
**PROJECT FINANCIAL STATEMENTS OF STATE TAX SERVICE OF THE
REPUBLIC OF MOLDOVA FOR THE “TAX ADMINISTRATION
MODERNIZATION” PROJECT**

**IDA AGREEMENT 5829-MD
IBRD AGREEMENT 8625-MD**

PROJECT FINANCIAL STATEMENTS

For the period from 01 January 2021 to 31 December 2021

**TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS
For the period from 01 January 2021 to 31 December 2021**

CONTENTS:

Independent Auditors' Report

Balance Sheet	1
Summary of Sources and Uses of Funds	2
Designated Account Statement	3
Notes to Project Financial Statements	4 - 11





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Independent Auditors' Report

To the Management of State Tax Service of the Republic of Moldova

Constantin Tanase 9 street, MD-2005, Chisinau, Republic of Moldova

Opinion

We have audited the Project Financial Statements of State Tax Service of the Republic of Moldova ("State Tax Service"), for the "Tax Administration Modernization" Project financed by International Development Association ("IDA") and International Bank for Reconstruction and Development ("IBRD") in accordance with Agreement 5829-MD and Agreement 8625-MD, respectively ("the Project"), which comprise the Balance sheet as at 31 December 2021, the Summary of Sources and Uses of Funds and the Designated Account Statement for the period from 1 January 2021 to 31 December 2021 and notes, comprising significant accounting policies and other explanatory information (together referred to as "the Project Financial Statements").

In our opinion, the accompanying Project Financial Statements are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the Project Financial Statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Project Financial Statements* section of our report. We are independent of the Project in accordance with *International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the Project Financial Statements in Republic of Moldova and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter - Basis of Accounting and Restriction on Use

We draw attention to Note 2 to the Project Financial Statements, which describes the basis of accounting. The Project Financial Statements are prepared solely for the purpose of complying with the terms of the IDA 5829-MD and IBRD 8625-MD financing agreements signed between the State Tax Service of the Republic of Moldova and IDA and IBRD respectively on 28 June 2016. As a result, the Project Financial Statements may not be suitable for another purpose.

Our report is intended solely for the Management of the State Tax Service of the Republic of Moldova. Our report should not be used by other parties other than the Management of the State Tax Service of the Republic of Moldova. Other parties that choose to use or rely on this report will do so at their own risk and discretion. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those charged with Governance for the Project Financial Statements

Management is responsible for the preparation of the Project Financial Statements in accordance with the basis of accounting described in Note 2 to the Project Financial Statements, for the acceptability of the basis of accounting, and for such internal control as management determines is necessary to enable the preparation of Project Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Project Financial Statements, management is responsible for assessing the relevance of going concern basis of accounting, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditors' Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the Project Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Project Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Project Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Tax Service's internal control over the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude as applicable, on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Project Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Moldova SRL

KPMG Moldova S.R.L.

Chisinau, Republic of Moldova

21 July 2022

**TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS**

For the period from 01 January 2021 to 31 December 2021

1 Balance Sheet

	Period ended 31 December 2021
	USD
ASSETS	
Cash and cash equivalents	
Cash under IBRD 8625-MD	-
Cash under IDA 5829-MD	85
	85
Undisbursed funds	
IBRD 8625-MD Undisbursed balance	747,054
IDA 5829-MD Undisbursed balance	1,801,804
TOTAL UNDISBURSED FUNDS	2,548,858
TOTAL CASH AND CASH EQUIVALENTS	2,548,943
Cumulative project expenditures	
IBRD 8625-MD - Project Expenses	12,488,959
IDA 5829-MD - Project Expenses	5,646,439
TOTAL CUMULATIVE PROJECT EXPENSES for the period 25 Jan 2017 – 31 Dec 2021	18,135,398
TOTAL ASSETS	20,684,341
Source of funds (Funding)	
IBRD 8625-MD	12,580,000
IDA 5829-MD	7,420,000
Translation exchange difference EUR/USD (for IBRD 8625-MD)	656,013
Translation exchange difference XDR/USD (for IDA 5829-MD)	28,328
TOTAL FUNDING	20,684,341
TOTAL FUNDS AND LIABILITIES	20,684,341

