

Summary of the Annual Report 2022

The Annual Report 2022 analyzes and generalizes the conclusions and observations of the Court of Accounts of the Republic of Moldova (CoARM) on the way of formation, administration and use of financial resources and public assets in the expired financial year, and for some entities and audit topics - and in others relevant periods, in accordance with the Audit Activity Program related to the annual audit cycle (September 2022 – September 2023).

The purpose of the Report is to present to the Parliament, the Government, the audited entities and the society the main systemic problems, findings and conclusions formulated in the context of the external public audit activity.

The objective of aligning accounting records and financial reporting to IPSAS was not achieved

The year 2022 was the last year of implementation of the Public Finance Management Development Strategy (PFM) 2013-2022. The Court of Accounts notes that, as a whole, the implementation of the Strategy has contributed to the development and improvement of the normative and methodological framework in most of the areas covered. Areas where additional efforts were needed relate to accounting, public procurement, internal managerial control and internal audit.

One of the key elements of the PFM reform - the alignment of accounting records and financial reporting from the budget sector to the International Public Sector Accounting Standards (IPSAS), has not reached the final result, and it is necessary to consolidate efforts to achieve this important objective. (*see pages 6-9, Annual Report 2022*)

The execution of mandatory health insurance funds needs improvement

For the 2022 budget year, CoARM issued unqualified audit opinions for two of the three budgets - the state budget execution (BS) and the state social insurance budget execution (BASS). However, there are some aspects that, although they did not influence the opinion, have an impact on the management and reporting of public resources.

Regarding the execution of the mandatory medical health insurance funds (FAOAM), a qualified opinion was expressed, influenced by the impossibility of identifying the services for which expenses in the amount of over 3 billion lei were incurred, because the hospital medical services executed, reported by medical institutions, cannot be delimited into those paid and those not paid by National Health Insurance Company. (*see pages 10-18, Annual Report 2022*)

The execution of the ministries' budgets has not registered progress

The situation regarding the execution of the budget by the ministries did not register progress compared to the previous year, with the Court of Accounts expressing an unqualified, 10 qualified opinions and 2 adverse opinions (Ministry of Education and Research and Ministry of Culture). The audit opinions were determined by the non-implementation of some key recommendations aimed at removing the deficiencies that were the basis of the modified opinion offered in the previous management year.

The causes of the identified deficiencies mostly remain the same from year to year: the lack and low qualification of staff from public entities involved in the financial-accounting process, the chronic insufficiency of financial resources and time to complete the registration and delimitation procedures of public property; gaps in the normative-methodological framework of financial reporting applicable to the public sector, etc. (*see pages 18-21, Annual Report 2022*)

Successes in the implementation of Internal Public Financial Control

Important progress has been made in the field of regulation and implementation of Internal Public Financial Control (CFPI), but efforts must be continued on the implementation of internal control procedures and the strengthening of internal audit capacities.

The Court of Accounts finds that, although the audited entities generally have methods and procedures to support the activities carried out, self-control and monitoring mechanisms, they often remain non-functional and do not fully ensure the correct and efficient management of public funds .

The problem of staffing public entities, including internal audit subdivisions, is becoming more and more accentuated recently. The Court of Accounts supports the measures taken by the Executive in order to regulate the size of the internal audit subdivisions. (*see pages 24-25, Annual Report 2022*)

The management of public patrimony continues to be a problematic area

The non-demarcation of public property lands into public property of the state and public property of the administrative-territorial units (UAT), as well as the public domain from the private domain remains a pressing problem in the context of public patrimony management. The lack of uniform criteria for calculating the value of real estate, methods and procedures for their assessment and reassessment do not provide uniform criteria for determining the fair value of assets.

Another major problem that endangers the integrity of state assets is the non-registration and non-accounting of real estate and land by public authorities at both the central and local levels.

The irregular inclusion of state property transferred to the management of state-owned enterprises in the process of insolvency in the debtor's mass generates the risk of losing control over state assets and failing to ensure their integrity.

