AUDIT REPORT

on the authenticity of the financial statements related to the implementation of Moldova Education Reform Project for 2016 fiscal year

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I. Audit team’s opinions

Unqualified opinion on Project’s interim financial reports. The audit team audited the Project’s Interim Financial Reports, which include: (i) Report on financing sources and uses of funds (Component III); (ii) Report on expenditures shown under the main project headings and by main categories of expenditures, both for the current fiscal year and accumulated to-date (Component III); (iii) Statement of Designated Account; (iv) Summary of Summary reports or SOEs (Statement of expenditures) used as the basis for the submission of withdrawal applications.

In the audit team’s opinion, the mentioned financial reports, in all material respects, provide true and fair view of the Project financial statements as of December 31, 2016, in accordance with the World Bank requirements.\(^1\)

Unqualified opinion on Project’s budgetary reports. The audit team audited the Project’s budgetary reports, which include: (i) MERP’s balance sheet, submitted to the Ministry of Education as of December 31, 2016, Form (FD-041); (ii) MERP Report on revenue and expenditures, Form (FD-042); (iii) MERP Report on funds flow, Form (FD-043); (iv) Financial Report on MERP’s budget execution by each separate component, Form (FD-044) as of December 31, 2016.

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In the audit team’s opinion, the mentioned financial reports, in all material respects, provide true and fair view of the project financial statements as of December 31, 2016, according to the Ministry of Finance’s Order no. 216 dated December 28, 2015.

II. Basis for opinion

The audit has been conducted according to the International Standards on Auditing: ISSAI 100, ISSAI 200, ISSAI 1000-2999. The responsibilities of the audit team, based on these standards, are described in the “Auditor’s responsibilities” section of this Report.

The audit team is independent from the audited entity and it has fulfilled the ethical responsibilities in line with the Ethical Code of the Court of Accounts. The audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinions.

It is noted that in order to substantiate the audit evidence and tested assertions relevant for the Interim Financial Reports and Budgetary Reports, the audit team requested the Project management’s statement, the document being attached to this Audit Report (Annex I).

III. Presentation of the audited area

In 2013, the Government of the Republic of Moldova and the International Development Association signed the Financing Agreement (IDA 51960) to obtain a credit in the amount of 26,1 million Special Drawing Rights (SDR) or US$40 million equivalent for successful implementation of structural reform in the education sector. MERP is a Specific Investment Loan, which was designed to be implemented over five years that follows a performance-based approach with disbursements linked to measurable results.

MoEd is the authority responsible for Project implementation, which ensures the general and financial management, reporting and supervision of Project implementation arrangements. The Annex no.2 to this Audit Report presents the detailed information.

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2 Ministry of Finance’s Order no.216 dated December 28, 2015 on approval of the Accounting Plan in the budgetary system and Methodological norms on accounting and financial reporting in the budgetary system (hereinafter - the Ministry of Finance’s Order no. 216 dated December 28, 2015).
3 ISSAI 1580 „Written representations” and Terms of Reference for the Project financial audit for the fiscal year ended on December 31, 2016.
4 The credit is granted for a reimbursement period of 25 years with five years grace period and interest rate of 1.65% annually, starting on May 15, 2018, and 3.35% annually starting on May 15, 2028.
The audit mission was initiated and conducted, at the Ministry of Education’s request, under the provisions of the Financing Agreement signed between the Government of the Republic of Moldova and the International Development Association, ratified by the Law no.89 dated April 19, 2013, the obtained results being adjusted to the requirements set out in the Terms of Reference for financial audit. Annex no. 3 to this Audit Report presents the audit scope and methodology.

The project objective is to strengthen the quality of education while supporting the efficiency reforms being implemented in the education sector. The Project consists of 3 components that are described in Figure no. 1 below:

**Moldova Education Reform Project Components**

- **Component I**
  - Strengthening the quality of education
  - which covers the financing of 12 Disbursement Linked Indicators (DLIs) in the amount of SDR20,0 million or US$30,5 million equivalent (at the moment of negotiations) to achieve progress on strengthening the quality of primary and general secondary education by: implementing quality assurance standards in the selected schools; establishing teacher and school directors’ training and remuneration programs; improving student assessment system; improving the quality of data and management systems.

- **Component II**
  - Improving the efficiency of the education sector
  - which covers the financing of 4 DLIs in the amount of SDR5,1 million or US$8,0 million equivalent (at the moment of negotiations) to achieve results on improving the efficiency of the education sector by eliminating excess capacity and creating a leaner education system.

- **Component III**
  - Improving the Ministry of Education’s capacity to monitor the reform
  - which covers the financing of SDR1,0 million or US$1,5 million equivalent (at the moment of negotiations) as technical assistance for provision of consultants’ services, non-consulting services, training and operating costs to support strengthening the Ministry of Education's institutional capacity to implement, measure and monitor the execution of Components I and II of the Project.


The project follows a performance-based approach, and as such, its disbursements are triggered by the achievement of agreed specific results known as Disbursement Linked Indicator. Thus, for the first two project components, a set of DLIs against which disbursements take place, has been established. The DLIs are

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6 The Law no.89 dated April 19, 2013 „On ratification of the Financing Agreement between the Republic of Moldova and the International Development Association for Moldova Education Reform Project implementation”.
“floating” and not bound by the year of achievement that is indicative only. The Project components will mirror these strategic pillars in the education sector.

The Component III, which supports technical assistance, follows traditional disbursement methods, in accordance with the World Bank guidelines. Thus, the Financial Reports are developed and submitted to the Bank within 45 days after the closure of the calendar quarter\(^7\).

According to the Financing Agreement, to implement the activities under the Component I and II, the support in the amount of US$ 38,5 million (at the moment of negotiations) has been provided to achieve 16 DLIs.

During 2013-2016 years, a total of 10 out of 16 DLIs have been achieved, and US$ 19,0 million (325,9 million lei) or 49,3% out of the total planned (US$38,5 million) has been disbursed as budgetary support.

In 2016, the MoEd has achieved three DLIs\(^8\) under Component I and II, being disbursed US$ 5,3 million, and respectively, some activities under Component III of the Project have been implemented, the disbursements being US$ 320,0 thousand.

In 2016, the results on Project implementation were low, but with trends of improvement. The progress has been also influenced by the limitation of financing from the state budget for the activities under Component I. *The Annex no.4 to this Audit Report presents detailed information.*

IV. Key audit aspects

4.1 Key audit aspects on Project’s Interim Financial Reports.

According to the Terms of Reference for the financial year ended on December 31, 2016, quarterly and annually the MoEd submits to the World Bank the Interim Financial Statements, which include: (i) Report on financing sources and uses of funds (Component III); (ii) Report on expenditures shown under the main project headings and by main categories of expenditures, both for the current fiscal year and accumulated to-date (Component III); (iii) A statement of designated account; (iv) a Summary of Summary reports or SOEs used as the basis for the submission of withdrawal applications.

At the same time, the MoEd submits quarterly to the WB the Reports on teachers’ salaries developed based on the Reports on execution of ATUB, consolidated by the Ministry of Finance.

\(^7\) Financing Agreement between the Republic of Moldova and International Development Association for implementation of Moldova Education Reform Project, Chisinau, February 7, 2013.

\(^8\) **DLI 5** „Updated program for training of school directors and teachers officially approved and implementation initiated“; **DLI 10** „Revised national testing of all 4th and 9th grade students completed and its results analysed, publicly disseminated and used by the MoEd” **DLI 15** „Student-teacher ratio for grades 1-12 is increased from 10.5:1 to 11.5:1“.
4.1.1 The disbursement and dynamics of funds used within the project in 2016 denote a low level, conditioned by several internal and external factors, including reduced institutional capacity to use financial resources.

The funds for Component I in the amount of 105,7 million lei were provided by the WB as “budgetary support without destination”, being transferred to the State Treasury and to be used jointly with the state resources. The funds designed to improve the MoEd’s capacity to monitor the reform in the amount of 6363,6 thousand lei were transferred directly in the designated account.

The reimbursement method has been used to make disbursements and it means reimbursing by the financier of eligible expenditures previously made by the MoEd. The Table presents the summary of funds execution under Project components.

