



# Annual Report 2020

on the administration and use of public financial resources  
and public patrimony

**The Court of Accounts of  
the Republic of Moldova**

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# INTRODUCTION

The Court of Accounts of the Republic of Moldova (CoARM) exercises control over the manner of formation, administration and use of public financial resources and public patrimony. The activity of the Court of Accounts is based on the principles of independence, legality, objectivity, professionalism, accountability and transparency.

The Court's mission is to (i) assess the legality, regularity, compliance, economy, efficiency, effectiveness of the management of public financial resources and public assets; (ii) promote internationally recognized standards for transparency and accountability in public finance management; (iii) ensure transparency by informing the responsible public authorities and the general public about strategic and annual plans, audit findings and recommendations.

Pursuant to its legal obligation, provided by art. 6 of the Law on the organization and functioning of the Court of Accounts of the Republic of Moldova no. 260 from 07.12.2017, the CoARM reports annually to the Parliament on the results of the audit activity.

The annual report contains the analysis and generalization of the conclusions and observations of the Court of Accounts on the formation, administration and use of financial resources and public assets, according to the Audit Programs for the annual audit cycle (**16 September 2020 - 15 September 2021** ). The purpose of the Annual Report is to present to the Parliament, the Government, the audited entities and the society the main systemic issues, findings and conclusions, formulated in the context of the external public audit activity.

**The 2020 Annual Report contains a set of innovations in terms of the issues addressed and the information presented. This report presents the assessment of the supreme audit institution on public procurement by CPA, the state of assets inside and outside the Republic of Moldova, the pandemic crisis management, including a qualitative and quantitative analysis of the impact of audit activity and the degree of compliance of audited entities the Court's recommendations.**

As a result of the performed audit missions, the Court of Accounts identified and found multiple problems, irregularities and systemic dysfunctions. The most important findings and issues that require the attention of the stakeholders have been grouped and detailed in the following subchapters:

- public finance management;
- public patrimony management;
- public procurement;
- measures taken by the authorities to combat the COVID-19 pandemic crisis;

- state participation in the corporate sector
- use of external financing;
- fight against fraud and corruption;
- CoARM's collaboration with the Parliament;
- Impact of audit activity.

To ensure that the external public audit process produces results and contributes to improving the management of public funds, the Court of Accounts continuously examines how it ensures that the audit activity adds value and impact, constantly forwarding ideas, proposals and suggestions for sound management. and efficient use of public money.

# EXTERNAL PUBLIC AUDIT ACTIVITY

The Court of Accounts has focused its external public audit actions on the performance of mandatory financial audit tasks. This type of audit is performed according to the applicable financial reporting framework, with the aim of providing an opinion (unqualified, qualified, contrary or impossible to express) on the reliability and credibility of the financial information. Other types of audits performed by the CoARM were compliance and performance audits. The compliance audit is focused on compliance with legal regulations, and the performance audit usually examines how government measures, systems, programs or activities are implemented according to the principles of economy, efficiency and effectiveness, in order to make improvements.

During the reporting period (16 September 2020 - 15 September 2021), the Court of Accounts approved the results of 75 audit missions, being performed 30 financial audit missions, 38 compliance audit missions, 5 performance audit missions, and 2 follow-up missions<sup>1</sup> (see Table no.1).

Table no.1

## *Dynamics of audit missions included in the 2017-2020 Annual Reports*

	Annual report 2017	Annual report 2018	Annual report 2019	Annual report 2020
<b>Financial audit</b>	39	47	20	30
<b>Compliance audit</b>	3	4	17	38
<b>Performance audit</b>	11	4	8	5
<b>Follow-up missions</b>	-	7	4	2

*Note: Detailed information on the audit reports can be accessed on the official website of the Court of Accounts: <http://www.ccrm.md/ro/decisions>.*

As a result of the audit missions carried out, with the exception of the follow-up missions, based on the findings and evidence accumulated, the CoARM expressed 30 opinions on the financial statements and formulated 45 conclusions regarding the compliance and/or performance of public funds management. The aggregate results of the public audit missions performed during the reporting period are presented in table no.2.

Table no.2

## *Opinions/conclusions formulated during the audit missions included in 2020 Annual Report*

<sup>1</sup> Follow-up missions represent post-audit verification activities, carried out by auditors in order to assess the way in which the submitted requirements/recommendations were approached and executed/implemented, as well as the impact obtained following their implementation/execution.

<b>Audit reports</b>	<b>General conclusion</b>	<b>Unqualified opinion</b>	<b>Qualified opinion</b>	<b>Contrary opinion</b>
<b>75</b>	<b>45</b>	<b>7</b>	<b>13</b>	<b>10</b>

*Source: The decisions of the CoARM published in the Official Gazette of the Republic of Moldova between November 2020 and September 2021.*

The areas audited between 16 September 2020 and 15 September 2021 mainly concern the formation and use of the resources of the national public budget, including the state budget, the state social insurance budget, as well as the compulsory health insurance funds.

Also, during the reported period, the Court of Accounts focused its activity on other important areas, such as: privatization of assets during 2013-2019; public procurement; management of public financial resources and public patrimony by some state-owned enterprises and public institutions; transfers from the state budget to local budgets; information technologies; financial management systems and the degree of functionality and their connection to performance principles, etc.

During the reporting period, the Court of Accounts was able to follow its approved Audit Program, executing and reporting on audit deadlines. However, in pandemic conditions, the decisions of the Committee for Exceptional Situations imposed the need to adjust the deadlines for carrying out activities, especially in the area of mandatory audit missions.

The challenges associated with the COVID-19 pandemic have encouraged the Court of Accounts to respond promptly to the emerging risks regarding changes in the audit environment and within entities in its scope. Proper management, including through the transfer of work in a "remote" mode, as well as through the implementation of digital technologies, equipping the audit teams with mobile computing technology, ensuring online access to all necessary files and working documents allowed the CoARM to achieve in time and at a high level of quality all planned audit activities.

# PART I. SYNTHESIS OF THE MAIN FINDINGS AND PROBLEMS

## Public finance management

Public finance management (PFM) is the system through which financial resources are planned, directed and controlled, to allow and influence the efficient and effective fulfillment of public service objectives. The quality of PFM systems is essential in the efficient management and delivery of efficient and sustainable public services.