The financial statements and accompanying notes on pages 4-60 of the Project Financial Statements were signed and approved on behalf of the Project's management on 21 July 2022 by:

Ms. Rozalina Albu
Director

Ms. Svetlana Rodideal
Interim Deputy Head of Economic and Finance Division



TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS
For the period from 01 January 2021 to 31 December 2021

2 Summary of Sources and Uses of Funds

	Period ended 31 December 2021
	USD
OPENING CASH BALANCES	
IDA 5829-MD Designated Account	2,791
IBRD 8625-MD Designated Account	-
Own funds	-
TOTAL OPENING CASH BALANCES	2,791
FINANCING	
IDA 5829-MD	
Designated account	125,500
Direct payments	-
Reimbursement against Disbursement Linked Indicators	3,586,521
IBRD 8625-MD	
Designated account	-
Direct payments	-
Reimbursement against Disbursement Linked Indicators	12,488,959
Total Financing	16,200,980
EXPENDITURES	
Goods, Non-consulting services, consulting services, training & incremental operating costs	128,206
Eligible expenditures under Disbursement Linked Indicators IDA 58290	3,586,521
Eligible expenditures under Disbursement Linked Indicators IBRD 86250	12,488,959
Total Expenditures	16,203,686
CLOSING CASH BALANCES	
IDA 5829-MD Designated Account	85
IBRD 8625-MD Designated Account	-
Own funds	-
TOTAL CLOSING CASH BALANCES	85

The financial statements and accompanying notes on pages 4 to 11 were signed and approved on behalf of the Project's management on 21 July 2022 by:

Ms. Rozalina Albu
 Director





Ms. Svetlana Rodideal
 Interim Deputy Head of Economic and Finance Division



TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS
For the period from 01 January 2021 to 31 December 2021

3 Designated Account Statement

	Period ended 31 December 2021
	USD
Opening balance, 01 January 2020	2,791
Add:	
Sources of funds – IDA 5829-MD	125,500
Sources of funds – IBRD 8625-MD	-
Less:	
Uses of funds	128,206
Exchange Rate Differences	-
Closing balance, 31 December 2020	85

The financial statements and accompanying notes on pages 4 to 11 were signed and approved on behalf of the Project's management on 21 July 2022 by:

Ms. Rozalina Albu
 Director

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Ms. Svetlana Rodideal
 Interim Deputy Head of Economic and Finance Division

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Notes to the Project Financial statements

1. GENERAL INFORMATION

The objective of the Project was to improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova. Since September 2020, the objective is to support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova.

The Project consists of the following parts:

Part 1. Tax Policy, Tax Administration Reforms, and Operational Development

Provision of financing for Eligible Expenditure Program to support the Borrower in increasing efficiency of the tax policy and tax administration, including strengthening the operational capacity of the State Tax Service of Moldova through, inter alia,

- (a) increasing nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 for the year 2021 by at least 15 percent compared to the Excise Rates from 2020;
- (b) ensuring that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle;
- (c) improving the usability of the STS website, through the launching of a single STS website which would, inter alia, (i) support to requirements of people with special needs; (ii) allow taxpayers to submit income statements electronically through their personal account created on the site; (iii) be synchronized with the state web sites through the automated information exchange (open data); (iv) have a new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; and (v) have a feedback mechanism through the online (chat) assistance service;
- (d) strengthening the capacity of STS staff to deliver taxpayer services by developing a Manual on taxpayer services and training the STS staff on its use; and
- (e) developing and carrying out of an electronic taxpayer survey tool.

Part 2. Institutional Development

Provision of support for strengthening STS performance and service delivery, including through inter alia: (a) the purchase and installation of technical hardware and software to support the functioning of the existing and future IT and communication systems, and training equipment; (b) the carrying out of training activities; and (c) the carrying out of regular taxpayer satisfaction surveys; and (d) the technical development and establishment of the new STS's website with improved usability and broadened functionality to replace the two existing web-sites.

