Annex

to the Court of Accounts’ Decision
no. 57 dated July 30, 2018

COURT OF ACCOUNTS OF THE REPUBLIC OF MOLDOVA

AUDIT REPORT

on the authenticity of the financial statements related to the implementation of Moldova Education Reform Project for 2017 fiscal year
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**Glossary**

**The Financing Agreement** – is an agreement between the World Bank and the Borrower providing for the Bank loan.

**Financing account** refers to the account opened by the World Bank in its accounting system in name of the borrower to which the amount of the financing is credited.

A **designated/special account** is a bank account into which the World Bank may deposit amounts withdrawn from the Financing Account to pay for eligible expenditures as they are incurred. The designated account may be established in one of two ways: as a segregated account or pooled account.

**Segregated account** – an account of the borrower into which only proceeds of the financing account may be deposited.

**Pooled account** – an account of the borrower into which the funds from the financing account and funds of other financing for the project may be deposited.

**Eligible expenditures** – reasonable expenditures incurred for procurement of goods, consulting services, non-consulting services, training and operational costs under the project and which are financed from the Credit, according to the categories provided in the Financing Agreement.

**Ceiling** – the WB notifies the borrower of the maximum amount of funds from the financing account that may be on deposit in a designated account.

**Terms of Reference (TOR)** – document developed by the World Bank, on which basis the auditor shall audit the project on terms and conditions specified and express its professional opinion on financial position.

**Interim Financial Report (IFR)** – summary reports of expenditures in such form and substance as the World Bank may specify.
Financial reports on budget execution - reports prepared in accordance with the general compulsory rules of accounting and financial reporting in the public sector, their form being approved by the Ministry of Finance.

I. 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; (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; (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, 2017, in accordance with the World Bank requirements.

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 opinion.

It is noted that in order to substantiate the audit evidence and tested assertions relevant for the Interim Financial 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

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2 ISSAI 1580 „Written representations” and Terms of Reference for the Project financial audit for the fiscal year ended on December 31, 2016.
3 Law no. 89 dated April 19, 2013 on ratification of the Financing Agreement between the Republic of Moldova and the International Development Association on implementation of Moldova Education Reform Project dated February 2013.
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. The MERP supports the Government of Moldova’s reform program by financing activities that will strengthen the quality of education and lead to a more efficient education sector.

The Project is implemented by the Ministry of Education, Culture and Research and with MSIF’s support for specific activities, being responsible for planning, implementation and data reporting. The MECR carries out activities agreed under Component I/Part A1, Component II/B and Component III/C of the Project, and MSIF carries out activities under Component I/Part A2 of the Project. Appendix 2 to this Audit report presents the detailed information.

The MERP has undergone three restructurings since approval: (i) in July 2015 to trigger the environmental safeguard, and the Environmental Management Framework was developed; (ii) in February 2017 to address design shortcomings and implementation arrangements; and (iii) in September 2017 to allow for MERP to support the rehabilitation of two schools that have fewer than 600 students.

On February 6, 2017, the WB approved MERP restructuring, which introduced three major changes: (i) revision of the Project Development Objective and corresponding results framework; (ii) new disbursements and implementation arrangements; (iii) extension of the project’s closing date with 10 additional months. The Law on ratification of the Amendment no. 2 to the Financing Agreement between the RM and IDA on implementation of Moldova Education Reform Project was promulgated through the Decree of Moldova President no.284-VIII dated July 19, 2017. MERP is a specific investment loan, financed by the WB, to be implemented during six years (April 2013 – June 2018, with extension until June 2019) and to be reimbursed according to the Procurement Plan provided for in the Financing Agreement.

Following the MERP’s restructuring, the MECR and the WB agreed that for DLIs 2, 3 and 4, the responsibilities for school rehabilitation were transferred from the MECR to Moldova Social Investment Fund (MSIF), which has a greater experience in this area. The allocations for these DLIs (a total of SDR 8.1 million, approximately US$ 12 million) were transferred to MSIF for rehabilitation of 15 schools.

4 The Amendment ratified by the Law no. 129 Dated July 07, 2017 “Amendment no. 2 dated May 10, 2017 to the Financing Agreement between the Republic of Moldova and the International Development Association on implementation of Moldova Education Reform Project”.

5 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 until November 15, 2017. The payment date is May 15 and November 15 of each year, the payment currency is US dollars.
The MECR submitted to the World Bank a list of 21 schools to be rehabilitated under the Project, in 6 schools of them the rehabilitation works are carried out by the MECR and are financed from the state budget, and in 15 schools the rehabilitation works are carried out by MSIF and are financed from IDA credit. The MECR will be responsible for procurement of equipment and furniture from the state budget for all 21 schools. *Annex nr.2 (2.4) to this Audit Report presents the detailed information.*

The audit mission was initiated and conducted, at the MECR’s request, under the provisions of the Financing Agreement signed between the Government of the Republic of Moldova and the International Development Association, modified on July 30, 2015 and February 07, 2017, 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 Development Objective, approved by the WB Board of Executive Directors is to improve learning conditions in targeted receiving schools and strengthen the Recipient’s education monitoring systems, while promoting efficiency reforms 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*). Component I is divided into two parts: A1 and A2.
- The objective of Component I/A1 is to contribute to the strengthening of 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. The objective of Component I/A2 is to contribute to the strengthening of the quality of education in the general education by rehabilitating 15 receiving schools. The activities will be carried out by MSIF (12 million USD).

#### 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*).
- The objective of this Component is to improve the efficiency of the education sector by eliminating excess capacity and creating a leaner education system, which will be better equipped to provide education that meets the demands of a modern economy.

#### 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*).
- The objective of this component is to provide technical assistance for the MECR to support the implementation, monitoring and measurement of the MERP. This component provides resources and expertise to MECR to finance key activities and reach Project DLIs.
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. According to Project Operations Manual, for the first two project components 16 Disbursement Linked Indicators (DLIs) have been established, for which disbursements in the amount of US$38.5 million have been planned (at the moment of negotiations). Of the 16 DLIs, 13 of them in the amount of US$26.5 million have been implemented by the MECR and three of them have been cancelled and funds in the amount of US$12.0 million have been reallocated to MSIF.

As of December 31, 2017, a total of 12 out of 16 DLIs have been achieved, and US$23.02 million or 59.8% out of the total planned (US$38.5 million) has been disbursed as budgetary support, at the rate on the day of receiving funds in the designated account.

In 2017, the MECR has achieved two DLIs\textsuperscript{6} under Component I/A1, being disbursed US$ 3.6 million, and respectively, some activities under Component III of the Project have been implemented, the disbursements being US$87.1 thousand. MSIF has disbursed in advance US$500,0 thousand under Component I/A2, but it did not carry out activities during 2017, the funds are in the balance of the designated account opened for MSIF. The results of Project implementation were low in 2017, but with trends of improvement following the Project restructuring in 2017. 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.

The MECR/Consultant produces financial reports for components I/A1, II and III, but MSIF for component I/A2 and submits them quarterly to the MECR, which through Project consultants, consolidates the reports and submits them quarterly to the WB, but not later than 45 days after the end of each quarter. Quarterly the IFRs are used for disbursing project funds under components I/A1 and A2 and II, while the disbursements under component III are made using reimbursement (SOE). The following disbursement methods could be used under the credit: a) compulsory reimbursement for disbursement category 1 (from the designated account, Treasury);

\textsuperscript{6} DLI 6 ,,30\% of school directors and 10\% of teachers trained based on the updated program for training of school directors and teachers”; DLI 9 ,,Results of Moldova participation in PISA 2015 analysed and publicly disseminated”. 
b) advance payment – only for categories 2 and 3 (from designated accounts) and c) direct payment.

4.1.1 The disbursement of funds allocated under the project and use of disbursed funds by the MECR denotes a low level, the Project being not implemented in the expected term due to impediments on execution of school rehabilitation works.

In 2017, the funds for Component I in the amount of 63662,3 thousand lei have been 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 in the amount of 1595,6 thousand lei designed to improve the MECR’s capacity to monitor the reform, and in the amount of 8591,7 thousand lei allocated to MSIF for school rehabilitation were transferred directly into designated account7. The persons authorized for signing the withdrawal requests were replaced with the Government’s reform, based on internal normative acts8.

The audit established a reduced institutional capacity of the MECR to use external funds, which led to implementation of the Project not in due time, because of difficulties in carrying out public procurement procedures and lack of qualified specialists in the area of school renovation works.

The WB set the ceiling, the maximum amount of the credit that could be deposited in the designated accounts A and B. Following the audit evidence collected, it was established that the ceiling has not been exceeded. Table 1 presents the summary of use of the Project Components funds.

**Table no. 1**

**Analysis of disbursements and use of funds allocated for education reform**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>I. Disbursements</td>
<td>40 000,0</td>
<td>4147,7</td>
<td>73849,6</td>
<td>24002,1</td>
</tr>
<tr>
<td>1.1 Components I/A1 and II</td>
<td>26 500,0</td>
<td>3560,6</td>
<td>63662,3</td>
<td>22523,2</td>
</tr>
<tr>
<td>1.2 Component III</td>
<td>1 500,0</td>
<td>87,1</td>
<td>1595,6</td>
<td>978,9</td>
</tr>
<tr>
<td>1.3 Component I/A2 (MSIF)</td>
<td>12 000,0</td>
<td>500,0</td>
<td>8591,7</td>
<td>500,0</td>
</tr>
</tbody>
</table>

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7 MoF opened a designated account at the National Bank of Moldova, on terms and conditions accepted to the World Bank. 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 must be opened at the National Bank. The designated account and the transit account are managed by the MECR. Treasury account opened for Category 1 – Project’s State budget (Component I/A1 and Component II) and 2 Special accounts opened at the NBM (USD):Category 2 – Project’s technical assistance (Component III); Category 3 – MSIF (Component I/A2).

