

THE SUMMARY

Court of Accounts - the Annual Report on the administration and use of public financial resources and public assets

The Court of Accounts is the only public authority vested with the right to test, evaluate and report on how state institutions manage public funds. Through its work, the Court of Accounts contributes to the sound management of public finances and provides recommendations to audited entities in order to improve the management of state resources.

The 2019 Annual Report analyzes and generalizes the results of the audit work of the Court of Accounts on the administration and use of financial resources and public assets mostly for the financial year 2019, in accordance with the Audit Activity Programs related to the annual audit cycle (September 2019 - September 2020).

The purpose of this Report is to present to the Parliament, the public authorities and the society the main systemic issues, findings and conclusions, formulated in the context of the external public audit activity.

During the reporting period we conducted 20 audits of the financial reports / financial statements (including the state budget, the state social insurance budget, the compulsory health insurance funds and 9 consolidated ministerial statements). We also completed 17 compliance and 8 performance audits which focused on privatization, public procurement, management of public finances and property by state-owned enterprises, transfers from the state budget to local budgets and functionality and performance of the financial management IT systems. Finally, we conducted 4 follow-up audits during this period.

Deficiencies in the public finance management

An efficient and transparent public finance management system focuses on sound budgeting, execution and reporting process, accurate accounting, trustful internal control and audit system, integrated information system for the management of public finances.

Execution of BS, BASS and FAOAM

The execution of the components of the national public budget, represented in the Government reports on the execution of the state budget (BS), the state social insurance budget (BASS) and the compulsory health insurance funds (FAOAM) is the subject of the annual financial audit of the CoA.

The main audit findings in the implementation of BS, BASS and FAOAM are related to the:

- non-compliance with the budget timetable when drawing up and approving BS for 2019, which creates uncertainty and tension for both state and corporate institutions;
- lack of legal provisions on the presentation of consolidated financial statements of budgetary institutions/authorities in the Government's Report on the implementation of the BS;
- inconsistency of the methodological rules and the budgetary classification on the concept of 'expenditure on subsidies' amounting to EUR 3 894.95 million. lei, or 9.7% of the total expenditure;
- lack of interaction of the information systems of CNAS and B.S. "Posta Moldovei", which led thousands of beneficiaries to report repeatedly to the post offices to receive the benefits, with

debts amounting to more than 111.5 million lei, relating to social benefits from the BASS funds;

- it was not possible for auditors to assess the expenditures reported within the subprogram “Hospital medical assistance” amounted to 1625.0 million lei because of the lack of delimitation concerning the contracted hospital medical services contracted and paid by CNAM and those not covered by the contract;
- allocation of financial means in the amount of 76 million lei for 662 thousand prescriptions prescribed to citizens, which contain erroneous records.

The deficiencies found by the audits in this regard were caused by divergences and misinterpretations between the accounting and financial reporting framework of budget execution, insufficient regulations, calculations and justifications, as well as the lack of interaction of information systems. The aspects identified by the audits are systemic. (*see Annual Report 2019, pages 12-14*)

Limited progress in the public sector accounting and financial reporting

Improving the accounting records by providing quality financial and accounting information is an important component of the good public financial management. The lack of the necessary regulations, as well as the non-compliant application of the existing regulatory framework have a direct impact on the quality of accounting, preparation, and correct and accurate presentation of financial statements, based on which users of financial statements are to make important decisions.

After auditing consolidated reports for the 2019 year of all the 9 ministries, the Court of Accounts expressed its views on whether the financial statements presented in these reports were, in all material respects, in accordance with the applicable financial reporting framework, issuing one unqualified (unmodified, positive) opinion and 8 qualified (modified) opinions. The CoA concludes that the modified opinions issued towards the financial reports of almost all ministries is an important signal of the non-reliability of financial information.

The audit opinions were influenced by the lack implementation of some key recommendations from the previous budgetary year, which conditioned issuing of the similar opinions for 2019, being found the following deficiencies:

- non-compliant registration in the accounting records of the lands in total value of 2 860.4 million lei, as well as of the buildings in value of 5 043.6 million lei (MA, MECC, MADRM, MSMPS, MAEIE, MJ);
- overvaluation of the assets transferred in the form of capital participation in the amount of 2 074.5 million lei (MA, MJ, MFAEI, MECC);
- erroneous calculation of fixed assets wear in the total amount of 1,471.9 million lei (MJ, MFAEI, MECC);
- non-registration of patrimonial rights over public patrimony assets: 2,970.6 ha of lands and 1,180 buildings (MA, MECC, MADRM, MF, MAI), etc.

Among the causes of the deficiencies found we can identify: the lack and/or low qualification of the personnel within the public entities involved in the financial-accounting process; chronic insufficiency of financial resources and time for the completion of the procedures for registration and delimitation of public property; gaps in the normative-methodological framework of financial reporting applicable to the public sector.