Table no.1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Disbursements</td>
<td>40 000,0</td>
<td>5585,26</td>
<td>112037,2</td>
<td>19854,36</td>
</tr>
<tr>
<td>Component I and II</td>
<td>38 500,0</td>
<td>5265,3</td>
<td>105673,6</td>
<td>18962,6</td>
</tr>
<tr>
<td>Component III</td>
<td>1 500,0</td>
<td>319,96</td>
<td>6363,6</td>
<td>891,76</td>
</tr>
<tr>
<td>II. Expenditures</td>
<td>40 000,0</td>
<td>844,6</td>
<td>16874,4</td>
<td>4241,5</td>
</tr>
<tr>
<td>Components I and II</td>
<td>38 500,0</td>
<td>596,1</td>
<td>11922,0</td>
<td>3539,5</td>
</tr>
<tr>
<td>Component III</td>
<td>1 500,0</td>
<td>248,5</td>
<td>4952,4</td>
<td>702,0</td>
</tr>
<tr>
<td>III. Deviations (I-II)</td>
<td>x</td>
<td>4740,66</td>
<td>95162,8</td>
<td>15631,26</td>
</tr>
<tr>
<td>Components I and II</td>
<td>x</td>
<td>4669,2</td>
<td>93751,6</td>
<td>15423,1</td>
</tr>
<tr>
<td>Component III</td>
<td>x</td>
<td>189,8</td>
<td>3791,8</td>
<td>189,8</td>
</tr>
</tbody>
</table>

Source: The data summarised by the audit team, based on the information submitted by the Ministry of Finance and Project Coordination Unit.

The data analysis in the table shows the following:

9The MF opened a designated account at the National Bank of Moldova, on terms and conditions accepted by the World Bank. In order to make payments in local currency, the foreign currency (USD) will be exchanged as needed in MDL, from the designated account into a local currency transit account, which shall be opened at the National Bank of Moldova. The designated account and transit accounts are managed by the MoEd.

- **15,1%** represents the level of execution of actual expenditures (*16874,4 thousand lei*) by the MoEd out of the total amount of funds disbursed in 2016 for Project implementation. The design services for school rehabilitation (*11922,0 thousand lei*) and operating costs for implementation of activities under Component III (*4952,4 thousand lei*) have been predominantly financed.

- **49,3%** represents the share of amounts disbursed during 2013 – 2016 years (*US$19854,4,1 thousand*) out of the total funds envisaged (*US$40000,0 thousand*) for Project implementation and structural reform in the area of education. These are related to implementation of activities on: (i) ensuring students’ access to quality education; (ii) increasing the flexibility of labour relations in the area of education; and (iii) efficiently use of allocations by implementing per student financing formula at the national level.

- **10,6%** represents the level of cumulative execution of funds for activities carried out under the Project. The low level of this index, compared with the expectations and disbursements made, was caused by several internal and external factors, namely: significant delays in meeting the minimum quality assurance standards, ascertaining that needs for rehabilitation of selected schools are far greater than originally anticipated. Thus, cost estimate for those rehabilitations significantly exceeds the notional amount of the DLIs allocated to these activities. The main reason for this is irrelevance and outdated national school construction standards.

In this context, it should be noted the lack of institutional capacity of the MoEd to use external funds in the area of school rehabilitation, which reveals the risk that Project would not be implemented in time.

4.1.2 *The reporting process to the World Bank does not contain misstatements.*

The audit review on submission by the MoEd of IFRs to the WB found that the reports were submitted in time and accepted by the World Bank. Once the World Bank accepts the IFRs, the disbursements are made, which also confirms the approval of the financial statements by the donor institution.

The audit review of the Statement of designated account as of December 31, 2016 and the Summary of Summary Reports or SOEs used as the basis for the submission of withdrawal applications for 2016 year, found that all the withdrawal applications have been justified and correspond to the needs of Project expenditures. The audit did not identify unjustified expenditures or payments in the designated accounts. *The Annex no.5 (5.1 and 5.2) to this Audit Report presents the reports.*

During 2016, to implement the activities under Component III, the MoEd planned financial resources in total amount of US$ 521,8 thousand, of which: (i)
US$497,8 thousand – for consulting services; (i) US$ 7,0 thousand – for trainings; (i) US$17,0 thousand – for operating costs.

Thus, in 2016, the procurements in the amount of US$ 248,5 thousand or 4952,4 thousand lei, were carried out, based on the World Bank rules, and have been recorded under Component III on Project technical assistance.

The audit review found that the expenditures in the total amount of US$248,5 thousand out of the total funds planned (US$521,8 thousand) have been incurred, accounting for 47,6%. Thus, the expenditures were incurred for: (i) remuneration of consulting services in the amount of US$ 232,7 thousand, accounting for 46,7%; (i) trainings in the amount of US$ 6,5 thousand or 93,6%; (iii) implementation of Project management procedures in the amount of US$ 9,2 thousand or 54,4%.

The review of the primary bank documents, on which basis the economical transactions were recorded in the accounting, has been made separately both for bank statements and payment orders in MDL and in USD. Thus, both for payments in MDL and for those in USD, it was found that all economical operations were recorded in time and then included in the corresponding sub-component and in the IFR, and no divergences have been found. The data on execution of these funds are presented in the Report on expenditures shown under the main project components and by main categories of expenditures, both for the current fiscal year and accumulated to-date (Component III). The Annex no.5 (5.3) to this Audit Report presents the above-mentioned report. The audit review also denotes that the expenditures designed for remuneration of MERP consultants (10) have been incurred within and in accordance with the contractual provisions. The Annex no.5 (5.4) to this Audit Report presents the detailed information on “Expenditures for remuneration of individual consultants in 2016”.

During 2016 year, the amount of US$7,0 thousand or 140,0 thousand lei out of the total operating costs has been planned for service trips, and the actual expenditures were in the amount of 130,8 thousand lei or 93,4%. Following the review, the audit found no deviations to this chapter.

To support the MoEd in carrying out procurements under Component III\(^\text{11}\), a part-time procurement specialist under WB procedures was hired. The submission of “Report on financing sources and uses of funds – Component III as of December 31, 2016” (see Annex no.5 (5.5) to this Audit Report) to the World Bank is done by the financial management specialist. In 2016, according to the Procurement Plan and procurement documents reviewed and approved by the financier, the audit mission found that 6 procedures have been carried out and 6 contracts have been signed for

individual consulting services and non-consulting services in the amount of US$ 192,7 thousand. Thus, during 2016 year, the payments have been made in the amount of US$134,5 thousand, the level of execution of contracted amounts being 69,08%. Respectively, the balance in the amount of US$ 58,2 thousand as of December 31, 2016, was generated by the extension of deadlines for execution of contracts in 2017.

Following the review, by integral testing of a procurement procedure for consulting services in the amount of US$ 7650,0, and by internal control testing of 4 procedures for consulting and non-consulting services, the audit found no deviations. At the same time, it should be noted the World Bank’s no objection for all procurements carried out.

4.1.3 The data in the Report on teachers’ salaries as of December 31, 2016 (Component I) reported to the World Bank are true, but incomplete.

According to item 157 of the POM, after the World Bank’s official confirmation of DLI achievement, the Project’s financial management specialist prepares the Interim Financial Report, using documentation obtained from the State Treasury, and the IFR is submitted by the MoEd to the World Bank.

The audit review on the Report on teachers’ salaries as of December 31, 2016 (Annex no. 6 to this Audit Report), submitted by the MoEd to the WB, found that it includes data on approved, specified and funded indices. Thus, the audit finds that this Report drafted by MERP does not include data related to actual expenditures, debts and creditor debts. According to responsible persons within the Project, the completed information was obtained from the MoF, the Report being accepted without objections by the BM.

In order to formulate the reasonable conclusions and findings, the evidence was collected from the MoF, requesting information on teachers’ salaries for each local public authorities of level II and by each type of institution in the area of education for 2016 year. The obtained information confirms the MoEd’s data reported to the WB.

The audit compared the data in the Report prepared by MERP and submitted to the World Bank for component “executed” (2619,5 million lei) with the data submitted by the MoF on teachers’ salaries as of December 31, 2016, and no divergences have been found.

*Note*: During the course of the audit, the MoEd addressed a letter\(^\text{12}\) to the MoF, requesting full information on teachers’ salaries to report to the WB.

4.2 Key audit aspects on Project’s budgetary reports.

\(^{12}\) Letter no.14/12-528 dated June 09, 2017.
The Minister of Education, as Project General Director, is responsible for all Project components implementation. At the same, the MoF is responsible for funds allocations as budget support to the MoEd and local public authorities for Project implementation. The transfers to the local public authorities are approved by the Law on the state budget, through which they are authorised to use funds transferred by destination.

4.2.1 The allocations for school rehabilitation have not been executed by the end of the 2016 fiscal year.

According to the article 3, item b) of the Law no.154 dated July 01, 2016 on the state budget for 2016 year, initially the amount of 180000 thousand lei\(^{13}\) was planned for rehabilitation works of primary and general secondary schools, subordinated to the local public authorities, and further substituted with the amount of 39239,1 thousand lei, and distributed through the Government Decision no.1041 dated September, 2016\(^{14}\).

It should be noted that in 2014, the Coordinating Board\(^{15}\) selected and approved 19 schools to be rehabilitated. Given the insufficiency of funds for full execution of school rehabilitation works, according to the design documentation and medium-term budgetary framework, six out of 19 selected schools were approved for rehabilitation works in the first stage\(^{16}\). Thus, the amount of 34412,5 thousand lei was approved for rehabilitation works in 6 schools and 4826,6 thousand lei for design services, verification of designs, author control, technical supervision and technological equipment. The Government Decision no. 1041 dated September 13, 2016 has been developed by the MoEd and the MoF.