Part 3. IT Infrastructure and System Modernization

Provision of support for the purchase and installation of tax administration modernization tools, including the provision of relevant hardware and software, and training regarding, inter alia, its functions, management reporting and document management tools.



Notes to the Project Financial statements (continued)

1. GENERAL INFORMATION (continued)

Part 4. Project Management and Change Management

- (a) Carrying out of capacity building activities supporting the Borrower's change management process to implement the activities referred to in Parts 1, 2, 3 and 5 above, including: (i) the carrying out of awareness campaigns and training activities on the implementation of said reforms; and (ii) the establishment of a private sector advisory panel for citizen engagement; and
- (b) Project implementation, monitoring and evaluation including through: (i) the carrying out of the Project audits; and (ii) the financing of Operating Costs.

Part 5. Maintaining employment and business survival in the context of COVID-19 pandemic

Provision of support for the implementation of Government programs on granting subsidies for salaries and VAT refund to mitigate the negative fiscal impact of the COVID-19 pandemic. This Component has two Performance Based Conditions:

- (a) support sustaining business operations and employments levels in the context of COVID-19;
- (b) support establishing the relevant legal frameworks to efficiently and effectively implement the tax relief programs, introducing a public awareness campaign to ensure adequate information dissemination as well as optimum access by eligible beneficiaries, operationalizing grievance mechanisms and ensuring transparent reporting on the implementation of the programs.

Pursuant to the amendments signed to the Financing Agreements in September 2020, the Project was restructured into 5 major parts, as a result of including Part 5. The new structure of the Project consists of the following parts:

- Part 1. Support Tax Policy, Tax Administration Reforms and Operational Development
- Part 2. Institutional Development
- Part 3. IT Infrastructure and System Modernization
- Part 4. Project Management and Change Management
- Part 5. Maintaining employment and business survival in the context of Covid-19 pandemic

PROJECT FUNDING

IDA 5829-MD and IBRD 8625-MD financing agreements

The IDA 5829-MD and IBRD 8625-MD were signed between the Republic of Moldova and International Development Association and the International Bank for Reconstruction and Development on June 28th 2016, in amount of SDR 5,300,000 (equivalent of USD 7,420,000 at the historical exchange rate of 1.4 SDR for 1 USD) and USD 12,580,000, respectively. The financing agreements were signed in order to achieve the objective of the Project: to strengthen State Tax Service capacity through increased efficiency and effectiveness.



Notes to the Project Financial statements (continued)

2. BASIS OF ACCOUNTING

These Project Financial Statements are prepared solely for the purpose of complying with the terms of the IDA 5829-MD and IBRD 8625-MD Financing Agreements, signed between the Government of Republic of Moldova and the International Development Association (“IDA”) and the International Bank for Reconstruction and Development (“IBRD”) respectively, on 28 June 2016. As a result, Project Financial Statements may not be suitable for another purpose.

The Project Financial Statements have been prepared in accordance with the basis of preparation and significant accounting policies described below.

(a) Basis of preparation

The Project Financial Statements have been prepared in accordance with the accounting policies listed below.

The amounts are expressed in USD and are prepared for the period from January 01st 2021 to December 31th 2021.

(b) Functional and presentation currency

The Project’s functional and presentation currency is the United States Dollars (USD).

The transactions performed in other currencies are converted and reported in USD using the official exchange rate of National Bank of Moldova on the date of payment. Total funding has been accounted at the historical rate at the approval of the Project Financing.

The Undisbursed balance under the Credit IDA 5829-MD in the Financial Statement is calculated using the USD/SDR rate at the period end. The exchange rate of USD/SDR as at 31 December 2021 is 1.3996.

The Undisbursed balance under the Credit IBRD 8625-MD in the Financial Statement is calculated using the USD/EUR rate at the period end. The exchange rate of USD/EUR as at 31 December 2021 is 1.1319.

