

SUMMARY

Annual Report 2020 on the administration and use of public financial resources and public assets

The purpose of the Annual Report of the Court of Accounts of the Republic of Moldova (CoARM) is to present to the Parliament, the Government, the audited entities and the society the main systemic problems and findings, formulated in the context of the external public audit activity. The annual report contains the analysis and generalization of information on the formation, administration and use of financial resources and public assets, related to the annual audit cycle (16 September 2020 - 15 September 2021).

During the reporting period, the CoARM approved the results of 75 audits, including 30 financial, 38 compliance, 5 performance, and 2 follow-up audits. The financial audit included the formation and use of the resources of the state budget (BS), the state social insurance budget (BASS), the compulsory health insurance funds (FAOAM), as well as the consolidated financial statements of the 9 ministries, as well as other central and local entities.

We paid special attention to several important areas, including public procurement, privatization of public assets, state of assets in the country and abroad, pandemic crisis management, as well as an analysis of the impact of audit activity.

Public finance management

Weaknesses of the execution of BS, BASS, FAOAM and ATUs budgets

The Court of Accounts issued unqualified opinions on the execution of BS and FAOAM, as well as a qualified opinion on the execution of BASS in the 2020 budget year. We mention that, for the budget year 2019, unqualified opinion was issued only in the case of BS execution, and qualified opinions - in the case of BASS and FAOAM execution.

The main audit findings address the following issues:

- the budgetary timetable for the elaboration and approval of the BS for 2020 was not respected, at the same time the CBTM was not approved;
- the Ministry of Finance does not have information about all arrears in the integral structure of the types of revenues and of the administrators of these payments, in the absence of the obligation of those responsible for accumulating different types of revenues to report the calculations and arrears to them;
- the execution of investment expenditures remains at a low level of capitalization (about 37%);
- the balance of non-capitalized funds for personnel expenses by CPA amounted to 93.0 million lei, and the balance of unfunded allowances from “General Actions” amounted to 214.2 million lei;
- the general purpose transfers from BS to BASS were up 28.5% compared to the previous year;
- the existing revenue reporting rules do not provide an overview of the calculation and payment of receivables and payables in the case of BASS and FAOAM execution;
- incomplete calculation and presentation of the value of debts of 111.8 million lei to the beneficiaries of social benefits in the Reports on the execution of BASS, one of the causes being the non-inclusion in the accounting of the debt associated with the suspended payments of benefits - approx. 84.6 million lei (in case the beneficiaries have not taken their benefit consecutively for 3 or 6 months);
- the actual expenses of the social benefits of 23,896.5 million lei were underestimated with the amount of the suspended benefits and do not represent their full value.

Regarding the execution of the budgets of territorial-administrative units, we reiterate the existence of the systemic problem related to special purpose transfers from BS to local budgets, namely, the

formation of balances at the end of the management year and their use, mainly contrary to destination. (*see the Annual Report 2020, pages 7-13*)

Improvements needed in the quality of the ministries' accounting and financial reporting

The CoARM's opinion on the quality of accounting and financial reporting, during the last 3 years, has not changed, although most entities have made some progress in public financial management, related to the patrimonial field and accounting.

Thus, auditing the consolidated reports of 9 ministries for 2020, the Court of Accounts expressed an unqualified opinion (positive) and 8 qualified opinions (7 qualified and an adverse opinion), the situation remaining unchanged compared to 2019. The qualified opinions were determined, primarily, by the non-implementation of key recommendations aimed at addressing the shortcomings in the basis for the modified opinion provided in the previous management year.

The main irregularities concerned the following:

- non-compliance with the accounting records of the lands with a total surface of 1372.26 ha, in total value of 1011.99 million and buildings in value of 246.56 million lei (ministries - MJ, MSMPS, MADRM, MAI, MECC);
- erroneous evaluation of the assets transferred in the form of participation in the share capital of the entities in which the ministries have the founding state, amounting to 4199.97 million lei (MADRM, MA, MECC);
- non-evaluation and non-accounting of 87 buildings, the audit being limited in obtaining sufficient audit evidence to assess the impact (MADRM);
- the distortion by 207.35 million lei of the financial results from the previous years, caused by the erroneous reflection of some expenses for capital investments as current expenses (MEI);
- erroneous registration of economic operations amounting to 73.82 million lei (MJ, MADRM);
- erroneous classification of some groups of expenses in the amount of 141.46 million lei (MEI, MFAEI, MECC);
- overvaluation of receivables amounting to 11.74 million lei, caused by non-receipt of a technical project (MEI);
- undervaluation of non-financial assets amounting to 180.01 million lei (MEI, MECC), etc.