8 Authorized letter no.13/1-7/350 dated December 06, 2017.
II. Expenditures

<table>
<thead>
<tr>
<th></th>
<th>Expenditures</th>
<th>40 000,0</th>
<th>4591,0</th>
<th>91419,6</th>
<th>8834,9</th>
<th>158160,2</th>
<th>22,09%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Components I/A1 and II</td>
<td>26 500,0</td>
<td>4344,3</td>
<td>86886,5</td>
<td>7886,2</td>
<td>141380,7</td>
<td>x</td>
</tr>
<tr>
<td>2.2</td>
<td>Component III</td>
<td>1 500,0</td>
<td>246,7</td>
<td>4533,1</td>
<td>948,7</td>
<td>16779,5</td>
<td>x</td>
</tr>
<tr>
<td>2.3</td>
<td>Component I/A2 (MSIF)</td>
<td>12 000,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>x</td>
</tr>
</tbody>
</table>

III. Deviation (I-II)

<table>
<thead>
<tr>
<th></th>
<th>Expenditures</th>
<th>40 000,0</th>
<th>4591,0</th>
<th>91419,6</th>
<th>8834,9</th>
<th>158160,2</th>
<th>22,09%</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Components I/A1 and II</td>
<td>x</td>
<td>-783,7</td>
<td>-23224,2</td>
<td>14637,0</td>
<td>248211,5</td>
<td>x</td>
</tr>
<tr>
<td>3.2</td>
<td>Component III</td>
<td>x</td>
<td>-159,6</td>
<td>-2937,5</td>
<td>30,2</td>
<td>-111,7</td>
<td>x</td>
</tr>
<tr>
<td>3.3</td>
<td>Component I/A2 (MSIF)</td>
<td>x</td>
<td>500,0</td>
<td>8591,7</td>
<td>500,0</td>
<td>8591,7</td>
<td>x</td>
</tr>
</tbody>
</table>

IV. The level of use of funds disbursed from the designated accounts (%)

<table>
<thead>
<tr>
<th></th>
<th>Expenditures</th>
<th>40 000,0</th>
<th>4591,0</th>
<th>91419,6</th>
<th>8834,9</th>
<th>158160,2</th>
<th>22,09%</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Components I/A1 and II</td>
<td>x</td>
<td>122,0%</td>
<td>35,02%</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Component III</td>
<td>x</td>
<td>283,2%</td>
<td>96,9%</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.3</td>
<td>Component I/A2 (MSIF)</td>
<td>x</td>
<td>0,0%</td>
<td>0,0%</td>
<td>x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The summarized audit data based on information provided by the Ministry of Finance and Project Management Team.

The audit evidence confirms that Project has not been implemented in time and mentions the following:

- **60,01%** reflects the level of amounts disbursed during 2013-2017 (*US$24002,1 thousand*) out of the total funds (*US$40000,0 thousand*) for Project implementation and educational reform. These are related to implementation of activities on: (i) ensuring students’ access to quality education; (ii) increasing the flexibility of labor relations in the area of education; and (iii) efficiently use of allocations by implementing per student financing formula at the national level;

- **22,09%** represents the level of use of funds (*US$8834,9 thousand*) during 2013-2017 years by the MECR out of the total amount of disbursements planned for Project implementation (*US$40000,0 thousand*). It is found that the school rehabilitation works have been predominantly financed, thus expenditures in the amount of US$141380,7 thousand are incurred for Component I/A1 and Component II, and operating costs in the amount of US$ 16779,5 for implementation of activities under Component III;

- **36,8%** represents the level of cumulative expenditures for 2013-2017 out of the funds disbursed for the same period, including for components I/II - 35,02%, for component III – 96,9%. Thus, the final balance of the funds disbursed in the designated account as of December 31, 2017 is US$530,2 thousand (US$500,0 thousand for MSIF and US$ 30,2 thousand for Component III), and for Components I and II US$14637,0 thousand.

- **110,7%** represents the level of use of funds disbursed from the designated accounts during 2017, thus, 122,0% is the expenditures for components I and II, and
283,2% is the level of use of funds (US$246,7 thousand) by the MECR for component III out of the funds disbursed in 2017 for Project monitoring. The audit mentions that in 2017 the funds have been also used from the balance of the cumulative designated account from the disbursements of the previous years for further expenditures.

- MSIF has not used the funds disbursed in advance⁹ and has not incurred any expenditures under the project for engineers’ salaries, and the transport expenditures were incurred from the Grant funds managed in 2017. During October-December 2017, MSIF was expected to carry out the technical evaluation of the objects and to contract a company for design updating as well as to develop design tasks. According to MSIF responsible persons, in order to allow further implementation of project, all necessary accounts have been opened and specimens of signatures have been submitted as well as the budgetary planning for 2017-2019 has been prepared, and during September-November 2017, all 15 schools have been evaluated technically at the first stage.

Out of the total funds disbursed in 2017 in the amount of 73849,6 thousand lei and disbursements from the previous years (341002,1 thousand lei), the amount of 126319,0 thousand lei have been allocated to the MECR from the state budget and the designated account. The expenditures were incurred in the total amount of 91419,6 thousand lei of the allocated funds. Table 2 presents the summary of the allocations approved by the MECR and their execution.

**Table no.2**

<table>
<thead>
<tr>
<th>No</th>
<th>Allocations</th>
<th>Approved (thousand lei)</th>
<th>Executed (thousand lei)</th>
<th>Execution level (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>For school rehabilitation works</td>
<td>110000,0</td>
<td>79303,2</td>
<td>72,1%</td>
</tr>
<tr>
<td>2.</td>
<td>For services, of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- For supervision services, author control and design verification (MECR/Project)</td>
<td>1820,0</td>
<td>640,6</td>
<td>35,2%</td>
</tr>
<tr>
<td></td>
<td>- Professional development (Institute of Education Sciences) and curriculum assessment (MECR/IES)</td>
<td>8262,0</td>
<td>6942,7</td>
<td>84,04%</td>
</tr>
<tr>
<td>3.</td>
<td>For Project administrative expenditures</td>
<td>6237,0</td>
<td>4533,1</td>
<td>72,7%</td>
</tr>
<tr>
<td>4.</td>
<td><strong>TOTAL</strong></td>
<td><strong>126319,0</strong></td>
<td><strong>91419,6</strong></td>
<td><strong>72,4%</strong></td>
</tr>
</tbody>
</table>


The data in the table shows that the level of use of funds allocated to the MECR for 2017 is 72,4%.

⁹ The funds were disbursed on November 30, 2017.
At the same time, according to the legal framework\textsuperscript{10}, the MECR had to develop quarterly reports on use of the allocated resources, informing the Government and posting them on the MECR’s web page, the audit found that the MECR has not developed and has not submitted these reports to the Government, and these reports have not been posted on the MECR’s web page.

4.1.2 The IFRs submitted to the WB on use of funds do not contain misstatements.

The audit review on submission of IFRs by the MECR 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, 2017 and the Summary of Summary Reports or SOEs (Statement of Expenditures) used as the basis for submission of withdrawal applications for 2017 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. \textit{The Annex no.5 (5.1 and 5.2) to this Audit Report presents these reports.}

In 2017, the funds in the total amount of US$4147,7 thousand have been disbursed, of which for Component III – US$87,06 thousand. During 2017, the expenditures in the total amount of US$ 3807,3 thousand have been incurred, of which for component III – US$246,7 thousand. \textit{The Annex 5 (5.3 and 5.4) to this Audit Report presents the detailed information on Reports “Report on expenditures shown under the main project components and by main categories of expenditures as of December 31, 2017”, “Report on financing sources and uses of funds by MSIF, Component I/A2 as of December 31, 2017”}. 

Since Project starting in 2013, the amount of US$1016,99 thousand has been planned for Component III “Improving the Ministry of Education’s capacity to monitor the reform”, of which expenditures in the amount of US$948,66 thousand or 93,3% have been incurred. During 2017, for implementation of Component III, the MECR planned financial resources in the total amount of US$315,0 thousand, of which: \textit{(i)} US$292,8 thousand – for consulting services; \textit{(ii)} US$0,5 thousand – for non-consulting services; \textit{(iii)} US$9,7 thousand – for training; and \textit{(iv)} US$12,0 thousand – for operating costs.

\textsuperscript{10} Point 6 item j) of the GD no 183 dated March 22, 2017 „on financing rehabilitation works in the primary schools, gymnasiums and lyceums subordinated to the local public administration authorities in 2017” (hereinafter – GD no.183 dated March 22, 2017).
The audit evidence shows that out of the total planned funds (US$315,0 thousand), the expenditures in the total amount of US$246,7 thousand (4533,1 thousand lei) have been incurred in 2017, accounting for 78,3%. Thus, in terms of destination: (i) for remuneration of consulting services it has been incurred US$233,3 thousand (4283,4 thousand lei), or 79,7% out of the total planned; (ii) for non-consulting services the planned funds have not been used; (iii) for trainings - US$7,03 thousand (131,8 thousand lei), or 72,8%; and (iv) for implementation of the Project management procedures - US$6,3 thousand (117,97 thousand lei), accounting for 52,9%.