Public finance management is an important area for the economic development of the country, by creating conditions of stabilization at macro- and microeconomic level. Efficient management of public finances contributes both to the development of society and to increasing the quality of life of citizens.

In the national context, the management of public finances is affected by current issues for the Republic of Moldova, which refers to the process of financial and fiscal decentralization.

Moreover, one of the benchmarks of the Association Agreement with the EU is the development of the public financial management system, by strengthening good governance and improving institutional capacities for public resource management, which inevitably means resizing the Court of Accounts' activity, these aspects being mainly evaluated during the mandatory financial audits.

## SB, SSIB and CHIF management

The annual reports on the execution of the SB, the SSIB and the CHIF are prepared by the administrators of the respective budgets (MoF (STS, Customs), NMIC, NSIH), empowered with the right to manage these budgets according to the legally assigned competencies and responsibilities.

The political, economic and social developments, registered in our country during the recent years, have highlighted the need for a profound and real reform in the field of public finance management. In this way, the Law on public finances and budgetary-fiscal responsibility<sup>2</sup> establishes and regulates the budgetary principles and rules, determines the components of the national public budget, regulates the inter-budgetary relations, the budgetary calendar and the general procedures regarding the budgetary process, as well as delimits the competences and responsibilities in the field of public finances.

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<sup>2</sup> Law on public finances and budgetary-fiscal responsibility no. 181 from July 25, 2014.

The basic objectives and the main changes provided by the mentioned law were included in the Development Strategy of the public finance management 2013-2020<sup>3</sup>. The purpose of the Strategy was to provide a synthesis of the ongoing reforms, by consolidating in a single document several ongoing policy actions and strategies on several critical components of public finance management. As a result of the systemic evaluation regarding the implementation of the mentioned Strategy, but also of the systematic monitoring based on the annual result indicators, was identified the distortion of the terms to reach the proposed result indicators, situation caused, mostly, by the political instability in the country, but also by the epidemiological situation<sup>4</sup>, which compromised the performance of several activities due for the periods covered. Thus, given the fact that the development objectives, but also most of the reform actions provided in the Strategy have remained current, in January 2021 the Government took the decision to extend their implementation until 2022<sup>5</sup>.

The economic trends registered by the Republic of Moldova in 2020<sup>6</sup> reflect the negative effects of the 2 major crises, caused by the COVID-19 pandemic and the drought of 2020, which strongly affected the country's economy, the GDP decreasing by 7.0% compared to 2019. As a result, public finances have been affected due to lower budget revenues than projected, and increased spending to cover the costs of additional measures in the areas of health, social protection, economy, etc.

The implementation of a package of fiscal measures in response to the effects of the pandemic, as well as to mitigate the consequences of the drought, led to the urgent and significant revision of the state budget. In order to financially support these measures, were adopted three amendments to the State Budget Law for 2020 no. 172/2019<sup>7</sup>, being provided budget allocations for the actions taken in the economic, social, health and education fields.

The COVID-19 pandemic affected the entire economy much faster and more profoundly than expected, including aggregate demand and supply, through the cessation of economic activity and the restrictions imposed by the exceptional public health situation. Thus, in order to ensure the short-term support of the entrepreneurs, changes were made, starting with 01.05.2020, within the normative framework<sup>8</sup> on the reduction of the VAT rate from 20% to 15% for the HORECA sector, as well as the establishment of the VAT Reimbursement Program for enterprises registered as VAT taxpayers and registering the respective amounts for deduction, for the period until 31.12.2020. Measures have also been taken to

<sup>3</sup> G'sD no.573 from 06.08.2013, with subsequent amendments and completions..

<sup>4</sup> [https://mf.gov.md/sites/default/files/Nota%20informativa%20la%20Proiect\\_HG%20de%20modificare%20Stg%20MFP%20HG%20nr.573%20din%202013.pdf](https://mf.gov.md/sites/default/files/Nota%20informativa%20la%20Proiect_HG%20de%20modificare%20Stg%20MFP%20HG%20nr.573%20din%202013.pdf)

<sup>5</sup> G'sD no.9 from 20.01.2021 „For the amendment of the Government's Decision no.573/2013 on the approval of the Strategy for the development of public finance management 2013-2020 ”.

<sup>6</sup> Government's Report on the execution of the State Budget for 2020.

<sup>7</sup> Laws no.61/2020, no.131/2020 and no.173/2020.

<sup>8</sup> Law no.60 from 23.04.2020 on establishing measures to support entrepreneurship and amending regulations.

directly support entrepreneurship, which have been aimed at subsidizing entrepreneurs' interest.

Table no.3

***The evolution of the main types of revenues of the state budget in 2019-2020***

*Million lei*

	Executed, 2019	Executed, 2020	Deviations	
			+;-	%
<i>State budget revenues, total</i>	<b>39 967,9</b>	<b>38 500,5</b>	<b>-1 467,4</b>	<b>96,3</b>
<b>Including:</b>				
<b>Taxes and fees</b>	36 417,2	35 772,1	-645,1	98,2
<b>Grants</b>	1 540,5	624,2	-916,3	40,5
<b>Other revenues</b>	1 986,7	2 087,67	100,9	105,1
<b>Transfers within NPB</b>	23,5	16,6	-6,9	70,6

*Source: Government's Report on the execution of the state budget for 2020.*

The increase in personal income tax revenues by 1.1%, or 15.7 million lei compared to the specified indicators, was also influenced by the increase in 2020 of the level of the labor remuneration fund by 106.0% compared to the year 2019, as a result of the gradual restoration of the economic activity of taxpayers. The changes operated in the normative framework <sup>9</sup> influenced the reduction of the income tax revenues compared to 2019, because the breakdown rates of personal income tax for the I level LPA were increased, as well as due to the increases obtained by eliminating the personal income tax exemption of individuals who obtained higher incomes higher than 360.0 thousand lei<sup>10</sup>.

Based on the epidemiological and economic situation created as a result of the impact of the COVID-19 pandemic, the national public budget in 2020 registered a deficit in the amount of 10,619.8 million lei, or 2 times higher than in 2019.