The administration of budgetary resources for investments and capital repairs is not ensured according to a uniform framework of strategic planning, execution and reporting, which conditions, in many cases, the use of resources contrary to normative requirements, and the management of public funds and patrimony - in the absence of appropriate monitoring and reporting .

The Court of Accounts reiterates that the local public authorities must ensure the regulatory inventory of the assets under execution, the compliant registration of the technical-building infrastructure and the elimination of deficiencies related to the situations found by the external public audit. (*see pages 25-33, Annual Report 2022*)

State participation in the corporate sector

As in previous years, the Court of Accounts reiterates the reduced efficiency of state-owned companies, the poor quality of services provided and goods produced, high operating costs, as well as faulty management, oriented more towards the consumption of budget allocations than towards strategic development objectives and business and investment for implementation.

Thus, the reduced efficiency, together with the weak governance of state companies, generates the waste of public money and the increase of operational losses, the degradation of the state's patrimony and the loss of income and benefits from their use in business activity.

In these conditions, the very low capacity of the public entrepreneurial sector to attract financing from external sources, in order to capitalize on the assets held and to modernize the technologies used in the operational activity, is attested. (*see pages 34-36, Annual Report 2022*)

Non-conformities certified during the natural gas audit

In 2022, the Court of Accounts, at the initiative of the Parliament, carried out the audit of the compliance of expenses and capital investments at natural gas companies that were imposed public service obligations, as well as at related companies, as defined in Law no. 108/2016 regarding natural gas, including those held indirectly.

The Court of Accounts found that some activities, processes and procedures, as well as transactions, developed, created and carried out by SA Moldovagaz and the persons responsible for governance did not fully meet the compliance criteria governing this holding. *(see pages 39-42, Annual Report 2022)*

External financing absorption capacity remains at a low level

In 2022, the Republic of Moldova benefited from considerable support from external donors to mitigate the impact of the multiple crises that the Republic of Moldova faced (refugee crisis, energy crisis).

The Court of Accounts continues to attest a low level of absorption of resources for projects financed from external sources, which is largely determined by the non-fulfillment of pre-contractual conditions by the beneficiaries and the delay of related public procurement procedures. The non-disbursement of the contracted financial means increases the risk of incurring additional expenses, as a result of the application of commissions to the undisbursed resources.

We draw attention to the lack of an operational framework and an effective control regarding the monitoring of the implementation of projects financed from external sources, conditions that create premises for increased costs and non-compliance with approved deadlines. *(see pages 34-38, Annual Report 2022)*

Sensitive topics for society in the medical and social sector

The Court of Accounts pays permanent attention to health and social audits, addressing sensitive issues for society.

The CoARM found that the measures taken by the authorities responsible for reducing cancer mortality among the population of the Republic of Moldova were not effective. The situations found were determined, in particular, by the insufficiency of financial resources to carry out the actions established in the National Cancer Control Programme, the non-adjustment of the regulatory framework to the legal norms, the fluctuation or lack of human resources and the low interaction between the parties involved, etc.

During the compliance audit on the introduction to the market and the management of medicines and medical devices, non-conformities were found that require further strengthening of the medical system with the accountability of all parties involved. The observed situation was also conditioned by the fragmented intersectoral communication, the outdated normative framework and the lack of the necessary resources.

The main causes of the non-conformities certified by the Court of Accounts when auditing the special protection procedures for children at risk refer to the lack of the Register of children at risk, the lack of specialized centers for children with severe vulnerability, the lack of mechanisms for monitoring children adopted through the national adoption procedure and leave with the adoptive parents abroad, as well as insufficient transparency at the initiation of the adoption process. *(see pages 43-47, Annual Report 2022)*

Provision of state-guaranteed legal aid needs improvement

Ensuring free access to justice for every citizen is one of the basic principles of the rule of law and a mandatory condition resulting from the international documents to which the Republic of Moldova has acceded. Thus, an instrument established by the state in order to comply with this principle is the guarantee of legal assistance to persons who do not have sufficient financial means to pay for it.

