

**“Agricultural Commercialization Project”
Grant No. H964-TJ**

MANAGEMENT LETTER

Based on the results of the audit of
the project financial statements
for the year ended December 31, 2017



BAKER TILLY

ICS Baker Tilly Klitou and Partners SRL
65 Stefan cel Mare si Sfânt Blvd
5th Floor, office 507
MD-2001, Chisinau – Moldova
Tel: +373 22 233003
Fax: +373 22 234044
Email: info@bakertilly.md
Website: www.bakertilly.md

To the management of Project “Agricultural Commercialization Project”, Grant No. H964-TJ under the Ministry of Finance of the Republic of Tajikistan and Ministry of Agriculture of the Republic of Tajikistan and the State Committee on Investments and Government Property Management of the Republic of Tajikistan:

Dear Sirs and Madams,

In planning and performing our audit of the project financial statements of the Project “Agricultural Commercialization Project” Grant No. H964-TJ (the “Project”), for the year ended December 31, 2017, we considered the internal control structure in order to determine our audit procedures for the purpose of expressing an opinion on the project financial statements, but not however to provide assurance on the internal control structure.

In connection therewith, we submit this report containing our comments, observations, and recommendations concerning the internal control structure and certain accounting, administrative and operating matters, which resulted from our audit of the project financial statements for the year ended December 31, 2017. Definition of the expression “internal control structure” used in this letter is set in Appendix A.

This letter is intended solely for the information of, and use by, the management and others within the Project and is not intended to be, and should not be, used by anyone other than these specified parties. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

We would like to thank the management and personnel of the Project for their assistance and co-operation during the audit. We acknowledge that the Project Management Unit has applied efforts to develop and strengthen its planning processes and internal control system.

Sincerely yours,

Baker Tilly Klitou and Partners SRL

Chisinau, the Republic of Moldova
June 18, 2018



Offices:

Moldova

Chisinau T: +373 22 233003

Cyprus

Nicosia T: +357 22 458500

Limassol T: +357 25 591515

Larnaca T: +357 24 663299

Romania

Bucharest T: +40 21 3156100

Greece

Athens, Thessaloniki
T: +30 215 500 6060

Bulgaria

Sofia T: +359 2 9580980

**“AGRICULTURAL COMMERCIALIZATION PROJECT”
GRANT NO. H964-TJ**

CONTENT

INTRODUCTION	4
1. Absence of bank confirmation on outstanding funds as at the reporting date	5
2. Result of inspections of Chamber of accounts	6
3. Calculation of payments related to the salary expenses	7
STATUS ON PREVIOUS YEAR AUDIT RECOMMENDATIONS	8
1. Tender documents	8
2. Cash method of accounting	9
3. Calculation of salary expenses	10
Appendix A.....	11

**“AGRICULTURAL COMMERCIALIZATION PROJECT”
GRANT NO. H964-TJ**

INTRODUCTION

This letter highlights our observations and recommendations we believe warrant the Project “Agricultural Commercialization Project” Grant No. H964-TJ (the “Project”), management’s attention and would facilitate improved effectiveness and efficiency of the Project’s operations. Certain comments made relate to situations, which warrant immediate attention, while others relate to enhancements of policies and practices and should be addressed according to their perceived significance. The management should prioritize the observations and implementation of the recommendations accordingly.

Although the Project has improved some of their internal control procedures, we still believe that there are certain areas where additional follow-ups are necessary. Included in this letter are a summary of our recommendations.