Among the causes of the deficiencies found, we can list: the lack and low qualification of the staff within the public entities involved in the financial-accounting process; chronic insufficiency of financial resources and time for the completion of procedures for registration and delimitation of public property; gaps in the normative-methodological financial reporting framework applicable to the public sector, including related to the record of confiscated goods, stocks of current materials, other expenses based on contracts with individuals, business trips, rental services, etc.

We draw attention to the implementation of the Government reform, as a result of which the 9 ministries were reorganized into 13, in these conditions it is necessary the optimal distribution of responsibilities and staff, as well as the efficient organization of operational and functional activity of entities. (*see the Annual Report 2020, pages 13-17*)

Public assets management

Systemic problems in the administration of the country's assets

In 2020, the annual balance of public assets increased, compared to the previous period, by 23.3 billion lei, due to actions to improve the legal framework, inventory and registration of property rights, including following the implementation of audit recommendations.

According to the findings of the CoARM, the non-delimitation of the public assets, the failure to ensure the reality and accuracy of the data from the financial statements, the evasion of the public authorities from exercising the functions of owner of the public patrimony, the non-observance of the patrimonial interests of the localities favors the inefficient management of assets, both by the CPA and by the LPA.

We draw attention to the systemic problem of non-delimitation of public assets in the public and private domain, as well as the lack of relevant methodology, which seriously affects the process of management and reporting of public assets. (*see the Annual Report 2020, pages 18-21*)

Alarming situation regarding the management of the assets outside the country

In the annual audits on the financial statements of the ministries, the CoARM included a separate objective on assessing the state of the state assets, located abroad. As a result, we found an alarming situation regarding the management by state institutions of public property, located outside the Republic of Moldova (Ukraine, Russian Federation). Responsible authorities do not ensure the management of assets in accordance with the principles of legality and efficiency and do not have accurate and up-to-date information on the status and total value of assets under management abroad.

The most important irregularities, in context, refer to the inefficient management, materialized in the deplorable condition of the buildings and the uncertain situation regarding the property right over the buildings, some being abusively occupied or being in litigation. The extent of the process of ruining public property outside the country is demonstrated by unauthorized demolition and loss of assets, as well as by many other examples of inefficient administration and non-compliant records. (*see the Annual Report 2020, pages 21-23*)

Denationalization of public property and privatization

Assessing the conformity of the privatization of public patrimony in 2013-2019, we found that, mainly, public assets and objectives were privatized under a non-strategic and defective management, affected by non-conformities, fraud risks, assisted by an inconsistent regulatory framework.

The main problems, which concern the field of denationalization of public property, refer to the fact that the management of this field was carried out without a strategic vision correlated with the strategic documents related to other areas of the national economy.

The audit verifications attest that, only the gaps and the irregularities, at which it was possible to quantify the value impact, deprived the budget of additional revenues amounting to 371.2 million lei, which constitutes 27.1% of the value of the alienated patrimony during years 2013-2019 and being subject to audit verifications (1366.5 million lei).

One of the most vulnerable stages of privatization is the evaluation of the state assets in order to determine the market price, in this respect being found reasonable suspicions of fraud, as well as other deficiencies related to the evaluation of privatized goods.

In order to ensure the improvement of the process of administration and denationalization of public property, following the recommendations of the Court of Accounts were:

- Operated the amendments to Law no. 121 of 2017 on the administration and denationalization of public property related to the privatization of uninhabitable rooms leased; they will ensure the privatization of uninhabitable rooms leased in accordance with the general provisions, thus ensuring compliance with the principle of transparency in the administration of public property and the principle of equal rights of citizens;
- Elaborated a set of amendments to the legal framework that refers to determine the sale mode of free construction land, as well as establish the need to calculate the market price of state-owned land under the management of state-owned enterprises subject to privatization, but also on the mode of corporate administration of state-owned enterprises, etc. (*see the Annual Report 2020, pages 24-29*)

State participation in the corporate sector

The CoA's findings and the audit experience of previous years in terms of public property management performance show that the state is not the most efficient "economic agent" and the best asset manager, and the overall management system of state-owned entities requires a change and rethinking.

The consequences of the poor governance identified in the enterprises were manifested by their low performance, loss generation, lack of uniformity, and the management of funds was carried out at a low level, which jeopardizes the achievement of objectives and investments to be made.

The inadequate implementation within the state enterprises of the corporate governance principles conditioned: non-development of objective-oriented management systems, inefficiency of financial control, as well as non-establishment of managerial control over the risks that may affect the achievement of objectives.

Failure to properly perform the duties of the boards of directors does not contribute to ensuring the integrity, efficiency and performance of state-owned enterprises.

Public procurement

Systemic irregularities

Public procurement is a very important field in the management of state finances, their value in 2020 amounting to 9.04 billion lei (12,416 contracts), the share in GDP being about 4.4%. Irregularity of procurement procedures involves major costs for the public budget.