(c) Foreign currency difference

The foreign currency difference is determined as the difference between undisbursed balance of IDA-Loan available in SDR or IBRD-Loan available in EUR and translated in USD at the reporting exchange rate, total cumulative Project expenditures in USD (accounted in USD at the date of the transactions) and Total funding presented in USD at the historical rate (date when the Project has been approved).

(d) Designated Account (DA)

The Designated Account (“DA”), opened by the State Treasury at the National Bank of Moldova, is the account through which funds are received. Also, all payments for eligible expenses are made from this DA and if the payment is in local currency it is made through transitory account.

(e) Transitory accounts

The transitory accounts are held at State Treasury for the converted amount in MDL, since the payments within the country can be done only in the local currency (MDL). The conversion is made using the exchange rate of USD vs MDL published by the National Bank of Moldova at the date of payment.



Notes to the Project Financial statements (continued)

2. BASIS OF ACCOUNTING (continued)

(f) Sources of funds (Funding)

The sources of funds (funding) are the amounts committed by the International Development Association and International Bank for Reconstruction and Development according to the financing agreements.

(g) Project expenditure (Uses of funds)

The uses of funds are the amounts spent for covering eligible expenditures for the needs of the Project and funds disbursed transferred to the Ministry of Finance for the achievement of Disbursement Linked Indicators, as defined by the loan agreement.

These are recognized on a cash basis method.

(h) Undisbursed funds

Represents the balance of funds which are not yet drawn from the Sources of funds.

(i) Cash and cash equivalents

Total cash and cash equivalents comprises: cash and cash equivalents in banks drawn from the Sources of funds and which are not yet used for project expenditure.



**TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS**
For the period from 01 January 2021 to 31 December 2021

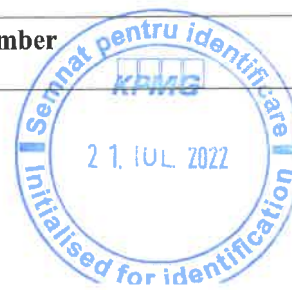
Notes to the Project Financial statements (continued)

3. WITHDRAWAL SCHEDULE

	Application amount	Amount disbursed	USD
	SDR	USD	
IDA 5829-MD			
Application No. 24	1,305,941	1,871,740	
Application No. 26	265,185	377,475	
Application No. 27	Disbursement	28,743	41,200
Application No. 29	Disbursement	1,761	2,500
Application No. 30	Disbursement	11,781	16,700
Application No. 31		440,000	621,082
Application No. 33	Disbursement	46,565	65,100
Application No. 34		512,750	716,224
Total disbursed during January 01st 2021 – December 31st 2021 period			(3,712,021)
Prior period disbursements			(1,934,503)
Total cumulative disbursed as at December 31st 2021			(5,646,524)
IBRD 8625-MD			
Application No. 001	8,264,871	9,907,927	
Application No. 002	2,174,966	2,581,032	
Total disbursed during January 01st 2021 – December 31st 2021 period			(12,488,959)
Prior period disbursements			-
Total cumulative disbursed as at December 31st 2021			(12,488,959)

SUMMARY OF EXPENSES (SOE) SCHEDULE

<i>World Bank Number of the SOE</i>	Period January 01 st 2021 - December 31 st 2021
IDA 5829-MD	USD
SOE reported to WB for the period January 1, 2021 to May 31, 2021	41,611
SOE reported to WB for the period June 1, 2021 to October 31, 2021	16,643
SOE reported to WB for the period November 1, 2021 to December 31, 2021	69,952
Uses of funds during 2021 – specific project costs	128,206
Funds used in the prior periods – specific project costs	1,133,266
Cumulative uses of funds – specific project costs as at December 31st 2021	1,261,472



TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS

For the period from 01 January 2021 to 31 December 2021

Notes to the Project Financial statements (continued)