Thus, in 2017, the funds in the amount of US$87,1 thousand have been disbursed in the designated account for Component III, the balance at the beginning of the year was US$189,8 thousand, of which it has been used US$246,7 thousand or 89,13%, and the balance at the end of 2017 was US$30,2 thousand. 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 due time and in the related IFR, and no divergences have been found. The data on use 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 II). The Annex no.5 (5.5) to this Audit Report presents the above-mentioned report.

The audit review also denotes that the expenditures designed for remuneration of MERP consultants (8) have been incurred under and in accordance with the contractual provisions. In the account 281600 “other expenditures based on contracts with individuals”, the expenditures in the amount of 1489,3 thousand lei have been recorded, of which 1168,07 thousand lei are calculated salaries, 268,6 thousand lei – social insurance contributions (23%) and 52,6 thousand lei - medical contributions (4,5%). Following the deductions from salaries (277,4 thousand lei), the amount transferred to the card in 2017 for 8 employees constituted 890,7 thousand lei. The Annex no.6 to this Audit Report presents the detailed information on “Expenditures for remuneration of individual consultants in 2017”.

During 2017, the amount of US$9,7 million has been planned for trainings (service trips), and the expenditures have been incurred in the amount of US$7,03 thousand or 131,8 thousand lei, accounting for 72,5% out of the total planned. Thus, during 2017, six persons have been delegated in service trips (Belarus, Greece, Belgium), for which expenditures in the total amount of 131,8 thousand lei have been incurred from the Project budget, which were reflected in the account 222720 “Travel abroad” and in the IFR in the amount of US$7034. Following the review, the audit found no deviations to this chapter.
To support the MECR in carrying out procurements under Component III\textsuperscript{11}, a part-time procurement specialist under WB procedures was hired. In 2017, according to the Procurement Plan and procurement documents, 5 procurement procedures in the amount of US$176,08 thousand have been planned, which were revised and approved by the WB. The audit found that 3 procedures have been conducted (1 procedure for consulting services and 2 procedures for hiring consultants), and 2 procurement procedures have not been conducted (US$99,99 thousand). The “Report on financing sources and uses of funds – Component III as of December 31, 2017” (see Annex no.5 (5.5) to this Audit Report) is submitted to the World Bank by the financial management specialist.

Following the procurement procedures, 3 contracts have been signed for individual consulting services in the amount of US$134,3 thousand, and 5 contracts signed in 2016 have been extended in 2017 (1 prior review and 4 post review by the WB). Thus, during 2017, the payments in the amount of US$103,4 thousand have been made, based on signed contracts, the level of use of contracted amounts being 77,0\%, due to the fact that in 2 contracts the deadline is in 2018. Following the review, by integral testing of a procurement procedure for consulting services in the amount of US$ 17,8 thousand 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 (prior review).\textit{The Annex 7 to this Audit Report presents detailed information on “Report on expenditures for consulting services and operating costs incurred during 2017”}.

\textbf{4.1.3 The data in the Report on teachers’ salaries as of December 31, 2017, prepared based on reports on execution of Territorial-Administrative Unit Budgets, consolidated by the Ministry of Finance and reported to the WB are true.}

According to the POM, after the World Bank’s official confirmation of DLI achievement, the Project’s financial management specialist prepares the Financial Report, using documentation obtained from the State Treasury, and the report is submitted quarterly by the MECR to the World Bank in lei and US dollars. In order to formulate the reasonable conclusions and findings, the evidence was collected from the MoF, requesting information on teachers’ salaries for local public authorities of level II and by type of institution in the area of education (primary, gymnasium and lyceum education) for 2017 year.

The audit review on the Report on teachers’ salaries as of December 31, 2017, prepared based on Financial report data on teachers’ salaries (see Annex no.8 to this Audit Report), submitted by the MECR to the WB found that: for the first quarter the

\textsuperscript{11} The WB Guidelines: Procurement Under IBRD Loans and IDA Credits, and WB Guidelines: Selection and Employment of Consultants by World Bank Borrowers.
Report was incomplete (without data on actuals, debts and creditor debts), for the second and third quarter a report has been submitted and for the fourth quarter the report has been submitted later than is foreseen under the Financing Agreement (45 days). According to responsible persons under the Project, the MoF consolidates the financial reports half-yearly (ATUB), and the requested information was submitted to the MECR only on May 22, 2018, with further submission to the WB on May 30, 2018.

Regarding the data included in the report submitted to the WB, the audit found that indices approved (2847641.6 thousand lei), revised (2942497.5 thousand lei), executed (2895953.2 thousand lei), actuals (2924740.3 thousand lei), receivables (828,9 thousand lei) and payables (235472.7 thousand lei) correspond to the data submitted by the MoF. At the same time, the amounts submitted by the MoF have been converted to US dollar average rate of 18,4902 lei/1 US dollar, which corresponds to the rate posted on the National Bank of Moldova’s web page.

4.2 **Key audit aspects on the financial reports on Project’s budget execution.**

The MoF is responsible for disbursements under Components I and II, based on supporting documents, submitted by the MECR and approved by the respective departments of the MoF. The MoF makes the transfers of funds allocated to education to districts and facilitates that the LPAs to transfer the funds to the schools under their subordination. The transfers to the local public authorities are approved by the Law on the state budget, through which they are authorized to use funds transferred by destination.

4.2.1 **Failure to use funds and to perform contracts confirms that the necessary allocations included in the budgetary planning by the MECR are overestimated.**

In order to finance the school rehabilitation works of the primary and general secondary schools, subordinated to the local public administration authorities, the amount of 110 million lei have been provided for in the Law on the state budget for 2017\(^{12}\), and distributed by the Government to 6 schools (“Alexandru cel Bun” Lyceum, Vârzărești village, Nisporeni rayon; “Vasile Pirvan” Lyceum, Gotesti village, Cantemir rayon; “Mihai Eminescu” Lyceum, Sipoteni village, Calarasi rayon; “Lucian Blaga” Lyceum, Iărgăra town, Leova rayon; “S. Lucaci Lyceum”, Costesti town, Rîșcani rayon; “Mesterul Manole” Lyceum, Salcota village, Causeni rayon), according to the GD no. 183 dated March 22, 2017.

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\(^{12}\) Law on the state budget for 2017 no.279 dated December 16, 2016.
As of December 31, 2017, out of the allocated amount of 110,000,0 thousand lei in 2017, the MECR contracted rehabilitation works in the amount of 70,483,2 thousand lei, accounting for 64.08% of the resources provided by the normative framework for capital investments in the primary and general secondary schools, the deadline for completing the rehabilitation works, according to the contractual clauses, is in 2018. At the same time, the audit found non-observance of the provisions of the GD\textsuperscript{13}, and that the MECR does not consider the allocations per school, thus for 3 schools the works have been contracted with 12,415,2 thousand lei less (84.5%), and for 3 schools with 12,736,9 thousand lei more (126.3%) than it was approved.

The MERP responsible staff informed us that the funds in the amount of 39,516,8 thousand lei allocated from the state budget in 2017 (out of 110,000,0 thousand lei) have not been used, because during the course of school rehabilitation works the construction companies noticed the MECR about inconsistencies and non-conformities in the designs that have been submitted to design companies for solving. Thus, the delayed receipt of technical solutions from the design companies as well as the time spent for checking the design documentation and conducting the procurement procedures led to delay of works.

It should be noted that during 2016-2017 years the rehabilitation works have been contracted for 6 schools mentioned above in the total amount of 128,969,7 thousand lei (2016 – 58,486,5 thousand lei, 2017 – 70,483,2 thousand lei), incurring expenditures in the amount of 79,303,2 thousand lei. Thus, the level of use of contracted amounts is 61.5% as of December 31, 2017. During 2017, the rehabilitation works in the above-mentioned schools have not been finalized. Analyzing the Minutes of the Working Group meetings, it was found that based on the contractual clauses the deadline for completing rehabilitation works has been extended several times for all schools, and the Working Group did not take measures (penalties, etc.) to the economic agents who admitted delays in work execution. At the same time, the Working Group of the MECR did not carry out activity during April-June 2017. \textit{Annex 9 to this Audit report presents the detailed information on each school.}

The audit team selected and visited two schools (\textquote{\textit{Alexandru cel Bun}} Gymnasium, Varzaresti village, Nisporeni rayon, and \textquote{\textit{M. Eminescu}} Lyceum, Sipoteni village, Calarasi), with the lowest level of execution of rehabilitation works (41.6% and 40.1%). During the visit, the audit team informed the decision-makers about conducting the Project\textquote{'}s financial audit to further improve the quality and impact of external financing. The purpose of the visit was to identify the reasons of delays in

\textsuperscript{13} GD no.183 dated March 22, 2017, GD no.1041 dated September 13, 2016.
school rehabilitation works. The main reasons were: \(i\) shortage of workers on the site and \(ii\) changes to designs. Thus, as a result of discussions with persons responsible for school rehabilitation, it is envisaged that the rehabilitation works in one school to be completed on August 01, 2018 and in another school in October 2018. See below “M. Eminescu” Lyceum, Sipoteni village, Calarasi rayon before rehabilitation and under rehabilitation.

Source: Site visit on July 04, 2018.

At the same time, the total amount of 10082,0 thousand lei have been approved for the MECR from the budgetary funds to the following accounts:

- „Capital rehabilitation of buildings” in the amount of 1820,00 thousand lei, of which the MECR contracted services in the total amount of 1110,8 thousand lei, accounting for 61,04%, including for author control services - the amount of 440,5 thousand lei or 94,7% has been used out of 465,0 thousand lei, for technical supervision services - the amount of 670,3 thousand lei or 52,2% has been used out of 1285,0 thousand lei, and for design verification services - 22,2% has been used out of the amount of 70,0 thousand lei.

