



BAKER TILLY

20
YEARS
OF EXCELLENCE

Baker Tilly Klitou and Partners SRL

Trade Reg. No: J40/5434/2003

CAFR Reg. No: 384/26.05.2003

Bucharest, Romania

T: +40 21 3156100 | F: +40 21 3156102

info@bakertilly.ro

www.bakertilly.ro

To the Management of "Agricultural Commercialization Project"
Grant No. H964-TJ

The World Bank

Subject: Status on previous year audit recommendations

Dear Sirs and Madams,

Upon completion of our audit of the special purpose project financial statements of the "Agricultural Commercialization Project" for the year ended 31 December 2015, we issued a Management letter dated 24 June 2016.

In connection with above management letter we have reviewed subsequent Management's actions on our recommendations raised therein and our observations regarding their status are communicated in the attached updated memorandum.

September 6, 2017

Bucharest, Romania

Sincerely Yours,

BAKER TILLY KLITOU SRL
Baker Tilly Klitou and Partners SRL



Offices:

Cyprus

Nicosia T: +357 22 458500

Limassol T: +357 25 591515

Larnaca T: +357 24 663299

Greece

Athens, Thessaloniki

T: +30 215 500 6060

Bulgaria

Sofia T: +359 2 9580980

1

Romania

Bucharest T: +40 21 3156100

Moldova

Chisinau T: +373 22 233003

An Independent member of Baker Tilly International

Registered in Romania (RN: J40/4820/2004). List of directors can be found at the Company's Registered Office.

1. Cash method of accounting

| Observation | Recommendation | Priority |
|---|--|-------------|
| <p>During execution of our audit procedures, we have identified that the Agricultural Entrepreneurship Development Project Management Unit (the "AED PMU") and the Ministry of Finance Project Management Unit (the "MOF PMU") recognize expenses at the date when issues payment order to the bank, however bank can perform payment later. 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 and MOF PMU recognize expenses at the date when issues payment order to bank using foreign exchange rate at that date, however when bank performs actual payment later for one or more days, it uses actual foreign exchange rate at the date of actual payment. The net difference between recognized expenses by AED PMU and MOF PMU and actual payments per bank equated to 266 US dollars and 15 US dollars, respectively.</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>Status</p> | | |
| <p>Auditors' recommendations were implemented.</p> | | |

2. Ineligible expenses

| Observation | Recommendation | Priority |
|--|--|-----------------|
| <p>During the audit procedures on test payroll expenses, we have identified that there was a payment of bonuses to employees of the AED PMU in amount of 2,250 US dollars on July 9, 2015. According to the Budget and Procurement Plan of the Project such kind of expenditures are not covered by Grant No. H964-TJ. Moreover, such conditions were not indicated in labor contracts. As a result, the bonuses paid are claimed as ineligible expenditures.</p> | <p>We recommend to AED PMU strictly follow Budget and Procurement Plan of the Project and control over and recognition of eligible project related expenses.</p> | <p>High</p> |
| <p>Status</p> | | |
| <p>As at December 31, 2016 most of the ineligible expenditures (payment of bonuses to employees of the AED PMU) was returned back by employees. Part of that amount was paid as cash and other payments were in form of deduction from employee's monthly salaries (as agreed by the Project and employees who received bonus). Therefore, Management letter point based on the audit of the Project for the year ended December 31, 2015 was not included in this year.</p> | | |