The Court of Accounts notes the need to improve the normative framework, which in some places contains legislative loopholes, and in other cases admits different interpretations, a fact that creates premises for excessive requests for legal services by law enforcement bodies, as well as by other applicants. (*see pages 48-49, Annual Report 2022*)

Providing compensation and humanitarian aid to farmers

In the context of the compliance audit of the granting of compensation and humanitarian aid to farmers affected by the effects of natural disasters on the 2020 harvest, the Court of Accounts established that the regulatory framework related to natural disasters needs to be revised, and some normative and legislative acts are to be harmonized.

The Court of Accounts reveals the need to take urgent measures to review, adjust and approve in the established manner the Methodological Guidelines regarding the assessment of the degree of damage to agricultural crops as a result of natural disasters, in order to exclude in the future non-uniform approaches to the preparation of documents establishing damages. Rigorous measures are also needed to recover from the budget the financial resources granted irregularly and additionally, and the regulatory framework related to natural calamities needs to be reviewed and harmonized. (*see pages 50-51, Annual Report 2022*)

Information Technologies

The implementation of the strategies "Moldova Electronică (2005)", "Moldova Digitală 2020", the "e-Transformation" programs, other policy documents led to the creation of a solid infrastructure, with a coverage of 99% of the population with Internet access; half of public service users access services electronically, 127 out of 662 public services are accessible electronically.

The Court of Accounts draws increased attention to the correctness and reasonableness underlying investments in IT by public authorities and institutions for the automation of administrative processes, as well as for these authorities to be able to achieve performance from the use of public funds and the administration of public services. (*see pages 52-53, Annual Report 2022*)

Fraud and corruption risk assessment remains a focus

During the reporting period, as a result of the assessment of the risks of fraud and error in the process of administration of public finances and public patrimony, the Court of Accounts handed over the materials of 10 audit missions to legal bodies, on the basis of which 3 criminal cases were initiated, regarding 4 materials, a refusal was issued in the initiation of criminal cases, and the materials related to 3 audit reports are in the process of examination.

The cases identified by the auditors with the presence of fraud indicators referred to violations related to the irregular granting of fiscal and customs facilities, non-compliance with the normative framework in public procurement procedures, exceeding the duties of the service and excess of power, violation of the legal regime of conflicts of interests by persons with positions of responsibility, the non-compliant use of budgetary resources, with the admission of inefficient expenses, the non-compliant distribution of homes built for the socially vulnerable population, etc. (*see page 54, Annual Report 2022*)

Collaboration of the Court of Accounts with the Parliament

Between September 2022 and September 2023, the Public Finance Control Commission (PFCC) examined 38 reports approved by the CoARM, in public meetings with the participation of representatives of the Court of Accounts and audited entities. In order to facilitate the process of monitoring the implementation of the audit recommendations, the Court of Accounts presented to the Committee relevant information regarding the level of implementation and the actions taken by the entities in order to remedy the deficiencies found by the audit.

During the reporting period, some audit reports of the Court of Accounts were examined within the Social Protection, Health and Family Committee, as well as within the Economy, Budget and Finance Committee. During the plenary session of the Parliament on March 3, 2023, the Annual Reports of the Court of Accounts on the administration and use of public financial resources and public patrimony for the years 2020 and 2021 and the Annual Activity Reports of the CoARM for the years 2020 and 2021 were heard.

During the reporting period, by derogation from the provisions of art. 88 of Law no. 1134/1997 and of art. 32 of Law no. 260/2017, the Parliament voted for the CoARM to carry out the compliance audit of expenses and capital investments at natural gas companies that were imposed public service obligations, as well as at related companies, as defined in Law no. 10 /2016 regarding natural gas, including those held indirectly.

The results of the audit were reported towards the end of November 2022 and were presented by the Court of Accounts during the plenary session of the Parliament on 03.03.2023. Following the examination, the Parliament adopted a Decision that provides for a series of important actions to remedy the deficiencies identified by the audit of the Court of Accounts.

Another positive trend, which is maintained for the second year in a row, is the examination in the plenary session of the Parliament of the Audit Reports on the execution of the state budget, the state social insurance budget and the mandatory health insurance funds, for the completed budget exercise, simultaneously with the respective reports of the Government. (*see pages 55-56, Annual Report 2022*)