During 2017, the author control services, technical supervision and design verification services have been paid in the total amount of 640,6 thousand lei, accounting for 57,7%. Thus, of the total amount, it has been paid for: \(i\) author control services in the amount of 185,6 thousand lei (42,1%); \(ii\) services for technical supervision of works in the amount of 439,5 thousand lei (65,6%); \(iii\) design verification services – 15,5 thousand lei (based on invoices 100%). The audit checked the expenditures by comparing data from the service delivery acts, invoices and payment orders, and no divergencies have been identified.

- „Professional training” in the amount of 4962,0 thousand lei. According to the MECR’s Order\(^\text{14}\), the delivery of continuing professional training of teachers and school managers in the primary and secondary education was assigned to the Institute

\(^{14}\) MECR’s Order no.597 dated July 05, 2017 on training.
of Educational Sciences (IES) in the period of July 17, 2017 – November 10, 2017. Thus, the General Finance Department of the MECR ensured financing of the IES for delivering trainings from the budget allocations approved for 2017, designed for this activity.

- „Services not assigned to other paragraphs” in the amount of 3300,0 thousand lei. According to the MECR’s Order15, IES – a structure of the MECR, with competences in the area, ensured the implementation of the first stage of management on curriculum evaluation in the general education and management of funds amounting 2999.99 thousand lei needed to carry out the planned activities, and the financial resources in the amount of 300.01 thousand lei have been managed by to the MECR.

Thus, the MECR incurred expenditures in the amount of 200,0 thousand lei out of 300,01 thousand lei for services to develop minimum endowment standards for classrooms at school subjects in the general secondary schools16, and unused funds remained in the balance of the designated account.

According to the POM, the Coordinating Board17 will meet on a quarterly basis or more often if needed. The Audit found that the Coordinating Board met only one time18. The Coordinating Board shall examine the existing options and monitor the school rehabilitation process, based on information submitted by the MECR, which is not documented and, respectively, is not carried out by the Coordinating Board. The audit mentions that in the previous audit report it was noted that the Coordinating Board did not meet during 2016 year.

4.2.2 The Procurement Plan was not finalized after approval of the Project’s own budget and inappropriate planning of procurements for rehabilitation works and services.

Planning of public procurement contracts is to identify public procurement contracts designed to meet the needs of goods, works and services for the entire budgetary year, reflected in the procurement Plan, which is coordinated with the entity’s budget19. The audit found that upon drafting the Procurement Plan it was not considered the approved budget and the Plan has not been modified or completed during 2017 (approved for services– 1750,0 thousand lei, and planned 581,0 thousand lei).

15 MECR’s Order no 654 Dated July 26, 2017 on approval of the management stages on the national curriculum development in the general education.
17 Prime Minister’s Order no.27d dated March 26, 2014.
18 Minutes no.8 dated May 25, 2017 of the Coordinating Board meeting on monitoring the school rehabilitation.
19 Government Decision n.1419 dated december 28, 2016 „On approval of the Regulation on the modality of planning public procurement contracts“.
The audit found that according to the Procurement Plan for 2017, out of the total planned amount of 71786,4 thousand lei, it has been paid 67933,6 thousand lei, accounting for 94,6%, of which: (i) 67477,5 thousand lei for 4 rehabilitation works, accounting for 94,7%; (ii) 306,0 thousand lei for 5 author control services, accounting for 97,3% (iii) 150,2 thousand lei for one technical supervision service, accounting for 56,5%. In addition, 3 negotiation procedures have been organized for procurement of unexpected additional works, as a result contracts have been concluded in the total amount of 3043,1 thousand lei.

4.2.3 The Project’s financial reports on budget execution submitted to the MECR and, respectively, to the MoF are true.

The accounting records are kept by the MECR 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 on accounting and financial reporting in the budgetary system, approved by the MoF\(^{21}\), in force since January 01, 2016.

Until the Government’s reorganization, the Project’s budgetary accounting has been kept by the automated accounting system of the MoEd (Universal Accounting SL – budget version), and after the reorganization, the financial reports on budget execution have been prepared manually. Thus, only reports for the first semester of 2017 have been prepared electronically, and the reports as of August 31, 2017 have been prepared manually and were submitted to the MECR on December 12, 2017, which further have been cancelled by the MoF. On January 29, 2018, the annual financial reports have been submitted to the MECR\(^{22}\).

In 2017, the funds in the amount of 6237,0 thousand lei have been approved, and the plan has not been modified during the year, of them the amount of 4533,1 thousand lei or 72,3% has been paid (1703,9 thousand lei). According to MERP responsible staff, the MECR restructured the DLI 7 „New remuneration program of school directors and teachers adopted”, because the Government decided to revise the whole budgetary system\(^{23}\).

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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/MECR as of December 31, 2017; 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.

\(^{23}\) Prime Minister’s Order no.80-d dated July 28, 2017.
Following the verification of financial reports submitted to the MECR and, respectively, to the MoF as of August 31, 2017 (for the Ministry of Education) and as of December 31, 2017 (for the MECR), the audit found that in the Project’s financial report on budget execution as of December 31, 2017 (FD-044 Form), the amount approved for the year has not been correctly reflected, the plan being increased by 3601,0 thousand lei. In 2017, the designs have been provided free of charge in the public property of the administrative-territorial units\textsuperscript{24}, thus the amount of fixed assets was reduced by 14076,15 thousand lei, the audit evidence confirms the lack of errors to this procedure.

Checking the data in the accounting notes, accounting book and financial reports, the audit confirms the correctness of recording the transactions made, and respectively, corresponding of information from the end of 2016 year with the data from the beginning of 2017 (18871,9 thousand lei). It was found that in the Accounting notes no.5A the amounts transferred to the card have been reflected, although the MoF’s Order\textsuperscript{25} provides only for recording the accounting entries on salary deductions, and no errors were found on calculation of deductions.

According to the ISSAI 1505\textsuperscript{26}, the audit team requested external evidence to verify balances, as well as the Project’s transactions. As a result, there were no deviations between the accounting data and the verification acts on reciprocal settlements.

\textit{4.2.4 Execution of the Court of Account’s previous decision}

Regarding the recommendations from the Financial audit report of the previous year\textsuperscript{27}, the audit points out that the actions carried out by the MECR, jointly with MERP team, were aimed to ensure the continuity of Project implementation process. The deadline for implementation of requirements and recommendations on the Court of Account’s previous Decision was within 6 months from the date of its publication in the Official Gazette of the Republic of Moldova, thus the MECR had to inform the Court of Accounts about the measures undertaken by March 11, 2018. The audit mentions the execution of requirements (2.1 and 2.2) and implementation of recommendations no. 1 and no. 2, but the recommendation no. 3 has been partially implemented.

\textsuperscript{24} GD no.881 dated November 01, 2017 „On passing some goods”; MECR’s Order nr.454 dated November 27, 2017 „On establishing the Committee for submitting the designs”.
\textsuperscript{25} Item 3.2.2 from the Ministry of Finance’s Order no. 216 dated December 28, 2015.
\textsuperscript{26} ISSAI 1505 „Going concern”.
\textsuperscript{27} Court of Account’s Decision no.34 dated July 20, 2017 „On Financial audit report on the authencity of financial statements for implementation of Moldova Education Reform Project for 2016 fiscal year”.
Failure to use all funds by destinations and in due time for implementation of all Project components (level of execution 22.09%) denotes the partial implementation of recommendation no. 3, which also results from the audit findings mentioned in this Report in chapter IV. „Key audit aspects”. Annex 10 to this Audit report presents the detailed information on implementation of the requirements and recommendations of the Court of Account’s previous Decision.

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. Following the Project’s restructuring, the WB jointly with the MECR agreed on the Project additional financing and restructuring of DLI 7 “New remuneration program of school directors and teachers adopted”, transferring the amount foreseen for this DLI for rehabilitation of two schools. At the moment of conducting the audit, the Law on Additional Financing Agreement and Project restructuring\(^{28}\) was published in the Official Gazette (Monitorul official), thus an additional financing in the amount of XDR 7100,0 thousand has been provided for consulting services (including Project audit), non-consulting services, goods, operating costs and trainings according to Project components A3, B2 and C, with reimbursement according to the Procurement Plan provided in the Financing Agreement\(^{29}\). The Project closing date was extended by June 30, 2020, the MECR will implement the Project Components A1, A3, B and C, and Component A2 will be implemented by MSIF.

VI. Audit recommendations

*The Ministry of Education, Culture and Research:*

1. To ensure convening of the Coordinating Board on monitoring the school rehabilitation process in order to use funds provided by the World Bank. (4.2.1.)

2. To ensure compliance with the normative framework by preparing quarterly reports on use of the allocated resources, informing the Government and posting them on the Ministry’s web page. (4.2.1)

\(^{28}\) Law no.88 dated May 24, 2018 on ratification of the Financing Agreement (additional financing for Moldova Education Reform project” between the RM and IDA.

\(^{29}\) Starting with 15.07.2023 until 15.01.2043 – 1.65%, starting with 15.07.2043 until 15.01.2048 – 3.4%, payment currency is US dollar.
3. To ensure planning of procurements for works and services, given the real needs and observing the legal framework. (4.2.2)

4. To strengthen the control and monitoring activities by enhancing cooperation between the responsible persons in order to use funds by destinations and in due time for implementation of all project components.