Table no. 2 presents the analysis of execution of budgetary funds allocated for financing of primary and secondary general schools subordinated to the local public authorities.

\(^{13}\) Law no.236 dated October 03, 2016 on amending the Law on the state budget for 2016 no. 154 dated July 01, 2016.

\(^{14}\) Government Decision no.1041 dated September 13, 2016 on financing the rehabilitation works for primary and secondary general schools, subordinated to the local public authorities in 2016.

\(^{15}\) The Coordinating Board on monitoring the school rehabilitation process was established through the Prime Minister’s Order no. 27-d dated March 26, 2014.

\(^{16}\) Minutes no. 2 dated March 22, 2016 of the Working Group’s meeting within the MoEd for monitoring the school rehabilitation process.
### Table no. 2

**Analysis of funds execution allocated according to the GD no. 1041 dated September 13, 2016**

(Thousand lei)

<table>
<thead>
<tr>
<th>Public authority, object</th>
<th>Distributed 2016</th>
<th>Distributed 2016 (rectified)</th>
<th>Contracted amount in 2016</th>
<th>Executed as of December 31, 2016</th>
<th>Paid in 2016</th>
<th>Balance as of December 31, 2016</th>
<th>Executed %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>„Lucian Blaga” Lyceum in Targara town, Leova rayon</td>
<td>27243,9</td>
<td>5448,8</td>
<td>13542,97</td>
<td>Unfulfilled</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>„Vasile Pirvan” Lyceum in Gotesti village, Cantemir rayon</td>
<td>27682,3</td>
<td>5536,5</td>
<td>-</td>
<td>Unfulfilled</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>„Silvian Lucaci” Lyceum in Costesti town, Rișcani rayon</td>
<td>23526,2</td>
<td>4705,3</td>
<td>18946,13</td>
<td>Unfulfilled</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>„Mihai Eminescu” Lyceum in Sipoteni village, Calarasi rayon</td>
<td>30663,9</td>
<td>6132,8</td>
<td>-</td>
<td>Unfulfilled</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>„Mesterul Manole” Lyceum in Salcuta village, Causeni rayon</td>
<td>34958,4</td>
<td>8493,8</td>
<td>25997,36</td>
<td>0,00</td>
<td>0,00</td>
<td>-</td>
<td>9,5</td>
</tr>
<tr>
<td>„Alexandru cel Bun” Gymnasium in Varzaresti village, Nisporeni rayon</td>
<td>19124,1</td>
<td>4095,3</td>
<td>-</td>
<td>0,00</td>
<td>0,00</td>
<td>-</td>
<td>11,1</td>
</tr>
<tr>
<td>Design services, design verification services, technical supervision services, author control services, and technological equipment</td>
<td>16801,2</td>
<td>4826,6</td>
<td>723,21</td>
<td>4392,9</td>
<td>3135,1</td>
<td>14,4</td>
<td>26,1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180000,0</strong></td>
<td><strong>39239,1</strong></td>
<td><strong>59209,7</strong></td>
<td><strong>9839,8</strong></td>
<td><strong>8582,0</strong></td>
<td><strong>393,6</strong></td>
<td><strong>5,5</strong></td>
</tr>
</tbody>
</table>

*Source: GD no.1041 dated September 13, 2016; Project accounting data.*

The data analysis in the table shows that in 2016 the MoEd used only 5.5% of the funds provided in the legal framework for capital investments in primary and general secondary schools. At the end of 2016 year, the rehabilitation works were contracted in the amount of 58.5 million lei out of the allocated amount of 180.0 million lei for 2016 year, further rectified to 39.24 million lei, or with 140.8 million lei less. According to the contractual provisions, the execution term for school rehabilitation works is 2017.

During 2016, the design services, design verification and technical supervision services have been paid in the amount of 4392.98 thousand lei, accounting for 26.1%. Thus, of the total amount, it has been paid for: (i) design services in the amount of 4012.6 thousand lei (of which the creditor debt was 1222.8 thousand lei as of January
(ii) design verification services in the amount of 356,0 thousand lei (of which the creditor debt was 35,04 thousand lei as of January 01, 2016); (iii) technical supervision services for rehabilitation works in the amount of 24,38 thousand lei.

At the same time, the rehabilitation works have been directly financed by the MoF to the beneficiary’s local budgets, based on two contracts in the amount of 5446,9 thousand lei.

The school rehabilitation works indicated in the Table no.2 are under implementation and commissioning, and during 2016 year, no school has been put into operation (final reception of rehabilitation works). Thus, only in two schools („Alexandru cel Bun” Gymnasium in Varzaresti village, Nisporeni rayon and „Mesterul Manole” Lyceum in Salcuta village, Causeni rayon) out of 6 selected schools, the rehabilitation works have been completed for the first stage and are underway for the second stage. The rehabilitation works for the other four schools are underway, based on the designs ordered by the MoEd, with execution term in 2017, according to the contractual provisions. The Annex no.7 to this Audit Report presents the information on execution of funds per each school and the stage of rehabilitation works during the course of audit.

Following the review, the external public audit found that the allocations distributed for school rehabilitation by the end of 2016 fiscal year, have not been executed. According to the Project team, the funds for rehabilitation works, design services, author control, technical supervision and technological equipment were planned in the Law on the state budget for 2016 year, approved with delay that determined the 8-month delay in initiating the public procurement procedures.

According to item 104 of the Project Operations Manual17 “for the school renovation works, the MoEd will contract an implementing agency through an international competition. The implementing agency will be responsible for organizing and supervising the renovation works for the receiving schools”. The audit team found that the MoEd has not contracted an Agency and the Project team informed that a WB consultant was contracted, and the Agency to be contracted when the rehabilitation works are completed.

According to the item 111 of the POM, it is stipulated that the Coordinating Board will meet on a quarterly basis or more often if needed. The Audit found that the Coordinating Board did not meet during 2016 year.

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17 Chapter 2 Implementation arrangements, subchapter r 2.1 Institutional arrangements.
4.2.2 The majority of procurements included in the Procurement Plan for 2016 have not been executed.

Planning of public procurement is to identify the public procurement contracts, designed to meet the needs for goods, works and services for the whole budget year, reflected in the procurement plan of the contracting authority\(^ {18} \). Planning of procurements is an important step in the procurement process, which has to be based on concrete needs in terms of quantity, quality and specified deadlines.

The external public audit found that according to the Procurement Plan, the total amount planned for 2016 was 141,9 million lei.

Following the audit review, it is found that the majority of planned procurements have not been initiated (141,6 million lei), namely: (i) 8 rehabilitation works in the amount of 131318,08 thousand lei; (ii) 6 author control services in the amount of 408,34 thousand lei; (iii) 6 technical supervision services for rehabilitation works in the amount of 1465,6 thousand lei; (v) technological equipment in the amount of 8462,2 thousand lei. According to the Project team, the Procurement Plan has not been fully executed due to delayed financing by the MoF.

Thus, during September-December 2016\(^ {19} \), 25 public procurement procedures were organized and conducted for rehabilitation works of the selected schools and for technical supervision services, of which: 13 public biddings for rehabilitation works, all biddings were held repeatedly, 5 RFP (Request for Proposals) for technical supervision services, and 7 RFP for verification services of design documentation.

Following the audit review on a sample of 80% of total contracts signed in 2016 (seven contracts for expertise and verification services in the amount of 267,8 thousand lei), the audit found no deviations on concluding and executing contracts. Thus, the audit findings denote that during 2016 year, four contracts in the amount of 2,8 million lei have been executed for design services. These contracts were concluded in 2015, with implementation term in 2016. The verification and technical supervision services have been paid through nine low value contracts in the total amount of 345,32 thousand lei. The technical supervision services were contracted in the amount 402,19 thousand lei, of which the payments in the amount of 24,3 thousand lei were made in 2016, and the design verification and expertise services


\(^ {19} \) "Mihai Eminescu" Lyceum in Sipoteni village, Calarasi rayon; "L. Blaga" Lyceum in Iargara town, Leova rayon, building for gymnasium and lyceum classes located on Scoli 1 street and for the building for primary classes located on 14 august street; “M. Manole” Lyceum in Salcuta village, Causeni rayon; "S. Lucaci" Lyceum in Costesti town, Rișcani rayon; "Vasile Pirvan" Lyceum in Gotesti village, Cantemir rayon; "Alexandru cel Bun" Gymnasium in Varzaresti village, Nisporeni rayon.
were contracted and paid in the amount of 321,0 thousand lei. It should be noted that the technical supervision services for rehabilitation works were contracted through 3 procurement procedures (RFP), and after that 3 contracts have been concluded in the amount of 377,89 thousand lei, to be paid during 2017.