The audit experience of previous years has elucidated the lack of transparency in this area, the imperfection of electronic means, as well as a low degree of professionalism on the part of the actors involved. For these reasons, the Audit Programs of the Court of Accounts for the years 2020 and 2021 included 9 audits on the compliance of public procurement within ministries.

The main deficiencies found are attributed to the planning stage, this fact being generated by unjustifiably small importance, given to this stage of public procurement by the contracting authority, not taking into account its impact on the final results.

Irregularities related to the stage of performing the public procurement contract are largely caused by the lack or insufficiency of control by the contracting authorities over the fulfillment and completion of the procurement contract, but also by the improper execution of contractual provisions by contracted economic agents.

The issue of low value purchases

An important issue, on which we draw attention, is low value purchases. Thus, in 2020, public procurements amounting to 9.04 billion lei were made, while the value of procurements made in the same period, in the absence of procurement procedures, reached a measurable figure of 9.01 billion lei. .

The framework for low value procurement contains only general requirements, namely the efficient use of financial resources, transparency, objectivity and impartiality of the procurement process. These requirements cannot be used as compliance criteria and also do not allow deviations and infringements to be found, so the risk of contracting authorities acting at their discretion persists.

The situation in question is all the more alarming, as in 2020 the thresholds for low value purchases have increased, and the number of such purchases has increased and the responsible authorities have the obligation to monitor the compliance of public procurement procedures, with except for small value purchases. This creates a vacuum for regulating and monitoring low value purchases as a whole.

Fragmentary implementation of electronic public procurement

Another significant aspect that influences the public procurement system as a whole is the imperfection of the automated information system "State Register of Public Procurement" (SIA "RSAP" / MTender). The system does not ensure full functionality at all stages of the procurement process, it also attests that the information in the System does not correlate with the provisions of the Public Procurement Law. There is a need for the Ministry of Finance to ensure the full functioning and continuous development of the SIA "RSAP" / MTender, including by adjusting the legal and regulatory framework to the functionalities of the system.

In order to allow a full implementation of electronic public procurement in the Republic of Moldova, it is necessary to develop electronic tools that will support the entire life cycle of public procurement, effectively ensuring market analysis, monitoring, verification and audit of public procurement.

Crisis management caused by the COVID-19 pandemic

In the context of the pandemic crisis, caused by COVID infection, the CoA conducted two thematic audits, which highlighted problems, non-conformities and difficulties faced by public entities, in the context of public system management and combating the effects of the pandemic.

The budgetary system in 2020 was influenced by the effects of the pandemic, which led to the urgent and significant revision of the main indicators of the BS, BASS, FAOAM components as well as local budgets. Existing spending programs have been revised and decisions have been approved to reduce the negative effects on the economy, the health system and the social sphere.

The basic factors that determined the changes to BS for 2020 were: the adjustment of the amounts of grants and loans for budget support and projects financed from external sources; reviewing and prioritizing spending programs, without affecting priority spending, including new programs; compensation of missed revenues by local budgets (192.1 million lei), BASS (682.3 million lei) and FAOAM (410.6 million lei) with maintaining the level of FAOAM expenditures, despite the failure of revenues by them .

Specific measures have been established for the social and medical sectors, which aimed to provide citizens with a range of services, in particular related to the provision of free medical care for patients infected with Covid-19, the purchase of medicines and personal protective equipment, support for people who, during the state of emergency, lost their job, providing financial support for disadvantaged families, distributing pensions, state social benefits and other social benefits, etc. at home.

According to the audit findings, the conduct of public procurement in the field was affected by the non-transparent management of public financial resources, which indicates the need to intensify internal control processes at different stages of procurement with the responsibility of all parties involved.

Use of external financing

The Republic of Moldova began to receive external development assistance immediately after independence, either in the form of a grant or in the form of a loan, from the main development partners and external donors: the European Union, the World Bank, the United States of America, European Investment Bank, etc. To date, the country has benefited from external financial assistance totaling around EUR 5.4 billion.

Most of the donor money is invested in road rehabilitation, construction of social centers, gas and aqueducts, repair of kindergartens and schools, construction or repair of medical centers, support of local authorities, development of rural businesses, rehabilitation of irrigation systems and in granting financing in the agricultural field.

The administrative capacity to absorb external funds is important in the general process of economic and social development of the country. We draw attention to the low level of

capitalization of allocated financial resources, which ultimately has a negative impact on the state budget. The situation was mainly caused by:

- non-fulfillment in time of the disbursement preconditions provided in the loan / grant agreements;
- restructuring projects or modifying their components;
- delaying the procedures for implementing the activities within the projects, caused by the long process of carrying out the acquisitions of goods and services;
- non-disbursement of contracted financial means, persisting the risk of incurring additional expenses, as a result of the application of commissions;
- modest project management capabilities in some sectors;
- slow execution of works by local contractors, etc.