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

The MECR is responsible for preparation and timely submission of the Interim Financial Reports to the World Bank and Financial Reports on budget execution to the MoF, according to the WB requirements\(^{30}\) and respectively the MoF’s Order no. 216 dated December 28, 2015. The MECR’s leadership is also responsible for implementation of an efficient financial 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\(^ {31}\), in order to implement the activities for daily administration of funds under Project Component III and to provide support to the MECR’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 a reasonable assurance that the Interim Financial Reports submitted to the WB 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’s financial reports for 2017 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. *Annex 3 to this Audit Report presents the detailed information on the audit team’s responsibilities.*

Signatures of the audit team


\(^{31}\) Project Operations Manual.
Senior state inspector  
Maia Savva

Senior state inspector  
Svetlana Ostafi

*Responsible for audit:*
Head of the General Department for public finances audit /  
State auditor  
Natalia Trofim

IX. Annexes

*Annex no.1* Management’s statement
Declarațiile conducerii

Câtre: CURTEA DE CONTURI

26 iunie 2018

data

Prezența 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 2017, 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 verificată 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;

✓ mijloacele financiare externe pentru Componentele I, II și III au fost utilizate în conformitate cu prevederile incluse în condițiile generale relevante, cu acordurile de finanțare relevante, axându-se pe aspecte de economie și eficiență, și doar în scopurile pentru care a fost acordată finanțarea;

✓ 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;

1 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 cheltuieli, atât pentru anul fiscal supus auditului, cât și cumulativ până în prezent; Sumarului rapoartelor de sinteză; Declarația cu privire la conturile desemnate.
✓ jurnalele de evidentă contabilă ale proiectului reflectă soldurile inițiale/finale și tranzacții financiare reale efectuate de proiect;
✓ Ministerul Educației, Culturii și Cercetării în comun cu echipa de consultanții 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.
✓ pe parcursul anului 2017, cu acordul consiliilor locale, s-a transmis cu titlu gratuit, din proprietatea publică a statului, administrarea Ministerului Educației, Culturii și Cercetării, în proprietatea publică a unităților administrativ-teritoriale, 19 bunuri (documentația de proiect, proiecte de execuție pentru reparația capitală) în sumă totală de 14076,15 mii lei, conform normelor metodologice privind executarea de casă a bugetelor componente ale bugetului public național.

Informațiile oferite echipei de audit:
✓ entitatea a asigurat: accesul la toate informațiile relevante pentru întocmirea RFI, cum ar fi înregistrarea tuturor tranzacțiilor finanțate de banca, 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 suspeciuni/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

[Signature]

Directorul executiv al Proiectului

[Signature]
Annex no.2 Relevant information on audited area

2.1 Financial management of the Project is carried out by:

- The Minister of Education, Culture and Research is the Project General Director and is responsible for the Project general management;

- The General State Secretary is the Project Executive Director (PED), who provides project oversight, overall policy direction, and strategic and implementation guidance, and review overall project progress. The PED is also responsible for: (i) signing documents on behalf of the Project, which include low-value contracts with suppliers, office correspondence, documents regarding withdrawals from Credit Accounts, and other documents required by local legislation; (ii) coordinating with the MoF on corresponding disbursement requests; coordinating GRM process.

- The Coordinating Board is responsible for monitoring of school rehabilitation. The Coordinating Board is composed of representatives from relevant ministries, agencies, the State Chancellery and the MECR’s departments. The Coordinating Board is responsible for: (i) approving criteria for the selection of receiving schools; (ii) approving the list of receiving schools selected for rehabilitation; (iii) examining the existing options and providing guidance on school rehabilitation process, based on the information provided by the Ministry of Education and MSIF; and (iv) contributing to developing draft normative and legislative acts on the school rehabilitation process, based on the MECR’s proposal.

- 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. The Project Coordinator reports to the Executive Director;

- Financial management specialist is responsible for budgeting and whole accounting system of the Project according to the Government and World Bank requirements, etc.

- MSIF is responsible for implementation of Project Component I/A2 and for preparation and submission of interim financial reports to the MECR, not later than 30 days after the end of each calendar quarter.

2.2 The MERP implementation arrangements are the following:

Source: Project Operations Manual
2.3 Additional instructions for the Project

Credit

26 100 000 XDR, of which for:

Category 1 teachers’ salaries within EEP under Project Components A1 and B – 17 020 000 XDR

Category 2 consulting services, non-consulting services, goods, training and operating costs under Project component C – 980 000 XDR

Category 3 Works, consulting services and operating costs under Project Component A2 – 8 100 000 XDR

Date payment due are May 15 and November 15 of each year

Commencing May 15, 2018 – 1,65%

Commencing May 15, 2028 to and including November 15, 2037 – 3,35%

Type of designated Account

segregated

Designated account A

Category 2 for Project activities to be implemented by the MECR

Ceiling: USD 300 000

Designated account B

Category 3 for Project activities to be implemented by MSIF

Ceiling: USD 1 000 000

Currency of the designated Account

US Dollars

Project closing date

June 28, 2019

Source: Financing Agreement (credit no.5196-MD), Disbursement letter.

2.4 List of receiving schools to be rehabilitated by MSIF and the Ministry of Education, Culture and Research.

<table>
<thead>
<tr>
<th>No</th>
<th>Rayon</th>
<th>Locality</th>
<th>School name</th>
<th>School size as of September 01, 2016</th>
<th>School size as of May 31, 2017</th>
<th>The number of students transported and coming from other localities</th>
<th>The number of students with special educational needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cimișlia</td>
<td>Cimișlia</td>
<td>Mihai Eminescu LT</td>
<td>688</td>
<td>680</td>
<td>41</td>
<td>17</td>
</tr>
<tr>
<td>2</td>
<td>Ungheni</td>
<td>Ungheni</td>
<td>Alexandru Pușkin LT</td>
<td>983</td>
<td>979</td>
<td>107</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>Orhei</td>
<td>Orhei</td>
<td>Ion Luca Caragiale LT</td>
<td>1147</td>
<td>1165</td>
<td>37</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>Glădănești</td>
<td>Glădănești</td>
<td>Vasile Coroban LT</td>
<td>487</td>
<td>483</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>Telenești</td>
<td>Telenești</td>
<td>Mihai Eminescu LT</td>
<td>642</td>
<td>642</td>
<td>115</td>
<td>20</td>
</tr>
<tr>
<td>6</td>
<td>Anenii Noi</td>
<td>Anenii Noi</td>
<td>Mihai Eminescu LT</td>
<td>931</td>
<td>917</td>
<td>155</td>
<td>16</td>
</tr>
<tr>
<td>7</td>
<td>Strășeni</td>
<td>Strășeni</td>
<td>Mihai Eminescu LT</td>
<td>900</td>
<td>878</td>
<td>205</td>
<td>26</td>
</tr>
<tr>
<td>8</td>
<td>Sângerei</td>
<td>Popeni</td>
<td>A. Agapie LT</td>
<td>839</td>
<td>831</td>
<td>69</td>
<td>28</td>
</tr>
<tr>
<td>9</td>
<td>Vâlcani</td>
<td>Vâlcani</td>
<td>A. Doljenco LT</td>
<td>810</td>
<td>797</td>
<td>98</td>
<td>8</td>
</tr>
<tr>
<td>10</td>
<td>Ialoveni</td>
<td>Ialoveni</td>
<td>A. Vartic LT</td>
<td>770</td>
<td>764</td>
<td>92</td>
<td>12</td>
</tr>
<tr>
<td>11</td>
<td>Soroca</td>
<td>Soroca</td>
<td>P. Rares LT</td>
<td>837</td>
<td>832</td>
<td>70</td>
<td>15</td>
</tr>
<tr>
<td>12</td>
<td>Hâncești</td>
<td>Cârpieni</td>
<td>S. Holban LT</td>
<td>691</td>
<td>673</td>
<td>56</td>
<td>21</td>
</tr>
<tr>
<td>13</td>
<td>Cabul</td>
<td>Colibași</td>
<td>V. Alecsandri LT</td>
<td>675</td>
<td>656</td>
<td>67</td>
<td>14</td>
</tr>
<tr>
<td>14</td>
<td>Ștefan Voda</td>
<td>Ștefan Voda</td>
<td>Ștefan Voda LT</td>
<td>599</td>
<td>599</td>
<td>175</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>Rezina</td>
<td>Rezina</td>
<td>Alexandru cel Bun LT</td>
<td>853</td>
<td>852</td>
<td>105</td>
<td>4</td>
</tr>
</tbody>
</table>

List of schools to be rehabilitated by the MECR
<table>
<thead>
<tr>
<th></th>
<th>Nisporeni</th>
<th>Vârșărești</th>
<th>Alexandru cel Bun Gimnaziu</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Cantemir</td>
<td>Gotești</td>
<td>Vasile Pirvan LT</td>
<td>334</td>
<td>332</td>
<td>58</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Călărași</td>
<td>Sipoteni</td>
<td>Mihai Eminescu LT</td>
<td>603</td>
<td>600</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>4</td>
<td>Leova</td>
<td>Iargara</td>
<td>Lucian Blaga LT</td>
<td>375</td>
<td>375</td>
<td>42</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>Rășcani</td>
<td>Costești</td>
<td>S. Lucaei LT</td>
<td>338</td>
<td>338</td>
<td>78</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Căușeni</td>
<td>Sălcuța</td>
<td>M. Manole LT</td>
<td>537</td>
<td>529</td>
<td>186</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total number of students</strong></td>
<td><strong>14,395</strong></td>
<td><strong>14,263</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Project Operations Manual.