4. SUMMARY OF ELIGIBLE EXPENDITURES UNDER DLI

<i>World Bank Summary of eligible expenditures under Disbursement Linked indicators Ministry of Finance and State Tax Service</i>	Period January 01 st 2021 - December 31 st 2021
	USD
IDA 5829-MD	
Funds disbursed to Ministry of Finance (recurring costs of MF and STS)	3,586,521
IBRD 8625-MD	
Funds disbursed to Ministry of Finance (recurring costs of MF and STS)	12,488,959
Uses of funds during 2021 - Eligible expenditures under Disbursement Linked Indicators	16,075,480
Funds used in the prior periods - Eligible expenditures under Disbursement Linked Indicators	798,446
Cumulative uses of funds Eligible expenditures under Disbursement Linked Indicators as at December 31st 2021	16,873,926

5. EXPENDITURE DETAIL BY PROJECT ACTIVITY

	Period January 25 th 2017 - December 31 st 2020 USD	Period January 01 st 2021 - December 31 st 2021 USD	Cumulative as at December 31 st 2021 USD
Part 1: Tax Policy, Tax Administration Reforms and Operational Development	798,446	1,509,135	2,307,581
Part 2: Institutional development	464,949	58,254	523,203
Part 3: IT infrastructure and System Modernization	625,656	69,952	695,608
Part 4: Project Management and Change Management	42,661	-	42,661
Part 5: Maintaining employment and business survival in the context of COVID-19 pandemic	-	14,566,345	14,566,345
Total expenditures by project activity	1,931,712	16,203,686	18,135,398



**TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS
For the period from 01 January 2021 to 31 December 2021**

Notes to the Project Financial statements (continued)

6. SUBSEQUENT EVENTS

During the period December 31st 2021 and until the date these Project Financial Statements have been authorised for issue, the following disbursements have been made:

		Application amount	Amount disbursed	
		SDR	USD	USD
IDA 5829-MD				
Application No. 35		440,000	615,639	
Application No. 36	Disbursement	27,453	38,500	
Application No. 38	Refund	(28,754)	(38,500)	
Total disbursed during January 01st 2022 – July 21st 2022 period				615,639

		Application amount	Amount disbursed	
		EUR	USD	USD
IBRD 8625-MD				
Application No. 003	Disbursement	35,100	38,505	
Total disbursed during January 01st 2022 – July 21st 2022 period				38,505

Some major disbursements were performed during the period December 31st 2021 and until the date these Project Financial Statements have been authorised for issue:

SUMMARY OF ELIGIBLE EXPENDITURES UNDER DLI

<i>World Bank Summary of eligible expenditures under Disbursement Linked indicators Ministry of Finance and State Tax Service:</i>	Period January 01st 2022 - 21st July 2022
	USD
IDA 5829-MD	
Funds disbursed to Ministry of Finance on 3 rd February 2022	615,639
Uses of funds during 2022 - Eligible expenditures under Disbursement Linked Indicators	615,639
Funds used in the prior periods - Eligible expenditures under Disbursement Linked Indicators	16,873,926
Cumulative uses of funds Eligible expenditures under Disbursement Linked Indicators as at Project Financial Statements Date	17,489,565



Notes to the Project Financial statements (continued)

6. SUBSEQUENT EVENTS (continued)

On December 23, 2021, TAMP reported and provided evidence of attainment of Performance-Based Conditions (PBC) 5.1, „*Pilot of the electronic taxpayer survey mechanism is completed and training courses for the designated staff to support the roll-out are conducted, and the roll-out is initiated*” in accordance with the provisions of the Section II. C to Schedule 2 of the Financing Agreement No.5829-MD, between the Republic of Moldova and the International Development Association. On January 21, 2022, TAMP received the approval that World Bank accepted the evidence furnished in fulfillment of the withdrawal conditions for PBC 5.1, and the corresponding amount of XDR 440,000 is available for withdrawal. The Credit amount of USD 615,639.20 for PBC 5.1 was disbursed on February 3,2022.

Total audit and agreed upon procedures fees of equivalent of USD 39,500 will be paid subsequent to the approval of the Project Financial Statements and are not included in the above listed expenditures.