Table no.4

***Dynamics of budget execution in 2019-2020***

*Million lei*

	2019			2020			2020 compared to 2019		
	Executed	Execution level (%)	Unexecuted balance	Executed	Execution level (%)	Unexecuted balance	Executed	Execution level (%)	Unexecuted balance
<b>National public budget</b>	<b>65975,6</b>	<b>93,4</b>	<b>4655,7</b>	<b>73269,8</b>	<b>93</b>	<b>5480,3</b>	<b>7294,2</b>	<b>-0,4</b>	<b>824,6</b>
<b>State budget</b>	43073,9	92,9	3272,3	49635,4	93,2	3645,2	6561,5	0,3	372,9
<b>Local budgets</b>	16937,5	91,8	1521,4	17927,4	89,9	2016,9	989,9	-1,9	495,5
<b>State social insurance budget</b>	21602,3	98,7	284,6	24244,4	98,7	327,7	2642,1		43,1

<sup>9</sup> Law no.178 from 19.12.2019 for the amendment of Law no.397/2003 on local public finances.

<sup>10</sup> Law no.122 from 16.08.2019 on the amendment of some legislative acts (in the part related to the amendments to art. 33 paragraph (1) of the Fiscal Code).

Compulsory health insurance funds	7489,6	97,1	220,2	8405,5	94,3	511,9	915,9	-2,8	291,7
<i>Note: transfers between budgets</i>	23127,7	98,1	642,8	26942,9	96,3	1021,4	3815,2	-1,8	378,6

*Source: Government's report on the execution of the state budget in 2020*

The revenues accumulated to the national public budget increased by 2.3% compared to the annual provisions.

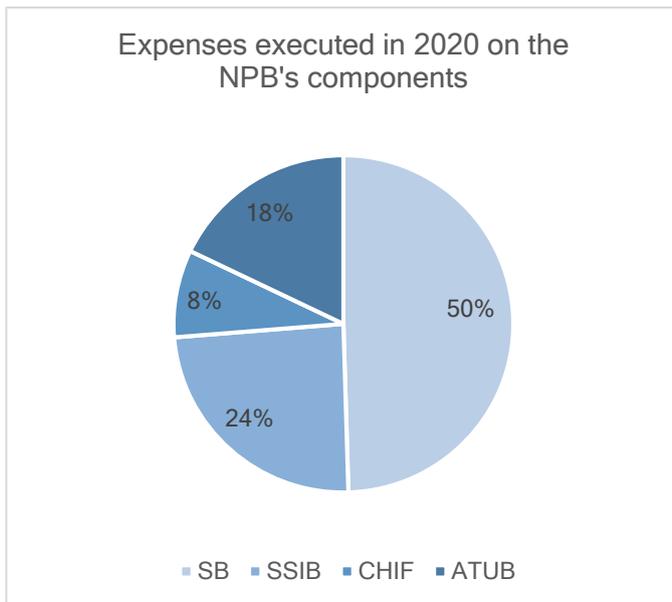
The expenditures of the national public budget were executed at the level of 93.0% compared to the annual provisions. Compared to 2019, expenditures increased by 11.1 percent.

The state debt was within the limits established by the State Budget Law for 2020. The share of state debt in GDP, as of December 31, 2020, was 32.9%, being 7.9 pp. higher compared to the situation at the end of 2019.

2020 was an unprecedented year, an uncertain year, as it was not yet known how COVID-19 infection would impact public entities and the control environment. Most of the audited entities faced financial "shocks" and disruptions to day-to-day activities, which affected the risk prevention measures and controls.

The audit environment in 2020 was different because almost all entities changed the way they operated. These changes favored the materialization of additional risks, such as risks of financial error or fraud, with an impact on supervisory processes and internal control procedures, which were taken into account and assessed within the audit missions carried out.

The most significant dimension of the external (annual) public audit, in terms of the execution of the components of the national public budget (NPB), is represented by the Government's reports on the execution of the state budget (SB), the state social insurance budget (SSIB) and Compulsory Health Insurance Funds (CHIF).



The distribution of the SB's expenditure is ensured by the central public authorities, within the sector for which they are responsible. The pandemic crisis has severely affected the country's economy, and the restrictive measures taken have led to a reduction in receipts from compulsory contributions and insurance premiums compared to the amount initially approved by those laws. Initially, revenues in the amount of 20 109.3 million lei were forecast, which were

reduced to 18,922.4 million lei, or by 5.9 percent.

The main audit findings regarding the execution of the SB<sup>11</sup>, the SSIB<sup>12</sup> and the CHIF<sup>13</sup> concern the following aspects:

- Non-compliance with the budget timetable for the elaboration and approval of the SB for 2020, also the lack of approval of the MTBF by the Government to serve as a benchmark in estimating the baseline for the budget cycle, which created uncertainty and tension for both state institutions and for the corporate sector;
- the lack of obligation of all those responsible for accumulating different types of income to report calculations and arrears to them, which creates the situation when the MoF does not have all the arrears in the full structure of income types and administrators of these payments, for efficient administration and increase budget revenues;
- the lack of regulation of the way of recording, reporting and collection of payments from the location of public lands related to the privatized objectives led to the non-collection of possible revenues to the SB;
- the execution of expenditures is maintained at a low level of capitalization (about 37%), in the absence of an active working group for capital investments, in order to comply with the process of inclusion and monitoring of capital investment objects;
- reserves for planning the limits on expenditures for the implementation of the unitary salary system in the budgetary sector, the balance of undervalued funds for personnel

<sup>11</sup> CoA'sD no.30 from 28.06.2021 "On the Report of the financial audit on the Report of the Government on the execution of the state budget for 2020".

<sup>12</sup> CoA'sD no.20 from 03.06.2021 "On the Report of the financial audit of the Government's Report on the execution of the state social insurance budget in 2020".

<sup>13</sup> CoA'sD no.22 from 04.06.2021 "On the Report of the financial audit of the Government's Report on the execution of the funds of the compulsory health insurance in 2020".

expenses by CPA amounted to 93.0 million lei, and the balance of unfunded allocations from "General Actions" amounted to 214 , 2 million lei;

- the continuous financial dependence of SSIB on the state budget, the transfers received with general destination being increasing by 28.5%, compared to the previous year;
- the existing income reporting rules do not provide users with an overview of the calculation, payment of receivables and liabilities on separate indicators in the case of SSIB and CHIF execution;
- calculation and partial presentation of the value of debts of 111.8 million lei to the beneficiaries of social benefits in the Reports on the execution of the state social insurance budget, determined by the non-adjustment of the initial balances of 2020 and the fact that the debt associated with suspended payments of about 84,6 million lei (in case of non-consecutive collection for 3 or 6 months of the benefit) of the benefits are not included in the accounting records;
- the actual expenses of the social benefits of 23,896.5 million lei are underestimated with the sum of the suspended benefits and do not represent their full value;
- the automated information system "Reimbursed medicines" does not ensure the provision of exact information related to the compensated medicines prescribed, registered within the system and paid by NICM (323.0 thousand lei), due to errors and lack of interconnection with other information systems owned by NICM, a situation which is permanent;
- the tariffs applied for the contracting and financing of medical services have not been adjusted based on the real costs of medical services, although the normative framework establishes exact requirements regarding the composition and the elements of constituting the tariffs. Under these conditions, the NICM granted subsidies to cover the increase of personnel expenses, in the amount of 354.9 million lei for 313 public medical institutions, etc.