### Annex nr.3 Methodology and audit scope

The audit scope. According to article 31 paragraph (1) item a) of the Law on organization and functioning of the Court of Accounts of the Republic of Moldova no.260 dated December 07, 2017 as well as according to the Audit Activity Program of the Court of Accounts for 2018, approved by the Court of Accounts’ Decision no.75 dated December 29, 2017 (with further amendments and additions), since May 21, 2018, the Court of Accounts has conducted the audit of financial statements of Moldova Education Reform Project for 2017 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.129 dated July 07, 2017, the obtained results being adjusted to the requirements set out in the Terms of Reference for financial audit.

Audit area. Based on the significance threshold and as a result of identifying the areas with high probability of risks, the following has been audited:
- ✓ the disbursement mechanism and use of Project funds according to the provisions of the financing agreement and only for the purposes for which the financing was provided;
- ✓ supporting documents and accounting records prepared for all Project transactions, including costs reported in the IFRs;
- ✓ compliance of procurement of goods and services with the provisions of the WB Guidelines on procurements;
- ✓ maintaining designated accounts according to the provisions of the relevant financing agreements;
- ✓ observance of each of financial commitments set out in the Financing Agreement.

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.

During the audit mission, the Audit team of the Court of Accounts applied the following audit standards: ISSAI 100, ISSAI 200, ISSAI 1000-2999; Financial audit handbook; Financing Agreement (Credit no.5196-MD); Reference Material to the Financial Management Handbook for World Bank-Funded Investment Transactions (March 2010): RM 3 – Financial Reporting and financial audit; Disbursement Handbook for World Bank Clients, dated May 2006 (available on Client Connection

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32 Law no129 dated July 07, 2017 on ratification of the Amendment no. 2 to the Financing Agreement between the RM and the International Development Association on implementation of Moldova Education Reform Project.
Audit Methodology. In order to obtain relevant and reasonable evidence to support audit opinion, the audit team applied the following audit procedures: review and analysis of documents, questionnaires, calculations and comparisons.

According to the TOR approved by the WB, the Project’s audited financial statements agreed with the BM should include Interim Financial Reports and financial statements used as the basis for disbursement and under the structural reorganization of the central public administration, the audit expressing an opinion on the IFRs.

On the security policy of financial information. The accounting carried out under the World Bank rules was supported by „1C” accounting – information system. 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 July 2018, and no errors have been found.

The audit team informed the entity about all significant audit findings and recommendations, both quantitative and qualitative set out in the Audit Report.
Annex no.4 DLIs achieved during 2013-2017 under Components I and II (Thousand XDR/USD)

<table>
<thead>
<tr>
<th>Disbursement Linked Indicator</th>
<th>The amount to be disbursed</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Component I. Strengthening the quality of education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Standards for receiving schools approved</td>
<td>1700.0</td>
<td>2500.0</td>
</tr>
<tr>
<td>2. 30 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700.0</td>
<td>4000.0</td>
</tr>
<tr>
<td>3. 50 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700.0</td>
<td>4000.0</td>
</tr>
<tr>
<td>4. 70 percent of receiving schools meet the approved school quality assurance standards</td>
<td>2700.0</td>
<td>4000.0</td>
</tr>
<tr>
<td>5. Updated program for training of school directors and teachers officially approved and implementation initiated</td>
<td>1276.7</td>
<td>2000.0</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</td>
<td>2000.0</td>
</tr>
<tr>
<td>7. New remuneration program of school directors and teachers adopted.</td>
<td>1276.7</td>
<td>2000.0</td>
</tr>
<tr>
<td>8. Enrolment of Moldova in PISA 2015.</td>
<td>1276.7</td>
<td>2000.0</td>
</tr>
<tr>
<td>9. Results of Moldova participation in PISA 2015 analyzed and publicly disseminated</td>
<td>1276.7</td>
<td>2000.0</td>
</tr>
<tr>
<td>10. Revised national testing of all 4th and 9th grade students completed and its results analyzed, publicly disseminated and used by the MoEd</td>
<td>1276.7</td>
<td>2000.0</td>
</tr>
<tr>
<td>11. Establish a consolidated Education Management Information System (EMIS).</td>
<td>1276.7</td>
<td>2000.0</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</td>
<td>2000.0</td>
</tr>
<tr>
<td>Component II. Improving the efficiency of the education sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. 80 percent of primary and general secondary schools have their budgets approved according to the new per student formula methodology</td>
<td>1276.7</td>
<td>2000.0</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>
</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>
</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>
</tr>
<tr>
<td>No</td>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>----</td>
<td>------------------------------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>1</td>
<td>Opening balance as at January 01, 2017</td>
<td>189768</td>
</tr>
<tr>
<td>2</td>
<td>Add: Cumulative unexplained discrepancy</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Advance during the year</td>
<td>587056</td>
</tr>
<tr>
<td>4</td>
<td>Less: Refund to IDA during the period</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Present outstanding amount advanced to SA</td>
<td>776824</td>
</tr>
<tr>
<td>6</td>
<td>SA closing balance as at December 31, 2017 carried forward to next period</td>
<td>530154</td>
</tr>
<tr>
<td>7</td>
<td>Add: Amount of eligible expenditures paid during year</td>
<td>246670</td>
</tr>
<tr>
<td>8</td>
<td>Service charges</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Less: Interest earned</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Total advance accounted for</td>
<td>530154</td>
</tr>
<tr>
<td>11</td>
<td>Discrepancy</td>
<td>0</td>
</tr>
</tbody>
</table>

**Annex no.5 Project’s Interim Financial Reports for 2017**

**5.1 Statement of Designated Account as at December 31, 2017**

**Extract from the Special Account of the Project as at December 31, 2017**

**under Component III**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance of the special account as at January 01, 2017</td>
<td>189768</td>
</tr>
<tr>
<td>Total credit (plus): IDA advance to the special account during the period</td>
<td>87056</td>
</tr>
<tr>
<td>IDA additional financing to the special account during the period</td>
<td>0</td>
</tr>
<tr>
<td>Total debit (minus): Refund to IDA from special account during the period</td>
<td>0</td>
</tr>
<tr>
<td>Eligible expenditures from IDA funds paid from the special account during the period</td>
<td>246670</td>
</tr>
<tr>
<td>Closing balance of the special account as at December 31, 2017</td>
<td>30154</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 2017 year

<table>
<thead>
<tr>
<th>No</th>
<th>Institution</th>
<th>Date</th>
<th>Total funded amount</th>
<th>IDA Cat.1</th>
<th>IDA Cat.2</th>
<th>IDA Cat.3</th>
<th>Total disbursed</th>
<th>Disbursed</th>
<th>Date of disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>MECR</td>
<td>15.05.2017</td>
<td>87056,10</td>
<td>87056,10</td>
<td>87056,10</td>
<td>87056,10</td>
<td>87056,10</td>
<td>62929,09</td>
<td>15.05.2017 SOE</td>
</tr>
<tr>
<td>2.</td>
<td>MoF</td>
<td>16.05.2017</td>
<td>1753195,73</td>
<td>1753195,73</td>
<td>1753195,73</td>
<td>1753195,73</td>
<td>1753195,73</td>
<td>1276667,00</td>
<td>16.05.2017 reimbursement</td>
</tr>
<tr>
<td>3.</td>
<td>MoF</td>
<td>22.12.2017</td>
<td>1807403,02</td>
<td>1807403,02</td>
<td>1807403,02</td>
<td>1807403,02</td>
<td>1807403,02</td>
<td>1276667,00</td>
<td>22.12.2017 reimbursement</td>
</tr>
<tr>
<td>4.</td>
<td>MSIF</td>
<td>30.11.2017</td>
<td>500000,00</td>
<td>500000,00</td>
<td>500000,00</td>
<td>500000,00</td>
<td>500000,00</td>
<td>353252,04</td>
<td>30.11.2017 advance</td>
</tr>
<tr>
<td>5.</td>
<td>Total</td>
<td></td>
<td>4147654,85</td>
<td>3560598,75</td>
<td>87056,10</td>
<td>500000,00</td>
<td>4147654,85</td>
<td>2969515,13</td>
<td>87056,10 0,00 x</td>
</tr>
</tbody>
</table>

5.3 Report on Project expenditures by categories and their financing as of December 31, 2017

<table>
<thead>
<tr>
<th>Executed</th>
<th>Planned</th>
<th>Deviations (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>From the beginning of 2017</td>
<td>From Project starting</td>
<td>From the beginning of 2017</td>
</tr>
<tr>
<td>Opening balance</td>
<td>189768</td>
<td>189768</td>
</tr>
<tr>
<td>Special account MECR</td>
<td>189768</td>
<td>189768</td>
</tr>
<tr>
<td>Special account MSIF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plus: Financing sources</strong></td>
<td>4147655</td>
<td>24002059</td>
</tr>
<tr>
<td>IDA Credit</td>
<td>87056</td>
<td>978812</td>
</tr>
<tr>
<td>MSIF</td>
<td>500000</td>
<td>500 000</td>
</tr>
<tr>
<td>Disbursements by DLIs</td>
<td>3560599</td>
<td>22523247</td>
</tr>
<tr>
<td>Other sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total funds</strong></td>
<td>4337423</td>
<td>24002059</td>
</tr>
<tr>
<td><strong>Minus: use of funds</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Consulting services, non-consulting services, trainings, operating costs under Component III

<table>
<thead>
<tr>
<th></th>
<th>246670</th>
<th>948658</th>
<th>315000</th>
<th>1016988</th>
<th>(68330)</th>
<th>(68330)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred to the state budget</td>
<td>3560599</td>
<td>22523247</td>
<td>3560599</td>
<td>22523247</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total used</strong></td>
<td>3807269</td>
<td>23471905</td>
<td>3875599</td>
<td>23540235</td>
<td>(28434)</td>
<td>(68330)</td>
</tr>
<tr>
<td>Final balance IDA 5196</td>
<td>30154</td>
<td>30154</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Final balance MSIF</td>
<td>500 000</td>
<td>500 000</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td><strong>Final total balance</strong></td>
<td>530154</td>
<td>530154</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