At the same time, we mention that, even if the auditor's opinions on the financial statements during the last 2 years have not substantially changed, most entities have made progress on various

dimensions of public financial management, especially in matters related to assets and accounting. (see Annual Report, pages 15-18)

The benefits of the internal control and audit system have not been fully realized

We found in our audit work that most of public entities perform annual exercise of self-assessment of internal control management, but it ends only with issuing the declaration of managerial accountability. In most cases, the action plans on the remediation of nonconformities are missing.

The Court of Accounts considers that, after almost a decade of implementing the internal management control system (CIM) and the internal audit activity in the public sector, CIM and internal audit are not fully integrated in the organizational culture of public entities and there is no awareness of their benefits. Deficiencies related to CIM and stagnation of the internal audit development can have a significant impact on the transparency and accountability of public funds management according to the principles of good governance. (see Annual Report, pages 18-19)

The implementation of information technologies requires centralized efforts

The CoA has found by its audits several systemic problems and non-compliances in the implementation of the Public Finance Management Information System (SIGFP), for example:

- the lack of adequate record at national level of State Information Systems, as well as the lack of coordination, monitoring and control in the process of their development, has conditioned the "chaotic" process of computerization/automation of the public sector;
- the multiple gaps in ICT regulatory rules and procedures, as well as the development of information systems which do not correlate with government platforms (MCloud, MConnect, MPass, MSign, etc.), have led to incompatibility of IT solutions, difficulties in ensuring interoperability of systems, and additional costs.

It is important to support the efforts of public authorities, through the participatory involvement of both the Legislature and the Executive, at all stages (adjusting the regulatory / regulatory framework, ensuring funding, etc.), to identify optimal solutions for administration, management and development of information technologies in the public sector, in order to ensure their sustainability and continuity (see Annual Report, pages 19-20).

Shortcomings in the management of public assets

The main problems identified by the Court of Accounts regarding the management of public assets are related to the shortcomings in legal and accounting records and inefficient management. The most persisting problem is the improper valuation and non-recording of public land and buildings.

We assess that the financial impact of deviations and irregularities regarding the property statements in the financial reports of ministries is 7904.0 million lei in total.

The local public administrations have not made progress in delimitation between public and private property in accordance with the property right, although the legal provisions clearly establish that the evidence should be not only according to the form of ownership, but also to its domain and legal regime.

As regards the arrangements for the administration of public property, the CoA identified a number of shortcomings in the privatization procedures such as:

- absence of valuation of net assets at their market value, which has led to a decrease in the size of equity and the value of privatized shares;
- failure to select the appropriate way of privatization, which significantly reduced the number of participants in the privatization procedure;
- delay of the auctions due to the gaps in the regulatory framework on the procedures for the sale of the state's stake by auction on the Moldovan Stock Exchange and commercial competition.

The Court of Accounts also found that, although public-private partnerships have the potential to implement state policies in a given area, by attracting private investment, they have not in all cases been managed efficiently and have not demonstrated optimum cost-efficiency. (*see Annual Report, pages 21-23*)

Inefficient and non-transparent state participation in the corporate sector

State-owned entities have an important role in the economy, as they operate mostly in the utilities, health, different services and transport sector.

We mention that within the state-owned companies there are significant risk factors for resource leakage, which can be reduced by improving control over procurement, clarifying responsibilities between boards of directors and management, resolving conflicts of interest.

The experience of the last years regarding the performance of public property management demonstrates that the state is not the most efficient “economic agent” and the best administrator of the patrimony, and the system of administration of the state-owned entities needs to be improved. Within the state-owned entities there are significant risk factors causing loss of resources. They can be reduced by improving control over procurement, clarifying responsibilities between boards of directors and management, solving conflicts of interest.

The Court of Accounts reveals that there are problems with compliance with legal requirements for transparency and disclosure of information within the public sector. We also note that several non-governmental organizations in the Republic of Moldova are alarmed by limited access to the information about the state-owned entities and considers that increasing the transparency is the simplest and most important step in increasing the efficiency of these. The problems identified in the field of ensuring transparency and disclosure of information condition the limitation of the general public access to public data.

The Court of Accounts considers that an efficient tool for optimizing corporate governance of state in the national economy is not necessarily privatization of enterprises, but as a priority - "rethinking" the system of administration of public property, selecting managers motivated, attracting domestic and foreign investments, developing modern standards in the evaluation, transparency and monitoring of the assets under state management. (*see Annual Report, pages 24-28*)

Limited use of external financing generated by low absorption capacity

The volume of external financial contributions allocated to the Republic of Moldova either in the form of a grant or in the form of a loan amounts to over 4 billion euros since 2000. Most of the donors' finances are invested into the road infrastructure, health, agriculture, business development, etc. Moldova also benefits from assistance in carrying out structural and economic reforms.

The Court of Accounts notes successes in the use of external funding in the health and education sectors. At the same time, weaknesses are identified regarding the use of external financing in the field of agriculture and in the field of justice.