**4.2.3 The MoEd and, respectively, the Project in 2016 passed to new accounting procedures, and did not assign correctly to the accounts the design/design verification documentation, which does not affect the audit opinion (entity’s assets).**

The accounting records are kept by the MoEd and by Project’s Financial Management Specialist, according to the general accounting rules and financial reporting in the public sector, set out in the Law on accounting\(^{20}\), the Methodological norms on execution of the national budget components” and the Methodological norms on accounting and financial reporting in the budgetary system, approved by the MoF\(^{21}\), in force since January 01, 2016.

In 2016, the Project’s budgetary accounting has been kept by the automated accounting system of the MoEd (Universal Accounting SL – budget version), the data being submitted\(^{22}\) quarterly and annually to the General Department of Economy, Patrimony and Finance of the MoEd for reporting to the MoF. It should be noted that, starting with 2016 year, the automated accounting system of the MoEd allows for the integration and consolidation of the MERP’s budgetary reports, thus, improving the accounting technique.

Thus, the audit reviewed the transition of accounting to new procedures, by analysing the correctness of accounting transactions in the Project’s budgetary reports.

The audit established that contrary to the provisions of the regulatory framework\(^{23}\), the transactions on accounting the designs and design verification documentation for school rehabilitation in the amount of 3,1 million lei were recorded to sub-account 318 „Other fixed assets”, but the regulatory framework\(^{24}\) stipulates the need to record to sub-account 319240 „Preparation of projects”, and further

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\(^{20}\) Accounting Law no.113-XVI dated April 27, 2007.

\(^{21}\) Ministry of Finance’s Order no.216 dated December 28, 2015 on approval of the Accounting Plan in the budgetary system and the Methodological norms on accounting and financial reporting in the budgetary system.

\(^{22}\) Form (FD-041) Balance sheet of the Ministry of Education as of December 31, 2016; Form (FD-042) Report on income and expenditures; Form (FD-043) Report on funds flow; Form (FD-044) Financial report on budget execution by each separate component.

\(^{23}\) Item 2.10. of the MoF’s Order no.48 dated April 13, 2016 on amending the Accounting Plan in the budgetary system and the Methodological norms on accounting and financial reporting in the budgetary system, approved by the Minister of Finance’s order no.216 dated December 28, 2015- „In item 3.3.34, the paragraph „documentation for design works, regardless of their value “ is excluded.”

\(^{24}\) Item 3.3.41 of the MoF’s Order no.216 dated December 28, 2015.
capitalizing them to the cost of building (311120 „Capital rehabilitation of buildings”).

At the same time, according to the Project team, the design documentation is ready and to be submitted to the LPA, and according to the WB requirements, schools with less than 600 students would not be renovated.

Note*: On the audit team’s request, the MoEd addressed a letter25 to the MoF to solve the identified problem in order to correctly record the designs /design verification documentation.

Summarising the above-mentioned, the audit team found that failure to allocate the designs/design verification documentation to the appropriate account at the end of the year did not distort the amount of Project’s assets and represents the true and fair view of the Project’s financial statements in the budgetary reports submitted to the MoF.

3.2.4 The audit found the lack of some verification acts, but no deviations were found by testing the closing and opening balances.

According to ISSAI 150526, the audit team requested external evidence to verify balances, as well as the turnover between the Project’s debtors and creditors. Thus, the audit team found that the Project as of December 31, 2016 did not have all verification acts of payments with economical entities, being reviewed the data in the Accounting note no. 6 „Consolidated statement on payments with suppliers”, and the external confirmations of 4 out of 7 providers of design and verification services. No deviations were found between accounting data and verification acts.

By reconciling initial and final balances, no differences were found between the balances presented in different sources of information (Monthly accounting notes of the Project, Book of Accounting for 2016 and Balance sheet for 2016).

Note: On July 04, 2017, during the discussions of the key audit aspects, the MERP team presented all verification acts of payments with those 7 providers.

4.3 Execution of the Court of Accounts’ previous decision

Regarding the execution of the Court of Accounts’ previous decision27, the audit team points out that activities carried out by the MoEd, jointly with Project consultants, were aimed to ensure the continuity of Project implementation process. Thus, in order to execute those two requirements of the Court of Accounts’ decision no.27 dated July 19, 2016, the audit team found that by the date of conducting the

26 ISSAI 1505 „External confirmation”.
27 Court of Accounts’ Decision no.27 dated July 19, 2016 „On the audit report on MERP’s financial statements”, drawn up as of December 31, 2015 (hereinafter – Court of Accounts’ Decision dated July 19, 2016).
audit, the requirement 2.2.1 has not been executed, and the requirement 2.2.2 has been partially executed. At the same time, regarding the implementation of those three recommendations from the Report, the audit mentions that 2 recommendations to be implemented, and the recommendation no.2 has been implemented.

Due to the fact that the deadline\textsuperscript{28} for implementation of requirements and recommendations no.1 and no. 3 has not been expired, as well as given the audit findings set out in \textit{Chapter IV “Key audit aspects”} of this Report, the audit reiterates the need for their full implementation.

\textit{Annex no. 8 to this Audit Report presents the detailed information on implementation of the requirements and recommendations of the Court of Accounts’ previous decision.}

\textbf{V. Mention on continuity of activity}

The audit applied the provisions of ISSAI 1570 „Going Concern”, referring to the finding of events/conditions, which could seriously question the entity’s ability to ensure the Project implementation in due time, using the financial resources provided by the World Bank.

The audit team found that the MoEd faces difficulties in achieving the DLIs related to school rehabilitation, namely the procurement procedure for rehabilitation works according to the national standards is very difficult and lasts for a longer time. At the same time, the financing of rehabilitation works from the budgetary sources is in delay, which lead to postpone in execution of works.

The audit also mentions the circumstances influenced by the change of the strategic management and the reduced capacity of using funds. In this context, on September 26, 2016, the MoEd addressed a request\textsuperscript{29} to the Prime Minister on MERP restructuring, by transferring the responsibilities for school rehabilitation from the MoEd to Moldova Social Investment Fund (MSIF). The proposal on MERP restructuring was approved by the Inter-Ministerial Committee on Strategic Planning within the meeting dated November 17, 2016\textsuperscript{30}.

The MoF sent to the WB the request for restructuring\textsuperscript{31} and together with the MoEd undertakes the actions to carry out further procedures. It should be noted that on February 16, 2017, the WB accepted to amend the terms and conditions of the Financing Agreement.

\textsuperscript{28} The term for implementation of recommendations and requirements expiries on September 09, 2017.
\textsuperscript{29} Letter no.14/11-877 dated September 26, 2016.
\textsuperscript{30} Minutes no.21-25-06-02 dated November 17, 2016.
\textsuperscript{31} Solicitarea MF nr.13/1-7-349 din 21.11.2016.
At the same time, it was agreed that allocations for DLIs 2, 3 and 4 (in total 8,1 million SDR, or about US$ 12,0 million) to be transferred to MSIF for rehabilitation of 15 schools, which will be selected based on transparent criteria and agreed with the World Bank.

On April 19, 2017, the President of the Republic of Moldova signed the Decree no. 135 –VIII on initiation of negotiations and approval of signing the Amendment no. 2 between the Republic of Moldova and the International Development Association dated February 07, 2013 on MERP implementation. After ratification of the Amendment no. 2 by the Parliament, the modifications will be included in the Procurement Plan.

The statements outlined in this chapter do not influence the audit’s opinions on the financial statements reported to the WB and the MoF for 2016.

VI. Audit recommendations

_The Ministry of Education together with MERP team:_

1. To ensure review of the Procurement Plan and redistribution of the amount of US$12,0 thousand designed for project audit for 2013-2015 years (reiterated recommendation of the Corts of Accounts’ Decision dated July 19, 2016).

_The Ministry of Education jointly with the Ministry of Finance:_

2. To ensure the systematization of the data on teachers’ salaries and to establish control activities on reporting and submitting the interim financial reports with full data to the World Bank (finding 4.1.3 of the Chapter IV. Key audit aspects).

3. To strengthen the control and monitoring activities to enhance cooperation between the responsible persons in order to use funds by destinations and in time for implementation of all project components (reiterated recommendation, finding 4.1.1 of the Chapter IV. Key audit aspects).

VII. Responsibilities of the leadership and those in charge of Interim Financial Reports and Budget Reports

The MoEd is responsible for preparation and timely submission of the Interim Financial Reports to the World Bank and Budget Reports to the MoF, according to the WB requirements 32 and the MoF’s Order no.216 dated December 28, 2015. The MoEd’s leadership is also responsible for implementation of an efficient financial

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management and control system that ensures the preparation of the mentioned reports that do not contain significant misstatements, caused by fraud or error.

