testing, it is our opinion that the organization does have an adequately control environment given its size and nature.

In this report, we have highlighted a number of issues which we recommend should be considered during the continuing dialogue with SFM. The recommendations are presented in priority order in Annex 2.

In our opinion, SFM received our recommendations with interest and the representatives of SFM seemed willing to implement them with the aim to further strengthen SFM's internal control and ensure the formalizing of its routines.

Stockholm, October 24, 2013



Jennifer Rock-Baley
Authorized public accountant



Daniel Cadei
Authorized public accountant

Annex 1. Interviews

- Viorelia Gutu, PWC, Chisinau, 11 September 2013, 16:00 - 17:00
- Elena Pralea, KPMG, Chisinau 11 September 2013, 19 februari 2013, kl 17:00-18:10.
- Varvara Colibaba, SFM Chisinau 12 September 2013, kl 09:10-10:30.
- Victoria Miron & Ion Cerabatii SFM 13 September 2013. Kl 16:30-19:00.

Annex 2. Recommendations in priority order

1. It is our recommendation that SFM should formalize its procedures in order to ensure that the National Board receives a Risk Management Report which, retrospectively, addresses significant risks and also provides a forward-looking analysis. Furthermore, this report should constitute an obligated annual strategy document on which the National Board may decide.
2. It is our recommendation that SFM should identify and evaluate the significant risks in its financial process as well as the key controls that could mitigate these risks. This could be done by documenting the transactions flows.
3. It is our recommendation that SFM should formalize the procedure of entering and deleting (blocking) personal information of employees in the GMS system. This work should be assigned to an employee who is not involved in payroll calculations. In this manner, proper segregation of duties is maintained and unauthorized employees would be blocked from entering data into the payroll master file data.
4. In order to reduce the risk of errors and mistakes, we recommend the application/implementation of the appropriate GMS module (or another accounting system, which may be integrated with the GMS) for automatic salary calculations.
5. It is our recommendation that the Executive Director should receive financial reports from the project coordinators on a regular basis. We also recommend that the actual financial outcome should be compared with the budget and that significant variances should be explained in writing.
6. It is our recommendation that SFM should implement a routine where all significant accounts are reconciled against underlying documents. This control should be documented and reviewed by the management.

7. It is our recommendation that the Executive Director should receive an audit trail report of all journal entries that are prepared and executed by the CFO.
8. It is our recommendation that SFM should update its allowance policy in order to incorporate the special allowances for health and medical services