General presentation – classification of comments and recommendations

- | | |
|------------------|---|
| High Priority: | These risks are significant for the Project, so they require immediate attention from the management to determine any effects to date, an agreed program for a prompt resolution and ensure that they will not recur in the future. |
| Medium Priority: | These risks do not necessarily require immediate attention, but must be managed in a timely manner. In addition, they relate to activities that (currently) are not material but may be material when these activities are developed. |
| Low Priority: | When there is a deficiency, but there is a compensatory control, while not perfect, provides a degree of assurance that, the Project will not have a material loss. |

1. Absence of bank confirmation on outstanding funds as at the reporting date

Observation	Recommendation	Priority
<p>During performance of audit procedures on testing of cash and cash equivalents we were unable to obtain sufficient and appropriate audit evidence to identify correctness of cash balances of Agricultural Entrepreneurship Development Project Management Unit (the “AED PMU”) in CJSC TJSC IBRR “Tajprombank” in the amount of 257,195 US dollars as at December 31, 2017 due to inability of the CJSC TJSC IBRR “Tajprombank” to provide us confirmation letter.</p>	<p>We recommend management of the Project to conduct monthly reconciliation with Banks which service the Project in order to follow-up the outstanding balances on current accounts.</p>	<p>High</p>
<p>Management response</p>		
<p>Unfortunately, Tajprombank is at the stage of bankruptcy and all its staff are busy with judicial proceedings. We have made an attempt several times to get the reconciliation but none of the bank employee communicates with the clients.</p>		

2. Result of inspections of Chamber of accounts

Observation	Recommendation	Priority
<p>During performance of audit procedures on analysis of correspondence of the Project the AED PMU did not provide results of state inspections of the Chamber of accounts of the Republic of Tajikistan.</p> <p>As it was not received any correspondence on state inspection conducted for audit period we cannot be assure that the Project did not violate legislation of the Republic of the Tajikistan or follow all requirements and instructions made by state bodies.</p> <p>Information described in such documentation is valuable for audit purposes and absence of access for it can affect on correct presentation of project financial statement.</p>	<p>We recommend management of the Project to give a full access to the documentation related to the activity of the Project without any exception, namely report on results of inspection of Chamber of accounts.</p>	<p>High</p>
<p>Management response</p>		
<p>According to the article # 24 sub point #8 of the Law of chamber of accounts all reports developed by Chamber of accounts are confidential and belong to Chamber of the Accounts. You can officially request these reports directly from Chamber of Accounts.</p>		

3. Calculation of payments related to the salary expenses

Observation	Recommendation	Priority
<p>During performance of audit procedures on payroll and other related payments recalculation it was notified that 1C accounting system of the Ministry of Finance Project Management Unit (the “MOF PMU”) incorrectly recognizes accrued during current month salary related expenses. This, system automatically recognizes and converts accrued amount of vacation or other accruals in Tajik somoni into US dollars as the date of accrual and vice-verse convert gotten amount from US dollars to Tajik somoni at the monthly salary payment date.</p> <p>Hence, the Chief Accountant prepared calculation of vacation for employee Amirov S. in 1C accounting system on April 11, 2017. Based on calculation of the system the amount of vacation payment was equal to 5,378.54 Tajik somoni. The system automatically converted this amount using exchange rate of current day which was equal to 8.4486. The amount of payout in US dollars was equal to 636.62 US dollars. As at salary payments according to the legislation the Republic of Tajikistan are prepared in the local currency, at the payment date, on April 28, 2017, the system converted US dollars and amount become 5,397.01 Tajik somoni.</p> <p>The amount of difference arising from incorrect recognition of system is immaterial, however such practice could result in misstatement of operating expenses and lead to inappropriate presentation of project financial statements as aggregated amount of expenses is significant for the Project’s operations.</p>	<p>We recommend management of the Project to configure the 1C accounting system for correct calculation and accruals of salary related expenses in order to show actual amounts in operating costs of the Project.</p>	<p>Medium</p>
<p>Management response</p>		
<p>As we have already provided the corresponding payment orders and documents to the company's representatives, the amounts were paid correctly and in accordance with the current legislation. The 1C accounting system automatically calculated did not affect to our reports. Regarding the technical problems, we have previously addressed to the supplier and it’s will be eliminate on the other day.</p>		