According to the established provisions\textsuperscript{33}, in order to implement the activities for daily administration of funds under Component III of the Project and to provide support to the Ministry of Education’s staff, a Coordination Team was established, which is responsible for ensuring the financial management and developing Interim Financial Reports and Budget Financial Reports.

VIII. Responsibilities of the audit team

The objectives of the audit team were to obtain reasonable assurance that the Interim Financial Reports submitted to the WB and Budget Reports submitted to the MoF are free from material misstatements due to fraud or error and to issue an audit opinion. Thus, the activity of the audit team was to assess the level of adequacy of accounting policy applied and reasonableness of accounting estimates, in order to provide a reasonable assurance that the amounts and disclosures in the Project financial reports of the project for 2016 have been properly recorded and accounted, are free from material misstatements and present true and fair view on audited financial statements, by applying relevant audit procedures to obtain sufficient and appropriate audit evidence.

Signatures of the Audit team

Head of the audit team,
Senior state inspector

\textit{Maia Savva}

State inspector

\textit{Vera Borsevschi}

\textit{Responsible for audit:}

Head of the General Department for public finances audit /
State auditor

\textit{Natalia Trofim}

\textsuperscript{33} Project Operations Manual.
IX. Annexes

Annex no.1 Management’s statements

MINISTERUL EDUCAȚIEI
AL REPUBLICII MOLDOVA

Piata Marii Adunari Naționale, nr. 1
MD-2033 Chișinău
Republica Moldova
tel. 23-33-48, fax: 23-35-15
www.edu.gov.md

MINISTRY OF EDUCATION
OF THE REPUBLIC OF MOLDOVA

1, Piata Marii Adunari Naționale
Chișinău, MD-2033
Republic of Moldova
tel. +(373) 22 23-33-48, fax: +(373) 22 23-35-15
www.edu.gov.md

Declarațiile conducerii

Către: CURTEA DE CONTURI

13 iunie 2017

data

Prezenta scrisoare de declarație este asigurarea dată în legătură cu realizarea de către Curtea de Conturi a auditului Rapoartelor Financiare Interimare ale Proiectului „Reforma Învățământului în Moldova”, pentru anul încheiat la 31 decembrie 2016, în scopul de a exprima o opinie dacă situațiile financiare de referință oferă o imagine fidelă și reală a poziției financiare în toate aspectele semnificative, în conformitate cu cerințele Băncii Mondiale.

Referitor la Situațiile financiare confirmăm cu certitudine următoarele afirmații:

✓ au fost realizate toate responsabilitățile pentru prezentarea autentică și veridică a RFI în conformitate cu criteriile de raportare financiară expuse mai sus, și anume corectitudinea raportării; a) cheltuielilor de retribuire a muncii a cadrelor didactice; b) mijloacelor financiare utilizate pentru procurările reglementate de Ghidul Băncii Mondiale pentru achiziții; c) cheltuielilor pe principalele componente ale proiectului;

^ Rapoartelor privind executarea bugetelor unităților administrativ-teritoriale consolidate de Ministerul Finanțelor pentru cheltuielile de retribuire a muncii a cadrelor didactice; Sumarului fondurilor primite, separat pe categorii: Sumarului cheltuielilor pe principalele componente ale proiectului și pe articole principale de cheltuială, atât pentru anul fiscal supus auditații, cât și cumulativ până în prezent; Sumarului rapoartelor de situare; Declarația cu privire la conturile desemnate.
✓ nu au existat neregularități care să implice conducerea sau angajații cu un rol important, în sistemul de control intern sau care ar fi putut avea un efect semnificativ asupra situațiilor financiare;
✓ jumătate de eșantion contabilă ale proiectului reflectă soldurile inițiale/finale și tranzacții financiare reale efectuate de proiect;
✓ Ministerul Educației în comun cu echipa de consultanți locali au respectat toate aspectele Acordului de finanțare, Documentului de Evaluare al Proiectului și Manualului Operațional al Proiectului, cu anexele sale, ceea ce permite evitarea eventualilor neconformități semnificative asupra situațiilor financiare.
✓ s-a trecut la ţinerea evidenţei contabile pe proceduri noi, aplicând pe parcursul anului 2016 „Normele metodologice privind executarea de casă a bugetelor componentele ale bugetului public național” și „Normele metodologice privind evidența contabilă și raportarea financiară în sistemul bugetar” aprobate de către Ministerul Finanțelor⁵, în vigoare din 01.01.2016, fiind raportate Rapoartele bugetare ale Proiectului conform cadrului legal/normativ în vigoare.

**Informatii oferite echipei de audit:**
✓ entitatea a asigurat: accesul la toate informațiile relevante pentru întocmirea RFI, cum ar fi înregistrarea tuturor tranzacțiilor financiare de bancă, evidența și documentața contabilă, și alte aspecte; informațiile suplimentare solicitate în scopul auditului și o conlucrare eficientă cu personalul responsabil din cadrul proiectului;
✓ au fost prezentate toate informațiile cu privire la eventualele suspiciuni/indici de fraudă care ar putea afecta situațiile financiare;
✓ s-a permis dreptul de vizualizare directă și accesul la sistemele informaționale, inclusiv contabile utilizate pentru elaborarea rapoartelor interimare, etc.

Cu respect,

**Directorul general al Proiectului**

**Directorul executiv al Proiectului**

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⁵ Ordinul Ministerului Finanțelor nr.216 din 28.12.2015 cu privire la aprobarea Planului de conturi contabile în sistemul bugetar și a Normelor metodologice privind evidența contabilă și raportarea financiară în sistemul bugetar.
The Ministry of Education is responsible for establishing an efficient financial management and internal control system for successful Project implementation that would ensure proper and timely submission of the Interim Financial Reports to the World Bank and Budget Financial Reports to the Ministry of Finance. Thus, according to the established provisions, in order to carry out activities for daily administration of funds under Component III of the Project and to provide support to the Ministry of Education’s staff, a Coordination Team was established, which is responsible for ensuring the financial management and developing Interim Financial Reports and Budget Financial reports.

Financial management of the Project is carried out by:
- Minister of Education: Project General Director is responsible for the Project general management;
- Vice-Minister of Education: Project Executive Director is appointed by the Minister of Education and provides project oversight, overall policy direction, strategic and implementation guidance, and review of overall project progress.
- Coordinating Board is responsible for monitoring the school rehabilitation process;
- Project Coordinator is the key liaison with the World Bank and is responsible for monitoring the DLIs achievement, regular interactions and requesting “no objections” from the World Bank; and coordinating implementation of project components, etc.;
- Financial management specialist is responsible for budgeting and whole accounting system of the Project according to the Government and World Bank requirements, etc.

The MERP implementation arrangements are the following:

Annex no.3 Methodology and audit scope

Basis for audit. The Court of Accounts, based on the legal mandate, provided by the Article 28 and Article 31, paragraph (1) item a) of the Law on the Court of Accounts no.261-XVI dated December 05, 2008, as well as according to the Audit Activity Program of the Court of Accounts for 2017, has conducted the audit of financial statements of Moldova Education Reform Project for 2016 year. The audit mission was initiated and conducted, at the Ministry of Education’s request, under the provisions of the Financing Agreement signed between the Government of the Republic of Moldova and the International Development Association, ratified by the Law no.89 dated April 19, 2013, the obtained results being adjusted to the requirements set out in the Terms of Reference for financial audit.

The audit scope. The objective of the exercised financial audit was to obtain a reasonable assurance that for the fiscal year ended on December 31, 2016, all significant financial transactions present true and accurate amounts, expressing the audit’s opinion, based on the Interim Financial Reports and budgetary reports.

Audit area and objectives. The Audit Mission was planned and conducted in accordance with the Audit Standards applied by the Court of Accounts and with good practices in the area of financial audit. The audit evidence was obtained by internal control testing and applying analytical procedures and detailed tests on a random selected sample, using various techniques, such as: inspection, examination, information request and recalculation.

Based on the significance threshold and as a result of identifying the areas with high probability of risks, the following has been audited:

- Verify the planning and execution of budgetary funds designed for financing the design services for school rehabilitation;
- Review the completeness of transactions and balances in the Project budgetary reports and other aspects of accounting evidence;
- Review the observance of the disbursement mechanism and use of Project funds;
- Determine the truthfulness of data presentation in the Report on execution of teachers’ salaries (Component II);
- Evaluate the correctness of expenditures on procurements (consulting and non-consulting services) defined by the WB procedures;
- Verify the truthfulness and completeness of expenditures for institutional support of the MoEd, including balances presented in the Interim Financial Reports (Component III).

