

**“Agricultural Commercialization Project”  
Grant No. H964-TJ, Grant No. D259-TJ  
Credit No. 6167-TJ**

**MANAGEMENT LETTER**

Based on the results of the audit of  
the project financial statements  
for the year ended December 31, 2018

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, 2018, we considered the internal control structure in order to determine the scope of 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, 2018 and implementation of the audit recommendations 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  
May 31, 2019

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

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**“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. Calculation of sick leave**

Observation	Recommendation	Priority
<p>During performance of audit procedures on sick leave payment it was identified that for calculation of sick leave 1C accounting system took the wrong number of months.</p> <p>In particular, during calculation of sick leave payments 1C accounting system took not fully worked months for identifying average daily salary, that contradicts to the Government resolution No. 313 specifying “The rules of calculation of average earnings for payment of labor vacations, severance payments and in other cases of average salary payments”, according to which: <i>“The average daily earnings for vacation pay is determined by dividing all actual accrued amounts for the period of 12 months or from the last increase in the current official salaries (tariff rates) by the full number of months preceding the time of vacation and by a factor of 29.3 average monthly number of calendar days”.</i></p> <p>Also, we have identified that 1C accounting system of the Project include weekends and holidays to the number of disability days.</p> <p>Even though the differences arising from incorrect calculation of sick leave are immaterial for the project financial statements, this fact indicates non-compliance with the local tax legislation.</p>	<p>We recommend to the management of the Project to improve the accounting system and to maintain strict control over calculation of sick leave. Also we recommend to take into consideration the requirements of the Government resolution No. 313 specifying “The rules of calculation of average earnings for payment of labor vacations, severance payments and in other cases of average salary payments”, Tax Code and other laws and regulations of the Republic of Tajikistan.</p>	<p>High</p>
<p><b>Management response</b></p>		

## 2. Calculation of sick leave

Observation	Recommendation	Priority
<p>During the audit procedures on calculation of sick leave the Project used sick leave in the amount of 100% for the Director of the PMU, which contradicts to the law of the Republic of Tajikistan "State social insurance", article 12, according to which:</p> <p><i>"sick leave is paid in the 100 percent from earnings in case if:</i></p> <ul style="list-style-type: none"> <li>- <i>employees in the event of a work injury or occupational disease;</i></li> <li>- <i>employees, participants of the Great World War and persons equated to them;</i></li> <li>- <i>workers resettled from areas of radioactive contamination as a result of the Chernobyl disaster and the equivalent zones of environmental disasters, diseases of the hematopoietic organs (acute leukemia), thyroid gland (adenoma, cancer), malignant tumors."</i></li> </ul> <p>None of these cases corresponded to the calculation of the sick leave of the director.</p> <p>Even though the differences arising from incorrect calculation of sick leave are immaterial for the project financial statements, this fact indicates non-compliance with the local tax legislation.</p>	<p>We recommend to the management of the Project to maintain strict control over sick leave calculation and to take into consideration requirements of the law of the Republic of Tajikistan "State social insurance" and other laws of the Republic of Tajikistan.</p>	<p>High</p>
<p><b>Management response</b></p>		
<p> </p>		

### 3. Calculation of individual income tax

Observation	Recommendation	Priority
<p>During performance of audit procedures on salary and related tax recalculation it was identified that the 1C accounting system incorrect accrued individual income tax.</p> <p>In particular, 1C accounting system takes into account personal deductions repeatedly at each calculation of vacations, which contradicts to the Tax Code of Republic of Tajikistan article 102 p.1: <i>“Personal deduction shall be carried out from income of an individual being an employee in the form of wages in the amount of one index for calculation for each calendar month”</i>.</p> <p>Even though the differences arising from incorrect calculation of taxable base are immaterial for the project financial statements, this fact indicates non-compliance with the local tax legislation.</p>	<p>We recommend to the management of the Project to improve the accounting system and to maintain strict control over calculation of salary and related taxes expenses. Also, we recommend to take into consideration all requirements of the Tax Code and other laws and regulations of the Republic of Tajikistan.</p>	<p>High</p>
<p><b>Management response</b></p>		
<p> </p>		

**STATUS ON PREVIOUS YEAR AUDIT RECOMMENDATIONS**

**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><b>Management response</b></p>		
<p></p>		
<p><b>Status</b></p>		
<p>Not implemented. This year it was also not provided.</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 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 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><b>Management response</b></p>		
<p></p>		
<p><b>Status</b></p>		
<p>Not implemented. This year it was also not provided.</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 became 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><b>Status</b></p>		
<p>Implemented.</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.