As a result of the audit work carried out, the Court of Accounts issued unqualified opinions on the implementation of the SB and CHIF, as well as unqualified opinions on the implementation of SSIB in the budget year 2020. In comparison, for the budget year 2019, the Government's Report obtained, also, an unqualified opinion, and in the case of the Government's Reports on the execution of SSIB and CHIF, the Court of Accounts issued qualified opinions.

Regarding the execution of ATU budgets, the Court of Accounts reiterates the existence of the systemic problem related to special purpose transfers from the SB to local budgets,

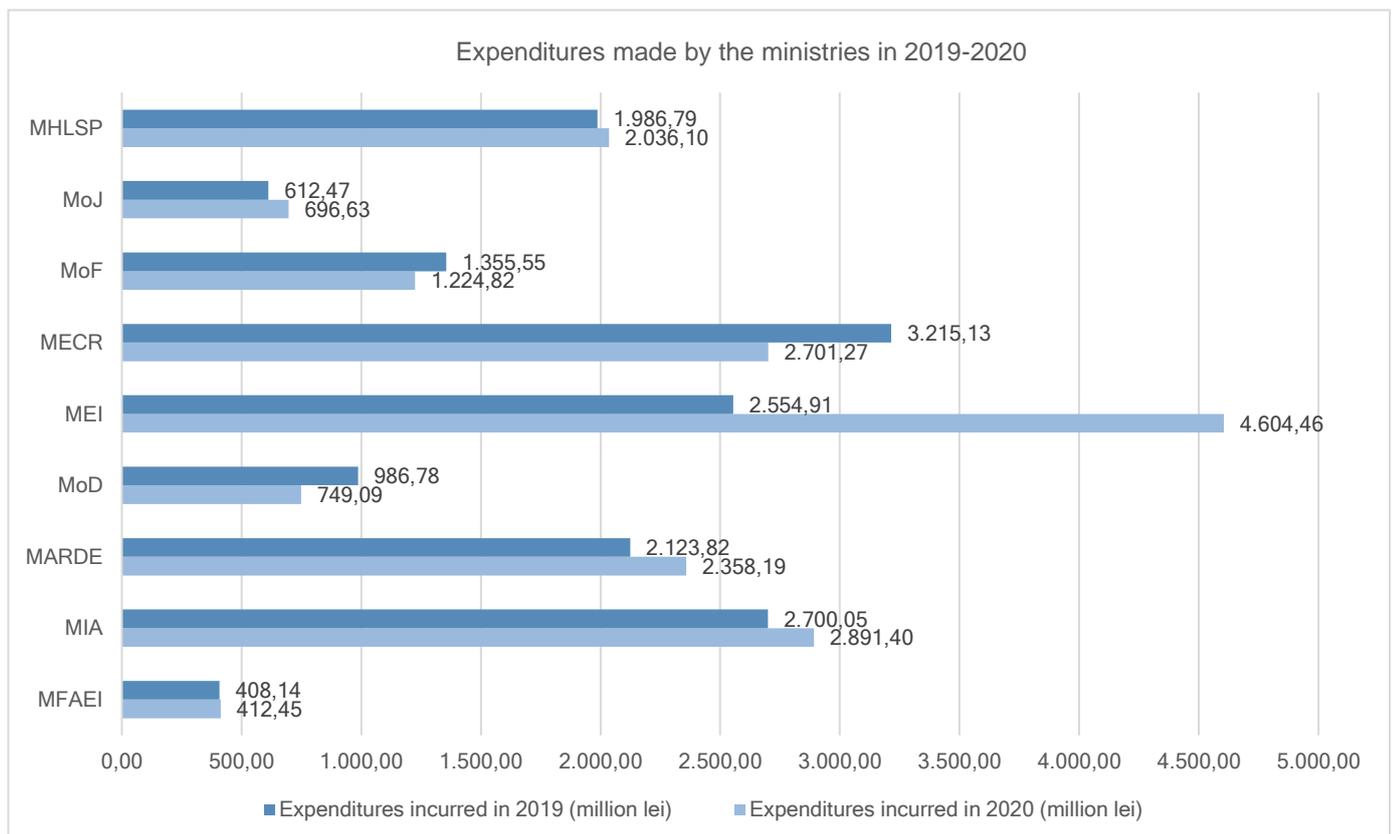
namely, the formation of balances at the end of the management year and their use, mainly contrary to the destination.

Thus, in the composition of the state budget for 2020, for the local budgets of both levels, transfers were approved in a total amount of 13,281.1 million lei, the transfers with general destination constituting 2 418.3 million lei. Special purpose transfers to local budgets amounted to 11,212.8 million lei, most of which were intended to finance preschool, primary, general secondary, special and complementary education (9,422.7 million lei, or about 84%).

## Execution of the ministries' budgets

Public authorities are responsible for organizing their own system of planning, execution, accounting and reporting and, where appropriate, within subordinate budgetary institutions; *ensuring the allocation and approval of annual budget allocation limits and performance indicators for subordinate institutions; monitoring the financial and non-financial performance of the institution, as well as ensuring the management of budget allocations and the administration of public assets*, according to the principles of good governance. The CPA are also responsible for drawing up and presenting the financial statements, and the Court of Accounts, according to its mandate, is required to evaluate and express opinions on their consolidated financial statements on an annual basis.