5.4 Report on financing sources and uses of funds by MSIF, Component I/A2
as of December 31, 2017

(US$)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Executed</th>
<th>Planned</th>
<th>Deviations (+/-)</th>
<th>Planned disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From the beginning of 2017</td>
<td>From Project starting</td>
<td>From the beginning of 2017</td>
<td>From Project starting</td>
</tr>
<tr>
<td>Report 1A on Project funds and their use</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>0,0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financed</td>
<td>500 000,0</td>
<td>500 000,0</td>
<td>500 000,0</td>
<td>500 000,0</td>
</tr>
<tr>
<td>Actual costs</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final balance</td>
<td>500 000,0</td>
<td>500 000,0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Report 1B on detailed costs

<table>
<thead>
<tr>
<th>Work</th>
<th>10724825,00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designs</td>
<td>516000,00</td>
</tr>
<tr>
<td>Design verification</td>
<td>40000,00</td>
</tr>
<tr>
<td>Consultancy for designs modification</td>
<td>26000,00</td>
</tr>
<tr>
<td>Supervision of works</td>
<td>114210,00</td>
</tr>
<tr>
<td>Total</td>
<td>11421035,00</td>
</tr>
<tr>
<td>Remuneration</td>
<td>463635,00</td>
</tr>
<tr>
<td>Communication</td>
<td>10000,00</td>
</tr>
<tr>
<td>Rent of the office</td>
<td>50330,00</td>
</tr>
<tr>
<td>Transport costs</td>
<td>40000,00</td>
</tr>
<tr>
<td>Operating costs</td>
<td>15000,00</td>
</tr>
<tr>
<td>Total</td>
<td>578965,00</td>
</tr>
<tr>
<td>TOTAL GENERAL</td>
<td>12 000 000,00</td>
</tr>
</tbody>
</table>
5.5 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

(US$)

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Project components/Activities</th>
<th>actual From the beginning of 2017</th>
<th>From Project starting</th>
<th>Planned From the beginning of 2017</th>
<th>From Project starting</th>
<th>Difference (+/-) From the beginning of 2017</th>
<th>From Project starting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Strengthening the quality of education</td>
<td>3560599</td>
<td>22523247</td>
<td>3560599</td>
<td>22523247</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2.</td>
<td>Improving the efficiency of the education sector</td>
<td></td>
<td></td>
<td></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>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting services</td>
<td>233288</td>
<td>880964</td>
<td>292840</td>
<td>940516</td>
<td>-59552</td>
<td>-59552</td>
<td></td>
</tr>
<tr>
<td>Non-consulting services</td>
<td>0</td>
<td>7369</td>
<td>500</td>
<td>7869</td>
<td>-500</td>
<td>-500</td>
<td></td>
</tr>
<tr>
<td>Trainings</td>
<td>7034</td>
<td>27861</td>
<td>9660</td>
<td>29476</td>
<td>-2626</td>
<td>-1615</td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>6348</td>
<td>32464</td>
<td>12000</td>
<td>39127</td>
<td>-5652</td>
<td>-6663</td>
<td></td>
</tr>
<tr>
<td>Grand total</td>
<td>246670</td>
<td>948658</td>
<td>315000</td>
<td>1016988</td>
<td>-68330</td>
<td>-68330</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Total expenditures of the Project</td>
<td>3807269</td>
<td>23471905</td>
<td>3875599</td>
<td>23540235</td>
<td>-68330</td>
<td>-68330</td>
</tr>
</tbody>
</table>

Annex no.6 Summary of expenditures related to remuneration of individual consultants in 2017

<table>
<thead>
<tr>
<th>Nr. d/o</th>
<th>Position of individual consultant</th>
<th>Total paid</th>
<th>Calculated salary annually</th>
<th>Contributions paid by employer</th>
<th>Income tax</th>
<th>Amount to be paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>23%</td>
<td>4.5%</td>
<td>6%</td>
</tr>
<tr>
<td>1</td>
<td>Project coordinator</td>
<td>204736,5</td>
<td>160577.66</td>
<td>36932.86</td>
<td>7225.99</td>
<td>9634.66</td>
</tr>
<tr>
<td>2</td>
<td>Financial management specialist</td>
<td>243571,02</td>
<td>191036.08</td>
<td>43938.30</td>
<td>8596.64</td>
<td>11462.16</td>
</tr>
<tr>
<td>3</td>
<td>Procurement specialist under national procedures</td>
<td>185642,1</td>
<td>145601.65</td>
<td>33488.38</td>
<td>6552.07</td>
<td>8736.10</td>
</tr>
<tr>
<td>No</td>
<td>Services</td>
<td>Contract</td>
<td>Contracted amount (USD)</td>
<td>Paid amount (USD)</td>
<td>Paid amount (lei)</td>
<td>Execution level</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>----------</td>
<td>-------------------------</td>
<td>-------------------</td>
<td>-------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>4</td>
<td>Administrative assistant/Translator</td>
<td>241576,3</td>
<td>189471.60</td>
<td>43578.47</td>
<td>8526.22</td>
<td>11368.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>8526.22</td>
<td>25186.78</td>
<td>144390.30</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Civil works engineer</td>
<td>322401,6</td>
<td>252864.00</td>
<td>58158.72</td>
<td>11378.88</td>
<td>15171.84</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11378.88</td>
<td>35399.29</td>
<td>190913.99</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Procurement specialist under WB procedures</td>
<td>46117,53</td>
<td>36170.61</td>
<td>8319.24</td>
<td>1627.68</td>
<td>2170.24</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1627.68</td>
<td>5827.09</td>
<td>26545.61</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Environmental consultant</td>
<td>154001,98</td>
<td>120785.87</td>
<td>27780.75</td>
<td>5435.36</td>
<td>7247.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5435.36</td>
<td>16033.09</td>
<td>92070.26</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>PR Consultant</td>
<td>91245,25</td>
<td>71564.90</td>
<td>16459.93</td>
<td>3220.42</td>
<td>4293.89</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3220.42</td>
<td>8575.09</td>
<td>55475.50</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>Total lei</td>
<td>1489292,3</td>
<td>1168072,37</td>
<td>268656,65</td>
<td>52563,26</td>
<td>154737,38</td>
</tr>
<tr>
<td></td>
<td>Thousand USD (average exchange rate)</td>
<td>81,5</td>
<td>63,9</td>
<td>14,7</td>
<td>2,87</td>
<td>8,46</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>48,7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Accounting notes no.5a, Calculation list and the payment for remuneration of consultants hired by the MoECR per each month.*

**Annex no. 7 Report on expenditures for consulting services and operating costs incurred during 2017**

<table>
<thead>
<tr>
<th>No</th>
<th>Services</th>
<th>Contract</th>
<th>Contracted amount (USD)</th>
<th>Paid amount (USD)</th>
<th>Paid amount (lei)</th>
<th>Execution level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Development of an updated program for training of school directors in the primary and general secondary education</td>
<td>CQ-06/2016, Amendment nr.1 din 31.10.2016</td>
<td>3997,0</td>
<td>3997,0</td>
<td>1795392,5</td>
<td>100%</td>
</tr>
<tr>
<td>2</td>
<td>Feasibility study for school network</td>
<td>CQ-02/2017, Amendment nr.1 din 24.07.2017</td>
<td>96270,0</td>
<td>96270,0</td>
<td>55475.50</td>
<td>100%</td>
</tr>
<tr>
<td>3</td>
<td>Development of a performance - based remuneration program</td>
<td>CQ-04/2016, Amendment nr.3 din 29.06.2016</td>
<td>63225,0</td>
<td>44257,5</td>
<td>853101,9</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(paid 2016 – 18967,5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Development of an updated program for training of teachers in the primary and general secondary education</td>
<td>CQ-03/2016, Amendment nr.1 din 30.11.2016</td>
<td>7285,4</td>
<td>7285,4</td>
<td>145595,8</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>Total</td>
<td>x</td>
<td>170777,4</td>
<td>151809,9</td>
<td>2794090,2</td>
<td>x</td>
</tr>
</tbody>
</table>

**Operating costs**
1. **PR services for Project promotion** (rehabilitation of receiving schools, PISA etc.)
   - SH/03/2016, Amendment nr.1
   - 1595,045 euro
   - 1701,04
   - 33028,92
   - 100%

2. Operating costs (office supplies (10614,1 lei), translations (4920,0 lei), document binding documents (9639,01 lei), transport services (43124,0 lei) etc.
   - Contracts/invoices
   - -
   - 4646,7
   - 84941,4
   - x

3. **Total**
   - x
   - x
   - 6347,74
   - 117970,4
   - x

*Source: Payment Orders, Contracts.*

---

**Annex no.8 Report on teachers’ salaries prepared based on Reports data on execution of ATUB consolidated by the Ministry of Finance as of December 31, 2017**

<table>
<thead>
<tr>
<th>No</th>
<th>Month</th>
<th>Budgeted</th>
<th>Financed by the Ministry of Finance</th>
<th>Actuals</th>
<th>Owed to beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Approved</td>
<td>Revised</td>
<td></td>
<td>receivables</td>
</tr>
<tr>
<td>1</td>
<td>6 months</td>
<td>2847641,6</td>
<td>147159,6</td>
<td>1653160,5</td>
<td>85431,6</td>
</tr>
<tr>
<td>2</td>
<td>12 months</td>
<td>2847641,6</td>
<td>154008,2</td>
<td>2895953,2</td>
<td>156621,0</td>
</tr>
<tr>
<td>3</td>
<td>Total</td>
<td>2847641,6</td>
<td>154008,2</td>
<td>2895953,2</td>
<td>156621,0</td>
</tr>
</tbody>
</table>