Challenge for Moldova is the ability to absorb as much as possible from funds. The absorption capacity is low due to the insufficient financial absorption capacity and low administrative capacity. The balances of money from projects financed from external sources (loans and/or grants) not used by the end of 2019 amounted to 1,150.5 million lei, being accessible for use for the same purposes in the following budget year(s). (*see Annual Report, pages 29-31*)

We contribute to the fight against fraud and corruption

The fight against fraud and corruption should be in the focus of every state institution of the RM. Therefore, the CoA closely cooperates with the law enforcement bodies (who bear the primary responsibility in this domain) to contribute to the fight against fraud and corruption. This cooperation has been improved during the last years by establishing a special Cooperation Council between the CoA and the law enforcement agencies.

During the reporting period (September 2019 - September 2020), the Court of Accounts submitted to the law enforcement agencies the materials of 18 audits with cases of suspected fraud identified. On basis of audit reports from 2015-18, law enforcement bodies had handled 23 criminal cases.

The cases identified by the auditors, with the presence of fraud indices, referred, in particular, to the violations related to procurement procedures, public-private partnerships privatization procedures, subsidies to the agricultural producers, management of financial means and public patrimony, etc.

Taking into account the high fraud and corruption risk of the public procurement procedures the audit of this domain is a priority for the Court of Accounts. Thus, the CoA launched in 2020 several compliance audits to assess public procurement procedures in all ministries, the results of which will be presented in the next Annual Report. (*see Annual Report, pages 32-34*)

We cooperate with the Parliament

The Court of Accounts' reports represent a diagnosis and expertise of the situation at the audited entities and of the whole public sector and are intended for Parliament for use in the process of drafting and approving budget laws, in order to ensure the proper and efficient management of public money.

Starting with the second semester of 2019, the CoA has established professional relations with a new standing committee of the Parliament of the Republic of Moldova, the Public Finance Control Committee (PFCC). By 1 September 2020, the Court of Accounts had submitted to the PFCC the results of 25 audits (compliance, performance and financial) and 2 mandatory annual reports: the activity report of the Court of Accounts for 2019 and the Annual Report of the audit cycle September 2018 - September 2019. The audit reports are dealt with in the public hearings of the PFCC.

The Court of Accounts regularly informs the PFCC of the actions taken and the level of implementation of the recommendations made in the audit reports. The CoA is open to take further initiatives to develop good working relations with Parliament and to increase the impact of audit work and strengthen PFCC activity. The CoA would welcome the involvement of other parliamentary committees in the process of examining the audit reports. (*see Annual Report, pages 35-36*)

We care about the impact of our work

In our reports, in addition to communicating the audit results to the stakeholders, we provide recommendations on how to remedy and improve the situation, in order to optimize resource management based on the principles of good governance. The audited entities are obliged, within the term established by the Court of Accounts, to report on the implementation of the recommendations or on the reasons why they were not implemented.

During the reporting period, 4 follow-up audits were carried out to assess the level of implementation of the recommendations of the previous audits. The situation found in the follow-up audits is worrying, as the share of partially implemented and non-implemented recommendations remains too high (77%).

Situation is better in relation to the recommendations presented in the annual financial audits of the ministries. We identified that the central public authorities made efforts to implement the audit recommendations, which resulted in a level of implementation over 55%.

These corrective measures by the audited entities lead to the proper accounting of land in the amount of about 410.4 million lei (6339.4 ha) and tangible assets amounting to about 262.8 million lei (299 real estates); proper registration of the state share in the share capital of the managed entities, amounting to about 120.8 million lei; making corrections in the accounting records in the amount of over 94.4 million lei, etc.

However, the whole impact obtained from the implementation of the recommendations formulated by the auditors of the Court of Accounts cannot always be quantified, because the recommendations also contribute to the protection of the public interest, in terms of improving the economic and social environment.

The Court of Accounts continuously directs its efforts towards strengthening the good governance and accountability of the audited entities. In this regard, in 2019 it initiated a comprehensive process of examining the legal framework governing the activity of the institution, as well as other related legislative acts, to identify deficiencies that limit the impact of external public audit. As a result, a significant package of legislative changes has been proposed.

Legislative initiatives are intended to establish the functional mechanisms of managerial accountability for good governance and to increase the impact of audit reports with real effects on the management of public financial resources and the use of public assets. The implementation of these legislative changes will contribute to the adoption of high standards of public sector financial management. (*reference: Annual Report, pages 37-40*)

Strengthening the sustainability of external public audit

The sustainability of external public audit and the increased impact of the CoA can be ensured by strengthening efforts in the following areas:

- cooperation with PFCC in handling the CoA findings and recommendations, as well as within the specialized parliamentary commissions, in order to provide them with information relevant to the decision-making process;
- improving the mechanism of accountability of the heads of the budgetary authorities / institutions for the inefficient administration of the budget and patrimony of the institution under management, as well as for the obstruction of the activity of the external public audit;
- ensuring the continuity and transparency of the activity of the Court of Accounts;
- strengthening the financial independence of the Court of Accounts.