In the total cash expenditures of the SB of the ended financial year, those of the line ministries have the most significant share, of about 32%, or 15,943.63 million lei, and



decreased by 1,730.78 million. lei, compared to the expenses made in 2019 (17,674.41 million lei). In economic terms, the highest levels of execution of public expenditures were recorded for social benefits - 98.0%, personnel expenses - 96.2%, and interest - 94.7%, and the lowest are attested to other non-financial assets - 66.3%, material stocks - 77.2%, grants awarded - 79.5%, and other expenses - 82.6% of the annual provisions.

The financial reports of the budgetary institutions, including the ministries, disclose the financial information related to the actual expenditure incurred in the reporting year.

Auditing the consolidated reports of the 9 ministries for 2020, the Court of Accounts expressed its views on whether the financial statements presented in these reports were, in all material respects, in line with the applicable regulatory framework for financial reporting. As a result, the CoARM expressed an unmodified opinion and 8 modified opinions (7 qualified opinions and one adverse opinion), the situation remaining unchanged compared to 2019. The information on the opinions expressed during the last 3 years on each ministry is presented in the Table below.

Table no.5

***Dynamics of audit opinions expressed on the consolidated financial reports of the 9 ministries for the years 2018 - 2020***

Public authority	Audit's opinion		
	2018	2019	2020
Ministry of Foreign Affairs and European Integration	unqualified*	qualified	qualified
Ministry of Internal Affairs	qualified	qualified	qualified
Ministry of Agriculture, Regional Development and Environment	adverse	qualified	qualified
Ministry of Defense	adverse	qualified	qualified
Ministry of Economy and Infrastructure	qualified	qualified	qualified
Ministry of Education, Culture and Research	adverse	adverse	adverse
Ministry of Finance	unqualified	unqualified	unqualified
Ministry of Justice	qualified	qualified	qualified
Ministry of Health, Labor and Social Protection	adverse	qualified	qualified

\* In 2018, only the Financial Reports of the MFAEI central apparatus were audited.

Modified (qualified and adverse) audit opinions were determined by the non-implementation of key recommendations designed to address the shortcomings underlying the amended opinion provided in the previous management year, as well as by several findings, the most significant of which are refers to:

- non-compliant registration in the accounting records of lands with a total area of 1,372.26 acres, in a total value of 1,011.99 million lei and buildings worth 246.56 million lei (MoJ<sup>14</sup>, MHLSP<sup>15</sup>, MARDE<sup>16</sup>, MIA<sup>17</sup>, MECR<sup>18</sup>);
- erroneous valuation of the assets transferred in the form of participation in the share capital of the entities in which the ministries have the founding state in the amount of 4 199.97 million lei (MARDE, MoD<sup>19</sup>, MECR);
- non-valuation and non-accounting of 87 buildings, the audit being limited in obtaining sufficient audit evidence to assess the impact (MARDE);
- 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<sup>20</sup>);
- erroneous registration of economic operations amounting to 73.82 million lei (MoJ, MARDE);
- erroneous classification of some groups of expenses in the amount of 141.46 million lei (MEI, MFAEI, MECR);
- overestimation 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, MECR) etc.

Among the causes of the deficiencies found we can enumerate: the lack and 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 procedures for registration and delimitation of public property; gaps in the normative-methodological framework of financial reporting 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.

At the same time, we point out that, although the auditor's opinion on the financial statements during the last 3 years has not changed, most entities have made some progress in different dimensions of public financial management, especially in the patrimonial and

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<sup>14</sup> CoA'sD no.24 from 15.06.2021 "On the Audit Report on the consolidated financial statements of the Ministry of Justice concluded on December 31, 2020".

<sup>15</sup> CoA'sD no.27 from 22.06.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Health, Labor and Social Protection concluded on December 31, 2020".

<sup>16</sup> CoA'sD no.29 from 25.06.2021 "On the Audit Report of the consolidated financial reports of the Ministry of Agriculture, Regional Development and Environment concluded on December 31, 2020".

<sup>17</sup> CoA'sD no.32 from 29.06.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Internal Affairs concluded on December 31, 2020".

<sup>18</sup> CoA'sD no.43 from 27.07.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Education, Culture and Research concluded on December 31, 2020".

<sup>19</sup> CoA'sD no.32 from 29.06.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Internal Affairs concluded on December 31, 2020".

<sup>20</sup> CoA'sD no.16 from 29.04.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Economy and Infrastructure concluded on December 31, 2020".

accounting aspects. At the same time, improvements were attested to the elaboration of the financial forecasts and budgets of the audited institutions, generated by the strengthening of the internal control and the increase of the managerial responsibility. However, although the value of audit deviations decreases from year to year, the audit continues to identify significant misstatements that influence the audit opinion.

It should also be noted that the performance of public finance management depends directly on making reliable decisions, the proper use of the resources made available to the entities, including the assumption of responsibility for the way in which these resources have been managed.

Under these conditions, the internal managerial control system of the public entity is an important element of good governance, being crucial in setting objectives, risk management, proper performance of tasks and protection of assets.

The Court of Accounts notes that most managers of audited public entities issued and signed Declarations of managerial responsibility for the audited period, which ensured the Executive, the Legislature, but also the citizens, that they have a financial management and control system whose organization and functioning allow the provision of reasonable assurance that the public funds allocated for the purpose of achieving the strategic and operational objectives have been used in a manner of transparency, economy, efficiency, effectiveness, legality, ethics and integrity.

In this context, we reiterate the need for the decision-makers to review and adjust the regulatory framework on accounting and financial reporting, applicable in the public sector; ensuring compliance with the

## CONCERN

We draw attention to the implementation of the Government's reform, as a result of which the 9 ministries were reorganized into 13, in these conditions being necessary the optimal distribution of attributions and staff states. Thus, the next period will be a challenging one, both for the audited entities and for the supreme audit institution, especially in the aspects of changing decision makers and staff turnover, which will impose new guidelines on governance, policies and financial management.

budget calendar; revaluation of the investment policies in order to correlate sectoral priorities with the financial resources available for construction works to the objectives with a high degree of completion; valuation/revaluation and registration/re-registration of patrimonial rights over public property, etc. At the same time, we emphasize the importance of taking specific actions regarding the full implementation of the recommendations of the Court of Accounts.