Fight against fraud and corruption

During the reporting period, following the assessment of the risks of fraud and error in the process of managing finances and public assets, the CoA submitted to the law enforcement bodies the materials of 8 audit missions, on which a criminal case was initiated, ordered a refusal to initiate criminal proceedings, and 6 audit reports are under examination.

The cases identified with the presence of fraud indicators referred, in particular, to violations related to:

- management of public financial resources and public patrimony by the State Enterprise "Moldovan Railway" in 2018-2019;
- the management of the public patrimony within the administrative-territorial unit of Băcioi commune;
- the process of sale-purchase of the lands in the private domain of the state related to the real estate privately owned for the years 2013-2019;
- the process of managing the financial resources of the Civil Aviation Authority;
- the salary process in 2019 in some pre-university education institutions subordinated to the LPA, etc.

In order to ensure the finality of the cases started, during that period the Court of Accounts participated, as a party, in legal proceedings. Thus, the interests of the CoA were represented in the courts in 4 cases, 2 of which are finalized with a win, the decisions of the courts being final and irrevocable. The other 2 cases are being examined in court for pronouncing the decision.

Implementing a zero-tolerance policy on fraud and corruption within the entity and establishing an appropriate control system can facilitate the prevention and detection of acts of fraud, as well as the correction of their impact, should they occur.

CCRM collaboration with the Parliament

During the reported period, the Court of Accounts submitted 75 audit reports to the Public Finance Control Commission (CCFP), during which 31 reports were examined during the CCFP meetings, with the participation of both the CoA auditors and the audited entities. Following the hearings, the CCFP issued reports that included decisions on the conditions and deadlines for reporting on the actions taken to implement the CoA's recommendations.

During the reporting period, the profile of the Commission focused on examining the financial reports of the ministries, the audits carried out within the SO and SA with the state quota, as well as the results of thematic audits on priority areas for society, such as the implementation of national projects and programs. agriculture and social protection, including funded by external partners, environmental audits, IT systems, etc.

An innovative and useful experience was the presentation to CCFP of a general synthesis of the results of the CoA's audit activity on some areas of major importance for the company, which aim to aggregate the main findings and situations identified in the thematic audit reports.

Emphasis was also placed on the impact of the audit activity, during the CCFP hearings the results of the implementation of the CoA recommendations were examined, in order to make the audited entities accountable and to increase the level of implementation of the recommendations.

We mention that, during 2021, the reports of the CoA were also examined in the specialized parliamentary committees, in accordance with the assigned areas of competence.

Impact of audit activity

Improvements in the implementation of the recommendations

The analysis of the degree of implementation of the audit recommendations from the previous years shows an increase of the quality of the financial management within several entities, as well as the efficiency of the financial-accounting management, with effect on the correct presentation of the managed patrimony situation. We found a significant improvement in the quality of the accounting and financial reporting process within the ministries, due to the annual accomplishment of the mandatory financial audit missions. Following the audit recommendations, concrete steps have been taken to adjust the legal and regulatory framework governing the activity of the audited entities and the public sector.

The Court of Accounts analyzed the implementation of the recommendations submitted in the audit missions that were included in the 2019 Annual Report on the administration and use of public financial resources and public assets. Thus, through the 49 reports approved between September 16, 2019 - September 15, 2020, 1344 recommendations were submitted, and in the audit cycle September 16, 2020 - September 15, 2021, within the 75 audit missions were submitted about 1350 recommendations.

Through the recommendations made and the measures ordered, the CoA has consistently and continuously aimed at promoting a culture of management quality and improving the economic and financial performance of entities. We mention that, lately, the audited entities have properly addressed the problems found, as a result, during 2019-2020, during the audit missions carried out, it was possible to:

- the registration in the accounting records of the lands in the amount of about 410.4 million lei;
- real estate accounting in the amount of about 262.8 million lei;
- the correction in the accounting records of the ministries in the total amount of 52.6 million lei, as well as the correction in the accounting records of other audited entities in the amount of over 94.4 million lei;
- evaluation and accounting of buildings and land in a total amount of 218.8 million lei.

Promoting adjustments to the legal framework

CCRM has successfully promoted a series of adjustments to the legal framework, which were approved at the beginning of 2021 by Law no. 10 of 12.02.2021 for the amendment of some normative acts. The normative changes will contribute to increasing the impact of the external public audit by filling the existing legislative gap regarding the assurance of the measures and recommendations formulated by the auditors and, at the same time, to eliminate the normative deficiencies and inconsistencies to overcome the problems the activity of the CoA, increasing the impact of audit reports and simplifying the procedure for notifying the criminal investigation bodies.

Consequently, the real materialization of improving public financial management, strengthening the administrative mechanism and managerial accountability for the optimal and efficient management of public financial resources and public patrimony will favor the efficient use of public money in the interest of general welfare and raise the quality of life of citizens. standards of good governance.