

**FOUNDATION
CAUCASIAN INSTITUTE FOR PEACE
DEMOCRACY AND DEVELOPMENT**



MANAGEMENT LETTER



Auditing And Consulting Company

**Tbilisi Managers &
Consultants**



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June 9, 2004

Caucasian Institute for Peace, Democracy and Development
Avto Jokhadze
Executive Director

Dear Mr. Jokhadze

We have audited the Financial Statements of the "Caucasian Institute for Peace, Democracy and Development" (CIPDD) for the year 2004.

We were assigned to conduct the audit of financial statements of the year 2004 of CIPDD. With finishing our work we were supposed to report on the discovered events and other findings and draft written recommendations about the elimination possibilities of the discovered weaknesses.

We started our work on May 23, 2005. Our special thanks to Mr. Avto Jokhadze, the Director, and Ms. Lili Tetunashvili and Ms. Irina Tetunashvili, the accountants for their support with providing the necessary information for us during our work.

During the course of our work we were basing on the information provided by the management. In particular: the work was basically conducted according to the source documents, tax returns available and the extracts of the CIPDD accounting system. The accuracy and completeness of the provided information is the responsibility of the company management. Our responsibility is to express faithful opinion based on this information.

We are presenting the report providing the discovered weaknesses and other findings and our recommendations. This report can be considered within the scopes of the agreement and is intended for the CIPDD private use only.

If there are any issues arising during consideration of this report we will gladly help you with discussing them in more detail.

Sincerely,

Zurab Lalazashvili
Partner



General Information about the Organization

“Caucasian Institute for Peace, Democracy and Development”- public union of citizens is registered by the Ministry of Justice of Georgia on August 7, 1992.

On November 6, 1998 the Union was re-registered by the Ministry of Justice and granted the status of fund.

The basic principle of the Fund is to introduce, support and develop democratic values in Georgia.

The Fund implements its activity through the grants received from international donor organizations.

This report shows the weaknesses of the systems of accounting and internal control, which have caused or may cause material misstatements in accounting.

The report also provides recommendations and suggestions aiming to improve the systems of accounting and internal control.

1. General Review of Internal Control System

We evaluated the internal control system for determination of the volume of work to be performed in order to express our opinion about the accuracy of accounting information. The work performed does not involve the comprehensive studies of internal control system for detecting all the weaknesses and misstatements.

Condition of internal control system of the organization is the responsibility of management.

During the evaluation of reliability of internal control system, we focused on the ability of the system to control:

- Reality of transactions recorded in accounting
- Completeness of the recorded transactions
- Adequate evaluation and classification of assets and liabilities
- Adequate summarization and generalization of accounting data

For evaluation of the reliability of internal control system and control environment, we conducted the analysis of the following areas of the organization’s activities:

- Accounting policy, basic principles of accounting
- Organizational structure
- Accounting department structure
- Delegation of duties and authorities to the employees, taking part in preparation of financial statements.
- Preparation, development and filing of the documents reflecting business transactions.



- Consistency of reflection of business transactions in accounting records and forms and methods of generalization of such records.
- The role and importance of computer-based processing of data in running of accounting and preparation of financial statements.
- Particularly important areas of accounting statements, where the risk of accounting misstatement is high.

During the internal control system testing, we used the procedures of sampling the accounting records information and comparing them with source documents.

During the studies of internal control system, we revealed the following weaknesses and violations:

- Management has no approved methodology (regulations) of internal procedures, necessary to standardize any behavior related to business or internal transactions, persons authorized to make decisions, rules of document turnover, arrangements necessary to document and file the data, etc.
- The functions among organization's administrative personnel are not adequately delegated, formed and documented in written form.
- Accounting at the financial department is conducted both - computer based and memorial orders and other accounting records. During the year 2004 the recommendations we provided with the last year audit have been taken into consideration within the Fund and no significant misstatements have been discovered between the computer-based and manual bookkeeping due to the regular comparisons conducted.
- During the past several years no inventory of the assets disclosed in the balance sheet has been conducted and no registers for these assets kept either.

General conclusions and Recommendations

Basing on all the above-mentioned, we could state that the internal control system of the organization is not implemented properly. Eventually, there remains some risk of making mistakes in accounting or incorrect presentation of the financial statement.

First of all, a methodology (regulations) of internal control procedures should be developed. This methodology should provide all the aspects related to business activity, including the issues mentioned above, with all aspects related to the economic activities, amongst them above mentioned issues. Besides, it is necessary, to permanently monitor implementation of the procedures stipulated by the regulations approved by management and timely eliminate misstatements.

Here are several basic arrangements to be performed within the organization: development of job descriptions, indicating the rights and duties of each employee, determination and written formulation of the materially responsible persons in charge of permanent control and supervision of fixed assets and inventory of the organization.



2. About the Bookkeeping

All the recommendations we provided with the last year audit have been taken into consideration with respect to accounting system which led to the much easier running of the system.