STATUS ON PREVIOUS YEAR AUDIT RECOMMENDATIONS

1. Tender documents

Observation	Recommendation	Priority
<p>During performance of audit procedures on testing tender documents of the Project we have identified absence of notifications on the results of tender provided by Agricultural Entrepreneurship Development Project Management Unit (the “AED PMU”) both for procurement of Consultant Services - National Value Chain Development – Service Provider/TASSP (Contract No. AED/PMU/CQS/2015-07) and Consultant Services - Training on pruning and pest of apricot (Contract No. AED/PMU/SSS/2016-07).</p> <p>According to paragraph 7 of Appendix I World Bank’s Guidelines on Selection and Employment of Consultants:</p> <p><i>“The Borrower shall publish information on UNDB online for all contracts when the short list included any foreign firm and all single-source selection contracts awarded to foreign firms, and in the National press all contracts where the short list comprises only National firms and all single-source selection contracts awarded to National firms...”</i></p>	<p>We recommended management of the Project to strengthen the control over compliance of procedures for conducting tender in accordance with prescribed by the World Bank’s Guidelines in order to ensure transparency.</p>	<p>High</p>
<p>Management response</p>		
<p>AED PMU will follow this recommendation</p>		
<p>Status</p>		
<p>There are no similar notifications were detected during audit period.</p>		

2. Cash method of accounting

Observation	Recommendation	Priority
<p>During execution of our audit procedures, we have identified that the AED PMU recognize expenses at the date of advance report however actual cash was paid earlier. In accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”) the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received.</p> <p>AED PMU recognize expenses at the date when advance holder submit documents using foreign exchange rate at that date, however when actual cash payment was done foreign exchange rate at the date can be different.</p> <p>The amount of differences arising from incorrect recognition of expenses are immaterial, however the practice implemented by Management could result in misstatement of operating expenses and lead to inappropriate presentation of special purpose project financial statements as aggregated amount of expenses is significant for the Project’s operations.</p>	<p>We recommend management of the Project recognize income and expenses using cash method of accounting in order to comply with the basic principles of IPSAS.</p>	<p>High</p>
<p>Management response</p>		
<p>The AED PMU management will follow the above-mentioned recommendation</p>		
<p>Status</p>		
<p>Not implemented. The AED PMU is still recognizes expenses at the date when advance holder submit documents using foreign exchange rate at that date</p>		

3. Calculation of salary expenses

Observation	Recommendation	Priority
<p>During the audit procedures on test payroll expenses, we have identified that Chief Accountant of AED PMU made incorrect accruals of personal income tax for all staff for June 2016. As result employees paid salary amount was higher and income tax deduction was less than actual for 146.16 Tajik somoni.</p> <p>Also, it was noted that in Timesheet report for July month there is indicated and taken as a base for salary calculation total amount of working days as 21 instead of 20 days. As result, there were incorrect accruals of salary for some employees as who worked not full month.</p>	<p>We recommend Management of the Project to maintain strict control over calculation of salary expenses and to take into consideration all requirements of the Tax Code of Republic of Tajikistan.</p>	<p>High</p>
<p>Management response</p>		
<p>The AED PMU management will follow the above-mentioned recommendation</p>		
<p>Status</p>		
<p>There are no similar notifications were detected during audit period.</p>		

APPENDIX A

Responsibility of the management, purposes and limitations inherent in the internal control structure

The following comments regarding responsibility of the management for the internal control structure, purposes and limitations inherent in the internal control structure are based on the International Standards on Auditing accepted by the International Federation of Accountants through the International Auditing and Assurance Standards Board.

Responsibility of the management

The management is responsible for development and ensuring operation of the internal control. Meeting this objective requires the management to make forecasts and estimates to determine the expected gain and costs relating to fulfillment of the policies and procedures of internal control.

Purposes

The purposes of internal control over the project financial statements consist in provision of the management with sufficient but not absolute certainty in security of assets and protection from losses as a result of unauthorized use or distribution of assets and guarantee of conduct of operations on the basis of orders of the management and their proper accounting, which will ensure preparation of project financial statements under International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

Limitations

Due to limitations inherent in any internal control structure, there is a possibility of mistakes and inaccuracies, which can remain undetected. Besides, forecasts with regard to any assessment or structure applicable to future periods can lose their significance due to changed conditions or decreased efficiency of the structure and functionality of the policies and procedures.