The specific objectives were determined as a result of applying analytical procedures to audited area, and aim to:

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34 The Law on the Court of Accounts no. 261-XVI dated December 05, 2008 (with further amendments).
35 The Decision of the Court of Accounts no.47 dated December 05, 2016 “On approval of the Audit Activity Program of the Court of Accounts for 2017 (with further amendments).
36 Law no.89 dated April 19, 2013.
37 ISSAI 100, ISSAI 200, ISSAI 1000-9999.
Regarding budget reporting rules
- verify the correctness of planning and execution of budget resources designed for financing the design services for school rehabilitation;
- examine the completeness of transactions and truthfulness of balances in the Project budgetary reports and other accounting aspects.

Regarding the reporting criteria established by the World Bank
- review the observance of the disbursement mechanism and analysis of funds used within the project for 2016;
- determine the truthfulness of data presentation in the Report on execution of teachers’ salaries (Component II);
- evaluate the regularity of expenditures incurred on procurements (consulting and non-consulting services) defined by the World Bank procedures;
- verify the truthfulness and completeness of expenditures designed for institutional support of the Ministry of Education, including balances presented in the Interim Financial Reports (remuneration of local consultants, operating costs).

Audit approach. In order to obtain relevant and reasonable evidence to support audit opinion, the audit team used substantive testing and assessment of significant elements of the internal control system, by applying sampling, being reviewed the following:

For the Project’s Interim Financial Reports.
✓ disbursement mechanism and use of Project’s funds (100%);
✓ presentation of data on teachers’ salaries in the Report on execution of teachers’ salaries (100%);
✓ expenditures on procurements (consulting and non-consulting services) defined by the World Bank have been correctly incurred (30%);
✓ expenditures designed for institutional support of the MoEd, including balances presented in the IFRs (Component 3) have been executed by the entity without significant deviations (95%).

For Budgetary reports.
✓ planning and execution of budgetary funds designed for financing the design services for school rehabilitation works (100%);
✓ imperfections in organizing the accounting (100%);

During the audit mission, the Audit team of the Court of Accounts applied the following audit standards: ISSAI 100, ISSAI 200, ISSAI 1000-2999.

Audit methodology. In order to obtain relevant and reasonable evidence to support audit findings in the Audit Report, the audit team applied the following audit procedures:
✓ assessing the functionality of internal controls on procurement procedures and remuneration of local consultants (Component III);
✓ applying substantive procedures on the categories of financial transactions regarding: planning of funds; carrying out and accounting of design services; making disbursements; reporting teachers’ salaries, as well as developing Project financial statements.

**On the security policy of financial information.**

The accounting carried out under the World Bank rules was supported by „1C” accounting software. The audit tests found that the accounting program has organized appropriate application controls that ensure the correctness of accounting data generated by the system.

To test general and application controls, the audit team tested the access to the computer and “1 C” accounting-information system, as well as calculated the salary of an individual consultant for June 2017, and no errors have been found.

The audit team informed the entity about all audit findings and recommendations, the most significant, both quantitative and qualitative being set out in the Audit Report.

**Annex no.4 DLIs achieved during 2013-2016 years under Components I and II**

(THRousand m.u.)

<table>
<thead>
<tr>
<th>Disbursement Linked Indicator</th>
<th>The amount to be disbursed</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Standards for receiving schools approved</td>
<td>1700,0 2500,0</td>
<td>1700,0 2392,6</td>
</tr>
<tr>
<td>2. 30 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700,0 4000,0</td>
<td></td>
</tr>
<tr>
<td>3. 50 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700,0 4000,0</td>
<td></td>
</tr>
<tr>
<td>4. 70 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700,0 4000,0</td>
<td></td>
</tr>
<tr>
<td>5. Updated program for training of school directors and teachers officially approved and implementation initiated</td>
<td>1276,7 2000,0</td>
<td>1276,6 1710,1</td>
</tr>
<tr>
<td>6. 30 percent of school directors and 10 percent of teachers trained based on the updated program for training of school directors and teachers</td>
<td>1276,7 2000,0</td>
<td></td>
</tr>
<tr>
<td>7. New remuneration program of school directors and teachers adopted</td>
<td>1276,7 2000,0</td>
<td></td>
</tr>
<tr>
<td>8. Enrolment of Moldova in PISA 2015</td>
<td>1276,7 2000,0 1276,7 1959,0</td>
<td></td>
</tr>
<tr>
<td>9. Results of Moldova participation in PISA 2015 analysed and publicly disseminated</td>
<td>1276,7 2000,0</td>
<td></td>
</tr>
<tr>
<td>10. Revised national testing of all 4th and 9th grade students completed and its results analysed, publicly disseminated and used by the MoEd</td>
<td>1276,7 2000,0</td>
<td>1276,6 1781,2</td>
</tr>
<tr>
<td>11. Establish a consolidated Education Management Information System (EMIS)</td>
<td>1276,7 2000,0</td>
<td>1276,7 1974,0</td>
</tr>
<tr>
<td>12. School Report Cards produced by the consolidated EMIS and sent to all schools with comparative performance outcomes and trends at regional and country level</td>
<td>1276,7 2000,0</td>
<td>1276,7 1849,5</td>
</tr>
</tbody>
</table>

**Component II. Improving the efficiency of the education sector**

<table>
<thead>
<tr>
<th>Disbursement Linked Indicator</th>
<th>The amount to be disbursed</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. 80 percent of primary and general secondary schools have their budgets approved according to the new per student</td>
<td>1276,7 2000,0 1276,7 1959,0</td>
<td></td>
</tr>
</tbody>
</table>
### Formula Methodology

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. 980 classes reorganized in primary and secondary schools from the baseline in 2011/2012 school year.</td>
<td>1276.7</td>
<td>2000.0</td>
<td></td>
<td>1276.7</td>
<td>1777.1</td>
<td></td>
</tr>
<tr>
<td>15. Student-teacher ratio for grades 1-12 is increased from 10.5:1 to 11.5:1.</td>
<td>1276.7</td>
<td>2000.0</td>
<td></td>
<td></td>
<td>1276.6</td>
<td>1774.0</td>
</tr>
<tr>
<td>16. System in place to closely monitor and mitigate drop outs (by gender) in General Education (using EMIS)</td>
<td>1276.7</td>
<td>2000.0</td>
<td></td>
<td>1276.7</td>
<td>1786.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25120.0</strong></td>
<td><strong>38500.0</strong></td>
<td><strong>2553.3</strong></td>
<td><strong>3918.0</strong></td>
<td><strong>2553.3</strong></td>
<td><strong>3823.5</strong></td>
</tr>
</tbody>
</table>

Annex no.5 Project’s Interim Financial Reports for 2016

5.1 A Statement of Designated Account as at December 31, 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance as at January 01, 2016</td>
<td>118271</td>
</tr>
<tr>
<td>Add: Cumulative unexplained discrepancy</td>
<td>0</td>
</tr>
<tr>
<td>Advance during the year</td>
<td>319960</td>
</tr>
<tr>
<td>Less: Refund to IDA during the period</td>
<td>0</td>
</tr>
<tr>
<td>Present outstanding amount advanced to SA</td>
<td>309681</td>
</tr>
<tr>
<td>SA closing balance as at December 31, 2016 carried forward to next period</td>
<td>189768</td>
</tr>
<tr>
<td>Add: Amount of eligible expenditures paid during year</td>
<td>248463</td>
</tr>
<tr>
<td>Service charges</td>
<td>0</td>
</tr>
<tr>
<td>Less: Interest earned</td>
<td>0</td>
</tr>
<tr>
<td>Total advance accounted for</td>
<td>309681</td>
</tr>
<tr>
<td>Discrepancy</td>
<td>0</td>
</tr>
</tbody>
</table>

Extract from the Special Account of the Project as at December 31, 2016 under Component III

(US$)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance of the special account as at January 01, 2016</td>
<td>118271</td>
</tr>
<tr>
<td>Total credit (plus):</td>
<td></td>
</tr>
<tr>
<td>IDA advance to the special account during the period</td>
<td>0,00</td>
</tr>
<tr>
<td>IDA additional financing to the special account during the period</td>
<td>319960</td>
</tr>
<tr>
<td>Total debit (minus):</td>
<td></td>
</tr>
<tr>
<td>Refund to IDA from special account during the period</td>
<td>0,00</td>
</tr>
<tr>
<td>Eligible expenditures from IDA funds paid from the special account during the period</td>
<td>248463</td>
</tr>
<tr>
<td>Closing balance of the special account as at December 31, 2016</td>
<td>189768,0</td>
</tr>
</tbody>
</table>
5.2 A Summary of Summary reports or SOEs (Report on expenditures) used as the basis for the submission of withdrawal applications for 2016 year

<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Total amount, US$</th>
<th>IDA Cat.1</th>
<th>IDA Cat.2</th>
<th>IDA Cat.3</th>
<th>Total paid US$</th>
<th>Paid, US$</th>
<th>Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>03.10.2016</td>
<td>96.053,49</td>
<td>96.053,49</td>
<td>87.571,26</td>
<td></td>
<td>87.571,26</td>
<td>29.09.2016</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>15.12.2016</td>
<td>129.748,64</td>
<td>129.748,64</td>
<td>129.748,64</td>
<td></td>
<td>129.748,64</td>
<td>14.12.2016</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>319.959,76</td>
<td>319.959,76</td>
<td>319.959,76</td>
<td>67.062,88</td>
<td></td>
<td>247.867,65</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5.3 Report on expenditures shown under the main Project components and by main categories of expenditures, both for the current fiscal year and accumulated to-date – Component III