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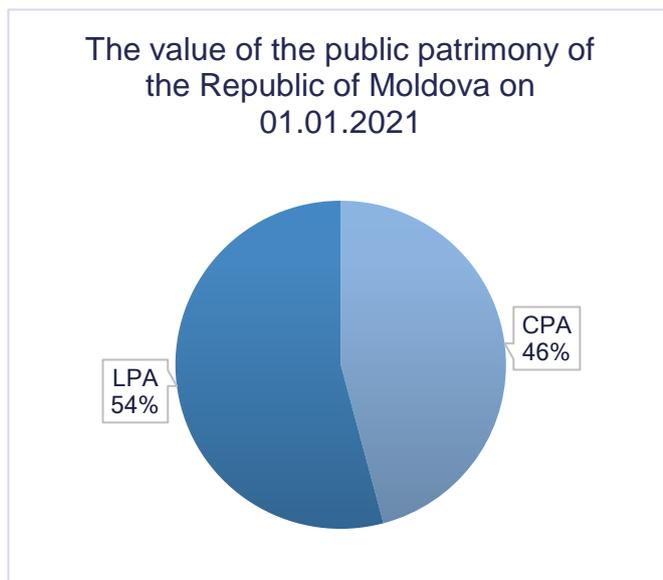
*There are still significant problems with the financial reporting and accounting of public entities, and continued efforts are needed to bring order to all areas of the public sector. Only the combined efforts will have a direct impact on the quality of financial reporting and, ultimately, on the efficient management of public money.*

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## Public patrimony management

The right of ownership over real estate is the right that gives the owner, including the state of the Republic of Moldova and administrative-territorial units, the real possibility to use the property according to its nature or destination, to use and dispose of it exclusively and perpetually, within established by law. Public property is used in the interest of the whole society (state property), or in the interest of local authorities (ATU property).

According to the data from the Register of public patrimony, kept by the Public Property Agency, as of January 1, 2021, the balance sheet value of the public patrimony of the Republic of Moldova amounted to 121.3 billion lei, including:



- the value of public assets managed by central public authorities - 55.6 billion lei;

- the value of the public patrimony managed by the administrative-territorial units - 65.7 billion lei.

In 2020, the annual balance of the public assets increased, compared to the previous period, by 23.3 billion lei, the growth rate being 24.02%, a situation due

to the actions of improving the related legal framework, but also the exhaustive inventory and registration compliance with ownership by responsible entities, including as a result of the implementation of audit recommendations.

## Patrimony inside the Republic of Moldova

Through its activity, the Court of Accounts has an essential role in increasing the balance of public assets, including through the implementation by audited entities of audit recommendations on the inventory, delimitation and registration of property rights over state assets. Taking into account the recommendations of the Court of Accounts, in order to eliminate the divergences identified in the correct reflection of the information on public patrimony, the Public Property Agency adjusted the Lists of public property of the state. Given the specificity and the major share of the patrimony in the national budgetary system, it is essential to identify, estimate and keep records of the real estate that is part of it.

A significant aspect in this regard is the delimitation of publicly owned lands in state-owned lands and public-owned lands of the ATU, including the delimitation of public lands from private lands, which would contribute to the protection and efficient use of public lands. state

and ATU. This objective can be achieved by creating and maintaining the cadaster of real estate, which ensures the public recognition of property rights and other property rights over real estate, the protection of these rights by the state, and the support of the taxation system and the real estate market. .

The solution of the problems regarding the registration of patrimonial rights over public goods is a stringent one, given the fact that this aspect systematically influences the auditor's opinion when examining the financial reports of ministries, the Court of Accounts continuously reiterating the need for proper registration of state lands and assets.

One of the main problems regarding the registration of the patrimony derives from the provisions of the national normative framework<sup>21</sup>, namely, that there are currently several possibilities for valuing public and private state assets, which does not provide entities with uniform criteria for determining their fair value. Often, the value of the asset differs significantly depending on the valuation method used by the entity. This problem is aggravated by the fact that the accounting policies of the audited entities provide for the change in the initial value of fixed assets only in the case of re-equipment, modernization, reconstitution or partial liquidation of objects. Thus, the revaluation of assets at the reporting date does not allow for the true recognition and presentation of assets in the financial statements.

In its activity, the Court of Accounts certifies and warns from year to year on the *non-delimitation of public property*<sup>22</sup> in the public and private spheres, as well as on the *lack of an appropriate methodology* to this aspect, which seriously affects the process of management and reporting of public assets. Thus, it is not possible to determine the legal and accounting regimes of the assets, especially those transferred to the management of state/municipal enterprises and public institutions for self-management. All this in conjunction with the lack of adequate state control affects the integrity of public assets and their efficient use.

The patrimony of public entities is also affected by the way of achieving the *investments and capital repairs*<sup>23</sup>, which represents budgetary expenditure for the creation of fixed assets, including the construction and/or renovation, reconstruction or extension of existing fixed assets.

<sup>21</sup> Law on real estate cadaster no.1543 from 25.02.1998, Law on normative price and sale-purchase of land no.1308 from 25.07.1997, Law no.267 from 29.11.2012 on real estate monitoring; The instruction on how to update the cadastral data in order to support the taxation system, approved by LRCA's Order no.103 from 22.08.2013.

<sup>22</sup> CoA'sD no.50 from 23.11.2020, no.52 and no.54 from 25.11.2020, no.59 from 04.12.2020, no.65 from 14.12.2020, no.75 and no.77 from 23.12.2020, no.4 and no.6 from 25.02.2021, no.10 from 24.03.2021 and no.12 from 29.03.2021.

<sup>23</sup> CoA'sD no.43 from 27.07.2020 "On the Audit Report on the consolidated financial reports of the Ministry of Education, Culture and Research concluded on December 31, 2020"; CoA'sD no.24 from 15.06.2021 "On the Audit Report on the consolidated financial statements of the Ministry of Justice concluded on December 31, 2020".

The reform of the management of public capital investments was carried out by approving the normative framework in this field, as well as by approving, by order of the Minister of Finance, of the *Instruction on the management of capital investment projects*<sup>24</sup>, these activities being aimed at imposing a unique and transparent methodology for examining and prioritizing projects. However, a number of deviations were identified in the audit missions, the most significant of which referred to *the inconsistency between the normative acts in the aspect of defining the public capital investments*, which determines the clear non-delimitation of the expenses used for current repairs and those for capital investments, as well as their erroneous classification.

Moreover, the Court of Accounts has repeatedly stressed that the *public policies and investment practices are not based on national/sectoral/regional/local strategies*, based on sound criteria and does not ensure a measurable impact on the value of the resources consumed for their implementation, and contributes to the waste of public money, and the *lack of prioritization of investment projects*, based on objective criteria, it does not allow directing the available resources to the projects with the highest expected economic and social impact.