* NBM average exchange rate USD-MDL for 6 months of 2017 = 19.3507 MDL/1 USD.
* NBM average exchange rate USD-MDL for 12 months of 2017 = 18,4902 MDL/1 USD.
Annex no.9 Information on execution of budgetary funds per each school as of December 31, 2017 and the stage of rehabilitation works at the time of conducting the audit

<table>
<thead>
<tr>
<th>No</th>
<th>School</th>
<th>Approved for 2017 (works)</th>
<th>Approved for 2017 (services)</th>
<th>Contracted during 2017</th>
<th>Actuals</th>
<th>Works execution level (%)</th>
<th>Contracted works in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Author Control</td>
<td>Supervision services</td>
<td>Author Control</td>
<td>Supervision services</td>
<td>Works</td>
</tr>
<tr>
<td>1</td>
<td>“Alexandru cel Bun” Gymnasium, Varzaresti village, Nisporeni rayon.</td>
<td>12231,0</td>
<td>55,0</td>
<td>158,2</td>
<td>54,4</td>
<td>58,8</td>
<td>14804,4</td>
</tr>
<tr>
<td>2</td>
<td>“Vasile Pîrvan” Lyceum, Gotesti village, Cantemir rayon.</td>
<td>17091,0</td>
<td>90,0</td>
<td>208,7</td>
<td>89,4</td>
<td>150,2</td>
<td>21458,1</td>
</tr>
<tr>
<td>3</td>
<td>“Mihai Eminescu” Lyceum, Sipoteni village, Calarasi.</td>
<td>19080,0</td>
<td>80,0</td>
<td>262,0</td>
<td>75,0</td>
<td>150,0</td>
<td>24876,4</td>
</tr>
<tr>
<td>4</td>
<td>“Lucian Blaga” Lyceum, Iargara town, Leova rayon.</td>
<td>19603,3</td>
<td>90,0</td>
<td>203,8</td>
<td>87,3</td>
<td>83,4</td>
<td>7786,9</td>
</tr>
<tr>
<td>5</td>
<td>“S. Lucaci” Lyceum, Costesti town, Riscani rayon.</td>
<td>17051,5</td>
<td>60,0</td>
<td>202,5</td>
<td>56,8</td>
<td>142,09</td>
<td>1557,3</td>
</tr>
<tr>
<td>6</td>
<td>“Mesterul Manole” Lyceum, Salcuta village, Causeni rayon.</td>
<td>24943,2</td>
<td>90,0</td>
<td>249,8</td>
<td>77,6</td>
<td>85,8</td>
<td>0,0</td>
</tr>
<tr>
<td>7</td>
<td>Total</td>
<td>110 000,0</td>
<td>465,0</td>
<td>1285,0</td>
<td>440,5</td>
<td>670,3</td>
<td>70483,1</td>
</tr>
</tbody>
</table>

✓ „Lucian Blaga” Lyceum in Iargara town, Leova rayon. In 2017, The MECR carried out one public bidding for rehabilitation works for building located on 27 August Street (no.17/00043 dated January 27, 2017), and the rehabilitation works have been contracted in the amount of 7,8 million lei. The timeframe for carrying out the rehabilitation works was 8 months (by November 15, 2017). During 2017, based on four Minutes of the Working Group, for building located on 27 August Street, the deadline for completing the contracted works has been modified 4 times, and the final deadline for completing the rehabilitation works is by August 20, 2018. For the building located on 1 Scolii Street, the deadline has been modified twice, and the final deadline is by August 20, 2018.

✓ „Vasile Pirvan” Lyceum, Gotesti village, Cantemir rayon. In 2017, the MECR conducted a public bidding (no.17/00173 dated February 10, 2017), and the rehabilitation works have been contracted in the amount of 21,4 million lei, with the deadline for completing the rehabilitation works by November 15, 2017 (8 months). Further, based on the Minutes of the Working Group, the deadline for completing the contracted works has been extended by October 30, 2018.

✓ „Silvian Lucaci” Lyceum, Costesti town, Riscani rayon. Following the repeated public bidding no.16/02557 dated October 24, 2016, the rehabilitation works for this school have been contracted in the amount of 18,95 million lei. The timeframe for carrying out the rehabilitation works was 8 months from the registration of contract at the Public Procurement Agency (by November 29, 2016). Further, in 2017, two negotiation procedures have been organized for rehabilitation works no. 18 dated September 20, 2017 and no. 19 dated September 20, 2017, and the rehabilitation works have been contracted in the amount of 1,6 million lei, with the implementation period of 1 month. During 2017, the deadline for completing the rehabilitation works has been modified 4 times. Thus, the final deadline for completing the rehabilitation works has been established by August 20, 2018.

✓ „Mihai Eminescu” Lyceum, Sipoteni village, Calarasi rayon. During 2017, one public bidding has been organized for rehabilitation works (PB 17/00120 dated February 07, 2017). The rehabilitation works have been contracted in the amount of 24,9 million lei, with the timeframe of 8 months. Further, the deadline for completing the rehabilitation works has been modified twice by the Working Group. Thus, the final deadline to complete the rehabilitation works has been established by July 15, 2018.

✓ „Mesterul Manole” Lyceum, Causeni. At the end of 2016, the public bidding has been conducted for rehabilitation works (PB 16/02625 dated October 27, 2016), being contracted works in the amount of 26,0 million lei. The timeframe for carrying out rehabilitation

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33 Contract no.8 dated March 13, 2017 on public bidding.
35 Contract nr.9 dated March 13, 2017 on public bidding.
37 Contract no.20 dated 24.11.2016 on public bidding.
39 Contract no.15 din 28.03.2017 on public bidding.
works was 7 months (by July 12, 2017). Further, the deadline for completing the rehabilitation works has been modified four times by the Working Group\textsuperscript{41}. The final deadline for rehabilitation works is established by August 20, 2018.

✓ „Alexandru cel Bun” Gymnasium, Varzaresti village, Nisporeni rayon. In 2017, a public bidding has been organized (PB no.17/0004 dated January 27, 2017), being contracted rehabilitation works in the amount of 13,3 million lei. The timeframe for carrying out rehabilitation works was 8 months (November 27, 2017). Further, a negotiation procedure has been organized no. 20 dated October 02, 2017 and additional rehabilitation works have been contracted in the amount of 1,4 million lei. At the same time, the deadline for completing the rehabilitation works has been extended by August 01, 2018\textsuperscript{42}.

### Annex nr.10 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. 2.1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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>The MECR developed and approved the Accounting Policy that includes the accounting of projects financed from external sources, according to the accounting rules in force and it was coordinated with the Ministry of Finance on July 31, 2017.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Requirement no. 2.2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To ensure appropriate recording in the accounting the funds for design and verification documentation in the amount of 11,0 million lei in 2015 and 3,1 million lei in</td>
<td>By drafting the accounting note no. 10 dated July 2017, the amount of design and verification documentation has been recorded according to the legal framework, by increasing the account 311120 and by reducing the account 318130 with the</td>
<td>✓</td>
</tr>
</tbody>
</table>

\textsuperscript{41} Minutes: no. 15 dated 24.07.2017; no. 35 dated 07.12.2017; no.33 dated 23.11.2017; no.28 dated 31.05.2018.

\textsuperscript{42} Minutes no.30 din 23.11.2017, nr.28 din 31.05.2018.
2016, with their further submission to the local public authorities. The amount of 10965.4 thousand lei on June 30, 2016. On November 03, 2017, the Government Decision no 881 dated November 01, 2017 „On submission of some goods” has been approved, and the design documentation has been submitted to the local public authorities in December 2017.

**Recommendation no 1** To review the Procurement Plan and to redistribute the amount of US$12,0 thousand designed for project audit for 2013-2015 years.

On July 07, 2017, the Law no 129 “On ratification of the Amendment no. 2 to the Financing Agreement between the Republic of Moldova and the IDA for implementation of Moldova Education Reform Project” has been promulgated. The Procurement Plan has been revised and the funds designed for financial audit in the amount of US$30,0 thousand have been redistributed for procurement of office equipment. On November 30, 2017, the WB approved the updated Procurement Plan.

**Recommendation no.2 (MECR jointly with the MoF)**
To ensure the systematization of data on teachers’ salaries and to establish control activities on reporting and submission of interim financial reports with full data to the World Bank.

The MoF submitted data on teachers’ salaries in the primary and general secondary education to the MECR. Thus, based on this data, the MECR prepared the report on teachers’ salaries as of June 30, 2017, and submitted the interim financial report to the WB, and received the WB No objection to this report.

**Recommendation no.3.** To strengthen the control and monitoring activities to enhance

It is underway.
cooperation between the responsible persons in order to use funds for destinations and in due time for implementation of all project components (repeated recommendation).

| The working meeting is held weekly with the General State Secretary of the MECR, MERP team and responsible officials under the MECR on implementation of Project activities. At the same time, the Project has been restructured for a better use of funds, and the DLIs related to school rehabilitation have been cancelled, and the funds on these DLIs have been reallocated to MSIF that has a greater capacity in the area. (Law no.129 dated July 07, 2017). Following the audit verification, it should be noted that the funds in the amount of US$24002,1 thousand have been disbursed, including in 2017 – US$4147,7 thousand out of the total of US$40000,0 thousand or 60,01%. |  |  |