<table>
<thead>
<tr>
<th>No.</th>
<th>Project components/ Activities</th>
<th>Actual</th>
<th>Planned</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>From the beginning of 2016</td>
<td>From Project starting</td>
<td>From the beginning of 2016</td>
</tr>
<tr>
<td>1.</td>
<td>Strengthening the quality of education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Improving the efficiency of the education sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Improving the Ministry of Education’s capacity to monitor the reform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consulting services</td>
<td>232665</td>
<td>647676</td>
<td>497790</td>
</tr>
<tr>
<td></td>
<td>Non-consulting services</td>
<td>0</td>
<td>7369</td>
<td>38849</td>
</tr>
<tr>
<td></td>
<td>Trainings</td>
<td>6550</td>
<td>19816</td>
<td>7000</td>
</tr>
<tr>
<td></td>
<td>Operating costs</td>
<td>9248</td>
<td>27127</td>
<td>17000</td>
</tr>
<tr>
<td></td>
<td>Grand total</td>
<td>248463</td>
<td>701988</td>
<td>521790</td>
</tr>
<tr>
<td></td>
<td>Total expenditures of the Project</td>
<td>248463</td>
<td>701988</td>
<td>521790</td>
</tr>
</tbody>
</table>
5.4 Summary of expenditures related to remuneration of individual consultants in 2016 (thousand lei)

<table>
<thead>
<tr>
<th>No</th>
<th>Position of the individual consultant</th>
<th>Calculated salary</th>
<th>Contributions paid by employer</th>
<th>Contributions paid by employee</th>
<th>Income tax</th>
<th>Amount to be paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>23%</td>
<td>4,5%</td>
<td>6%</td>
<td>4,5%</td>
</tr>
<tr>
<td>1</td>
<td>Project coordinator</td>
<td>292,3</td>
<td>67,2</td>
<td>13,1</td>
<td>14,7</td>
<td>13,1</td>
</tr>
<tr>
<td>2</td>
<td>Financial specialist</td>
<td>53,5</td>
<td>12,3</td>
<td>2,4</td>
<td>3,2</td>
<td>2,4</td>
</tr>
<tr>
<td>3</td>
<td>Financial specialist</td>
<td>151,7</td>
<td>34,9</td>
<td>6,8</td>
<td>9,1</td>
<td>6,8</td>
</tr>
<tr>
<td>4</td>
<td>Procurement specialist under national procedures</td>
<td>227,5</td>
<td>52,3</td>
<td>10,2</td>
<td>13,6</td>
<td>10,2</td>
</tr>
<tr>
<td>5</td>
<td>Project assistant</td>
<td>184,6</td>
<td>42,4</td>
<td>8,3</td>
<td>11,0</td>
<td>8,3</td>
</tr>
<tr>
<td>6</td>
<td>Civil works engineer</td>
<td>246,3</td>
<td>56,6</td>
<td>11,08</td>
<td>14,8</td>
<td>11,1</td>
</tr>
<tr>
<td>7</td>
<td>Civil works engineer</td>
<td>168,4</td>
<td>38,7</td>
<td>7,6</td>
<td>10,1</td>
<td>7,6</td>
</tr>
<tr>
<td>8</td>
<td>Procurement specialist under WB rules</td>
<td>167,3</td>
<td>38,5</td>
<td>7,5</td>
<td>10,0</td>
<td>7,5</td>
</tr>
<tr>
<td>9</td>
<td>Environmental consultant</td>
<td>131,4</td>
<td>30,2</td>
<td>5,9</td>
<td>7,9</td>
<td>5,9</td>
</tr>
<tr>
<td>10</td>
<td>PR consultant</td>
<td>127,3</td>
<td>29,3</td>
<td>5,7</td>
<td>7,6</td>
<td>5,7</td>
</tr>
<tr>
<td></td>
<td>Total salary expenditures, thousands lei</td>
<td>1750,3</td>
<td>402,6</td>
<td>78,8</td>
<td>102,2</td>
<td>78,8</td>
</tr>
<tr>
<td></td>
<td>Converting into thousand US$</td>
<td>87,9</td>
<td>20,2</td>
<td>4,0</td>
<td>5,1</td>
<td>4,0</td>
</tr>
<tr>
<td></td>
<td>Total salary expenditures, thousand US$</td>
<td>112,1</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Accounting notes no.5a, Calculation list and the payment for remuneration of consultants hired by the MoEd per each month.
### 5.5 Report on financing sources and uses of funds – Component III as of December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Executed From the beginning of 2016</th>
<th>Executed From Project starting</th>
<th>Planned From the beginning Of 2016</th>
<th>Planned From Project starting</th>
<th>Deviations From the beginning of 2016</th>
<th>Deviations From Project starting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening balance</strong></td>
<td>118 271</td>
<td>-</td>
<td>118 271</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Special account</strong></td>
<td>118 271</td>
<td>-</td>
<td>118 271</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plus: financing sources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PPF Refund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA Credit</td>
<td>319 960</td>
<td>891 756</td>
<td>403 519</td>
<td>975 316</td>
<td>(83 559)</td>
<td>(83 560)</td>
</tr>
<tr>
<td>Other sources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total funds</strong></td>
<td>5 703 601</td>
<td>19 854 404</td>
<td>5 668 889</td>
<td>19 937 964</td>
<td>(83 559)</td>
<td>(83 560)</td>
</tr>
<tr>
<td><strong>Minus: use of funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting services, non-consulting services, trainings, Operating costs under Component III</td>
<td>248 463</td>
<td>701 988</td>
<td>521 790</td>
<td>1 251 797</td>
<td>(273 327)</td>
<td>(549 809)</td>
</tr>
<tr>
<td>Transferred to the state budget</td>
<td>5 265 370</td>
<td>18 962 648</td>
<td>5 265 370</td>
<td>18 962 648</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total used</strong></td>
<td>5 513 833</td>
<td>19 664 636</td>
<td>5 787 160</td>
<td>1 251 797</td>
<td>(273 327)</td>
<td>(549 809)</td>
</tr>
<tr>
<td>Final balance</td>
<td>189 768</td>
<td>189 768</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(US$)
Annex no.6 Report on teachers’ salaries as of December 31, 2016, according to the Reports data on execution of ATUB consolidated by the Ministry of Finance

<table>
<thead>
<tr>
<th>No</th>
<th>Month</th>
<th>Budgeted</th>
<th></th>
<th></th>
<th>Actuals</th>
<th>Owed to beneficiaries, current month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Approved for YTD</td>
<td>Revised for YTD</td>
<td>Revised for reporting period</td>
<td>Financed by the Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
</tr>
<tr>
<td></td>
<td></td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
<td>thousand lei</td>
</tr>
<tr>
<td>1.</td>
<td>6 months</td>
<td>2.110.028,6</td>
<td>105.847,5</td>
<td>2.662.691,5</td>
<td>133.570,7</td>
<td>1.512.792,5</td>
</tr>
<tr>
<td></td>
<td>Execution rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>9 months</td>
<td>2.677.756,5</td>
<td>134.655,0</td>
<td>2.697.615,0</td>
<td>135.654,0</td>
<td>1.948.043,9</td>
</tr>
<tr>
<td></td>
<td>Execution rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>12 months</td>
<td>2.690.194,1</td>
<td>135.024,9</td>
<td>2.669.042,9</td>
<td>133.962,5</td>
<td>2.619.463,4</td>
</tr>
<tr>
<td></td>
<td>Execution rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2.690.194,1</td>
<td>135.024,9</td>
<td>2.669.042,9</td>
<td>133.962,5</td>
<td>2.619.463,4</td>
</tr>
</tbody>
</table>

* NBM average exchange rate USD-MDL for 6 months of 2016 = 19.9347 MDL/1 USD
* NBM average exchange rate USD-MDL for 9 months of 2016 = 19.886 MDL/1 USD
* NBM average exchange rate USD-MDL for 12 months of 2016 = 19.9238 MDL/1 USD
Annex no.7 Information on execution of budgetary funds per each school and the stage of rehabilitation works at the time of conducting the audit

✓ „Lucian Blaga” Lyceum, Iargara town, Leova rayon. On November 25, 2016, the public bidding no.16/02897 was organized and conducted for rehabilitation works of „Lucian Blaga” Lyceum in Iargara town, Leova rayon, in two lots: Lot 1- Rehabilitation works for building of „Lucian Blaga” Lyceum, the estimated amount being 14,12 million lei; Lot 2 – Rehabilitation works for building of „Lucian Blaga” Lyceum, the estimated amount being 8,59 million lei.