We reiterate that the initiation of new constructions with expenses without the support of available financial resources and without ensuring the commissioning of those previously started, generates the immobilization/decommissioning of budgetary means in the objects in progress and leads to physical and moral degradation of unfinished constructions<sup>25</sup>, actions that contravene the principles of good governance and seriously affect the public patrimony. This also allows the presence in the accounting records of used, damaged, non-functional and unused assets in the operational activity, as well as real estate privatized, demolished or transferred to other institutions, which affects the credibility and veracity of financial information on reported financial statements.

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*Failure to delimit the public patrimony, failure to ensure the reality and accuracy of the data in the financial statements, evading the public authorities from exercising the functions of owner of the public patrimony, non-observance of the patrimonial interests of the localities, etc. favors the inefficient management of real estate, both by central and local public administration authorities.*

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<sup>24</sup> Order of the Minister of Finance no.185 from 03.11.2015 "On the approval of the Instruction on the management of capital investment projects".

<sup>25</sup> CoA'sD no.73 from 22.12.2020 "On the Public Procurement Compliance Audit Report within the Ministry of Education, Culture and Research"; CoA'sD no.40 from 23.07.2021 "On the Report of the audit of compliance on public procurement within the system of the Ministry of Justice in 2019-2020".

## Patrimony outside the Republic of Moldova (Ukraine, Russian Federation)

The state must act as an informed and active owner, ensuring that the governance of the state patrimony is carried out in a transparent and accountable way.

The situation is complicated when it comes to properties located on the territory of another state, namely, the administration and control of these assets. The problems faced by the competent authorities on a daily basis are particularly complex, which involves solving them in a comprehensive and integrated manner.

In order to ensure the assessment of the situation of the patrimony of the Republic of Moldova abroad, the CoARM proposed to include a separate objective in the annual audit missions of the financial reports of the ministers. As a result of the audit actions carried out, it was found that most properties abroad are under the management of MECR - 4 properties, followed by MHLSP and MFAEI - with 3 properties, MIA, MARDE and MoJ - one property each. Most of the targets are located in the coastal area of the neighboring country, Ukraine, and are either in an advanced state of degradation or in litigation and placed under seizure. At the same time, MFAEI<sup>26</sup> owns on the territory of the Russian Federation several buildings under the management of the Embassy of the Republic of Moldova, on which the ministry does not have the title deed and which are not reflected in the accounting of non-financial assets.

The documentation on the spot revealed an alarming situation regarding the management of public property, located outside the Republic of Moldova, by state institutions. According to the findings, most of the objectives are in a deplorable, damaged state, and some have been abusively occupied or are in litigation.

The extent of the process of degradation of public property outside the Republic of Moldova is demonstrated by unauthorized demolition and loss of assets, as well as many other examples of inefficient administration and non-compliant records<sup>27</sup>.

The most important irregularities regarding the patrimony abroad are mainly related to the inefficient management, materialized by the deplorable condition of the buildings and the uncertain situation regarding the property right over them, some of them being exploited by unidentified persons.

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<sup>26</sup> CoA'sD no.21 from 03.06.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Foreign Affairs and European Integration concluded on December 31, 2020".

<sup>27</sup> CoA'sD no.43 from 27.07.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Education, Culture and Research concluded on December 31, 2020"; CoA'sD no.27 from 22.06.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Health, Labor and Social Protection concluded on December 31, 2020"; CoA'sD no.29 from 25.06.2021 "On the Audit Report of the consolidated financial reports of the Ministry of Agriculture, Regional Development and Environment concluded on December 31, 2020" etc.

Failure to register buildings in the ownership of the Republic of Moldova according to the Ukrainian law, non-inventory and failure to take measures to ensure the integrity of assets results in lack of control over assets abroad and conditions the unauthorized demolition of state-owned assets.

Some public entities in the Republic of Moldova have not registered the rights over the real estate in the Register of Real Estate of Ukraine, although the property right of the Republic of Moldova over them has been recognized by Ukraine. In some cases, no land leases have been concluded with the Ukrainian local government that uses them.

The audit attested situations when, after the capital reconstruction of the building by the landlord, it was recognized by the local authorities as private property<sup>28</sup>. Also, in the case of long-term leasing of buildings, some tenants did not comply with the contractual provisions and, without coordinating with the owners, demolished the existing assets and built capital real estate.

Another aspect identified during the audit missions that create legal uncertainties are the litigations that have as object the patrimony of the public entities from the Republic of Moldova, located abroad. As a result, property rights over state-owned enterprises are not recognized by the Ukrainian side and assets can be lost.

The auditors identified irregularities in keeping records of public assets, which creates uncertainties regarding the completeness of records of assets owned by the Republic of Moldova located abroad. Thus, state-owned goods were identified that are not registered in the accounting records of the ministries, but, according to the data of the Public Property Agency, are in their management, as well as properties recognized in the accounting records of the

*Responsible authorities do not ensure the management of assets in the spirit of 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.*

<sup>28</sup> CoA'sD no.43 from 27.07.2021 "On the Audit Report on the consolidated financial reports of the Ministry of Education, Culture and Research concluded on December 31, 2020".

ministries, but which are not reported to the Public Property Agency.

The risk of losing some goals has materialized. According to Article 4 of the Bilateral Agreement No.1994 from 11.08.1994 between the Government of the Republic of Moldova and the Government of Ukraine, the property of the Republic of Moldova is the objects of the social sphere (sanatoriums, cottages, rest areas, etc.), but not the land related to objects. The land is allocated for use for those purposes, and the payment for the use of the land is made on a general basis, established by the local authority on whose territory the object is located. Thus, some objects not managed by the CPA of the Republic of Moldova have been abandoned over the years, without official notification of the parties, then demolished, and the local administration manages the land as it deems necessary. With the demolition of these objects, the Republic of Moldova remains without properties.

## Denationalization of public property and privatization

The Court of Accounts planned and carried out 6 audit missions<sup>29</sup> which aimed to assess the compliance with the regulatory framework for the organization and development of the process of denationalization and privatization of public property, with the identification of systemic violations and vulnerabilities, which affected this process.

The state policy in the field of administration and denationalization of public property is promoted by the Ministry of Economy, and the Public Property Agency (PPA) ensures the implementation of these policies.