Thus, according to the Minutes no.33 dated December 16, 2016, following the bids assessment, the Working Group decided to conclude contracts with 2 construction firms, respectively for Lot 1 in the amount of 13,54 million lei and for Lot 2 in the amount of 6,67 million lei. Further, on December 30, 2016, the Public Procurement Agency submitted to the MoEd the decision on partial cancellation of the public bidding for Lot 2, because the amount of submitted bids was lower by 26,97 % than the estimated amount of the procurement. The MoEd concluded the contract for execution of rehabilitation works38 for the school only for Lot 1, in the amount of 13,54 million lei, and for Lot 2 a new procurement procedure has been initiated in 2017. The execution period of contracted works is 7 months from the registration of the contract at the Public Procurement Agency (December 30, 2016), and the validity term is by December 31, 2017.

✓ „Vasile Pîrvan” Lyceum, Gostesti village, Cantemir rayon. In 2016, the MoEd carried out 2 public biddings (PB no.16/02087 dated September 20, 2016 and PB no.16/02889 dated November 28, 2016), which have been cancelled, because the amount of all bids was lower by 15% than the estimated amount of the procurement39, and due to the fact that at least 3 bidders did not meet the qualification criteria established40. Respectively, at the moment of the audit, during 2017, a public bidding no.17/00173 dated February 10, 2017 has been carried out, and rehabilitation works have been contracted41 in the amount of 21,4 million lei.

✓ „Silvian Lucaci” Lyceum, Costesti town, Riscani rayon. On September 16, 2016, the public bidding no.16/02071 was organized, which has been cancelled, because no bids were submitted by the deadline42. Following the repeated public bidding no.16/02557 dated October 24, 2016, the services for execution of rehabilitation works in „S. Lucaci” Lyceum (Costesti town, Riscani rayon) in the amount of 18,95 million lei have been contracted43. The execution period of contracted works is 8 months from the registration of contract at the Public Procurement Agency (November 29, 2016) and the contract is valid until December 31, 2017.

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38 Contract no.25 dated December 28, 2016 on rehabilitation works.
39 Article 67, paragraph 1, item c) of the Law on public procurements no.131 dated July 03, 2015 (Public bidding no.16/02889 dated November 28, 2016).
40 Minutes no.15 dated October 10, 2016 on assessment of bids submitted within the public bidding no.16/02087 dated September 20, 2016.
41 Contract no.9 dated March 13, 2017 on rehabilitation works.
42 Minutes no.9 dated September 16, 2016 on meeting of the Procurement Working Group of the MoEd.
43 Contract no.20 dated November 24, 2016 on rehabilitation works.
✓ “Mihai Eminescu” Lyceum, Sipoteni village, Calarasi rayon. During 2016, three public biddings have been organized for rehabilitation works: PB 16/02055 dated September 06, 2016, which has been cancelled by the Working Group, because no bids were submitted\(^{44}\); PB no.16/02506 dated October 07, 2016: following the public bidding, a contract was concluded \(^{45}\), which has been cancelled by the PPA\(^{46}\), due to non-observance of the article 131, paragraph (1) of the Law no.131 dated July 03, 2015 ; PB no.16/03254 dated December 05, 2016 was cancelled, because the amount of all bids submitted was lower by 15% than the estimated amount of the procurement\(^{47}\). At the moment of the audit, following the public bidding no.17/00120 dated February 07, 2017 held repeatedly, a contract has been concluded for rehabilitation works in the amount of 24,9 million lei\(^{48}\).

✓ “Mesterul Manole” Lyceum, Salcuta village, Causeni rayon. During 2016, two public biddings have been conducted (PB no.16/02076 dated September 14, 2016/ and PB no. 16/02625 dated October 27, 2016). The first public bidding was cancelled due to the fact that at least 3 bidders did not meet the qualification criteria established and it was held repeatedly on October 27, 2016 (PB no.16/02625) for rehabilitation works of „Mesterul Manole” Lyceum in Salcuta village, Causeni rayon, the estimated amount being 26,5 million lei. Thus, on November 23, 2016, a contract was concluded\(^{49}\) for rehabilitation works in the amount of 25,99 million lei. The execution period of the works is 7 months from the registration of the contract at the PPA, being valid until December 31, 2017. As of December 31, 2016, the amount of 6,3 million lei or 97% was executed out of the amount of 6,5 million lei contracted in 2015, including 3,3 million lei in 2016, recording a balance of 178,2 thousand lei (savings).

✓ „Alexandru cel Bun” Gymnasium, Varzaresti village, Nisporeni rayon.

During 2016, two public biddings have been held: PB no.16/02126 dated September 12, 2016 was cancelled by the Working Group due to the fact that at least 3 bidders did not meet the qualification criteria established\(^{50}\), and the PB no.16/02631 dated October 25, 2016 was cancelled because the amount of all bids submitted is lower by 15% than the estimated amount of the bidding.

At the moment of the audit, the rehabilitation works have been contracted in the amount of 13,3 million lei\(^{51}\) through the PB no.17/0004 dated January 27, 2017. As of December 31, 2016, it was executed 4,1 million lei or 95,3% out of 4,3 million lei contracted in 2015, including 2,1 million in 2016, recording a balance of 200,9 thousand lei (savings).

\(^{44}\) Minutes no.6 dated September 06, 2016 on opening the bids submitted within the PB no.16/02055 dated September 06, 2016.
\(^{45}\) Contract no.18 dated November 01, 2016 on rehabilitation works.
\(^{46}\) Letter no.29/259-2641 dated November 09, 2016.
\(^{47}\) Minutes no.2 dated January 04, 2016 on cancelling the PB no.16/03254 dated December 05, 2016.
\(^{48}\) Contract no.15 dated March 28, 2017 on rehabilitation works.
\(^{49}\) Contract no.19 dated November 23, 2016 on rehabilitation works.
\(^{50}\) Minutes no.7 dated September 12, 2016 on opening the bids submitted within the PB no 16/02126 dated September 12, 2016.
\(^{51}\) Contract no.12 dated March 21, 2017 on rehabilitation works.
Annex no. 8

*Annex. 8 Implementation of requirements and recommendations set out in the previous decisions of the Court of Accounts*

<table>
<thead>
<tr>
<th>Requirement/Recommendation</th>
<th>Actions taken</th>
<th>Status of requirement/recommendation implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Requirement no. 2.2.1</strong> To establish in the Accounting Policy of the Ministry of Education the aspects related to accounting of projects financed from external sources, according to the accounting rules in force.</td>
<td>It is underway. The accounting policy of the MoEd has been developed and to be approved by the MoEd and to be coordinated with the MoF.</td>
<td>X</td>
</tr>
<tr>
<td><strong>Requirement no. 2.2.2</strong> To keep records for each investment object of the design documentation in the amount of 10965,4 thousand lei, with further submission to the beneficiaries.</td>
<td>By drafting the accounting note, the amount of design documentation has been recorded, by increasing the account 318130 with the amount of 10965,4 thousand lei on June 30, 2016, but the design documentation has not been submitted to the beneficiaries.</td>
<td>X</td>
</tr>
<tr>
<td><strong>Recommendation no.1</strong> To review the Procurement Plan and to redistribute the amount of US$12,0 thousand designed for project audit for 2013-2015 years.</td>
<td>It is underway. The Project is under restructuring. The Decree of the President of the Republic of Moldova no.135-VIII dated April 19, 2017 has been signed regarding the initiation of negotiations on signing the Amendment no.2 to the Financing Agreement between the Republic of Moldova and the International Development Association for MERP implementation. The Amendment to be implemented</td>
<td>X</td>
</tr>
</tbody>
</table>
### Recommendation nr.2
To establish the supervision and monitoring activities on reporting and submission of the Interim Financial Reports to the World Bank, with compulsory approval of them by the Project General Director and/or Project Executive Director.

- Achieved. Starting with the second quarter of 2016, the IFRs have been signed by the leadership of the Ministry, and then the IFRs are scanned and submitted to the World Bank.

### Recommendation no.3
To strengthen the control and monitoring activities to enhance cooperation between the responsible persons in order to use funds for destinations and in due time for implementation of all project components (repeated recommendation).

- It is underway. MERP is under restructuring. The Decree of the President of the Republic of Moldova no.135-VIII dated April 19, 2017 has been signed regarding the initiation of negotiations on signing the Amendment no.2 to the Financing Agreement between the Republic of Moldova and the International Development Association dated February 07, 2013, for MERP implementation. The Amendment to be approved by the Government of the Republic of Moldova and to be ratified by the Parliament of the Republic of Moldova. After ratification, the responsibilities on rehabilitation works to be transferred to MSIF, which will make disbursements and procurements according to the WB rules, which will increase the use of MERP funds.