According to the legal framework<sup>30</sup>, PPA exercises rights deriving from its quality of holder and administrator of shares (social parts) in companies with full or partial state capital; organizing the preparation and development of the privatization process of state public property; concluding the sale-purchase contracts and their monitoring regarding the execution by the buyers of the assumed obligations; coordination of the activity related to the delimitation of the public domain assets and the state private domain assets, as well as other attributions established by law. The Public Property Agency keeps the Register of public patrimony<sup>31</sup>, which includes data on the balance sheet value of the patrimony of state and municipal enterprises, public institutions, as well as data on state shares (social quotas) held in the share capital of companies.

According to the data from the Register of public patrimony, as of December 31, 2020, there were 126 state-owned enterprises and 78 packages of state shares in companies

Starting from the main goal of privatizing public assets, which is to restructure the national economy and increase its competitiveness by attracting private investment, it is clear that a legal and efficient privatization exercise could have a positive impact on some sectors of the national economy, as well as would ensure increased revenues to the state budget and local budgets.

<sup>29</sup> The audit report of the compliance of the privatization of the goods during 2013-2019 by sale at auctions with call or with discount and by sale at the Stock Exchange of Moldova, approved by CoA'sD no.49 from 02.08.2021; The compliance audit report on the privatization of goods through investment and commercial tenders in 2013-2019, approved by CoA'sD no. 28 from 24.06.2021; The audit report of the compliance of the sale-purchase process of the lands in the private domain of the state related to the real estate privately owned for the years 2013-2019, approved by CoA'sD no.69 from 18.12.2020; Compliance audit report on the privatization of uninhabitable rooms, approved by CoA'sD no. 78 from 24.12.2020; The compliance audit report of the privatization process of the S.E. CA "Air Moldova", approved by CoA'sD no. 73 from 13.12.2019; The audit report of the compliance of the sale-purchase process of the state shares held in P.L.C. "Tutun-CTC", approved by CoA'sD no. 79 from 29.11.2019.

<sup>30</sup> Law no.121-XVI from 04.05.2007 on the administration and denationalization of public property; art.7 paragraph (2), paragraph (3) and paragraph (4) of Law no.121-XVI from 04.05.2007; pt.6, pt.7 and pt.9 of Annex no.1 to G'sD no.902 from 06.11.2017 "On the organization and functioning of the Public Property Agency".

<sup>31</sup> G'sD no.675 from 06.06.2008.

under the administration of PPA, and 58 state-owned enterprises and 2 packages of shares were managed by central public administration authorities. state shares in joint stock companies. The audit evaluation on the compliance of the privatization of the public patrimony during 2013-2019<sup>32</sup> certifies that the public property assets/objectives have been privatized, mainly, in the conditions of a non-strategic and defective management, affected by non-compliances, fraud risks, assisted by an inconsistent and deficient normative framework.

*The audit verifications attest that only the gaps and violations in 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 in the period 2013-2019 and subject to audit verifications (1,366.5 million lei).*

One of the most vulnerable and sensitive stages of privatization is the *assessment of state objectives in order to determine the market price*, in this respect being found reasonable suspicions of fraud, as well as other deficiencies related to the valuation of privatized goods.

The findings endangered the achievement of the purpose and compliance with the basic principles of denationalization of state assets, such as the legality and transparency of the process, but also the judicious administration of revenues subject to collection to the state budget.

The governance objectives set in the field of privatization of public property were not correlated and interconnected across the entire institutional system related to the field, and the performance indicators were set without a quantifiable and measurable benchmark. Likewise, during the audited period, PPA did not have annual programs regarding the denationalization of the state public patrimony, as well as there were no clear and transparent rules related to the exposure to privatization of the state public property objectives.

The main problems identified by the Court of Accounts, which concern the field of denationalization of public property, refer to the fact that the management of this field was carried out in the absence of a strategic vision correlated with the strategic documents related to other areas of the national economy.

<sup>32</sup> CoA'sD no.28 from 24.06.2021 "On the Compliance Audit Report on the privatization of goods through investment and commercial tenders in 2013-2019".

We emphasize that the internal managerial control established in the field of denationalization of the public patrimony was a fragmentary one, which did not comprehensively include its constitutive elements, defined by the legal framework<sup>33</sup>.

An efficient privatization of state-owned enterprises involves a restructuring of them in the *period of preparation for privatization*, with the development and application of specific strategies depending on the profile of the entity. The audits carried out show that these instruments were not applied, which led to the disruption of the financial stability of the entities concerned. The cause of these deficiencies is the inefficient activity of the Boards of Directors, the founders, the audit committees of the respective entities, which did not intervene and did not protect the interests of the state in the process of managing the entrusted patrimony.

Another important aspect is the *selection of the way of privatization of the public patrimony*, which is a defective one and to the detriment of the interests of the state. Although the PPA is responsible for determining how to privatize public assets, it has not developed or approved an internal procedure governing the rules for determining how to privatize state public assets<sup>34</sup>, depending on the need to attract capital investments and/or to maintain the

*Failure to determine and/or establish unbalanced criteria for the evaluation, selection and award of tenderers generates increased risks of their inadequate award and, therefore, of non-compliance with the obligations assumed following the tender.*

activity profile of the object of privatization and/or to improve its activity. This has generated vulnerabilities that have affected the credibility and compliance of the privatization of public property of great importance for the national economy.

The reported ones, consequently, not only do not allow the amplification of the field itself with orientation towards an expected quantifiable result, but also create premises for its development in a sporadic way, without continuity.

Although one of the mandatory preliminary stages of the process of preparing the objectives for denationalization is the general inventory of assets, the results of which represent the starting point of the evaluation mission, in order to establish the estimated

price, PPA, as founders of privatized enterprises, did not have manifested responsibility in

<sup>33</sup> Art. 14 of Law no.229 from 23.09.2010 on internal public financial control.

<sup>34</sup> According to art.24 of Law no.121/2007, the privatization modalities are: a) sale on the regulated market or within a multilateral trading system; b) auction sale with shout; c) sale by commercial or investment competition, including on the basis of individual projects and other modalities.

the regulatory and qualitative realization of this attribution. Audits of the external public audit revealed that, for more than half of the objectives privatized through commercial tenders, the regular inventory of assets under management was not ensured, as no credible and complete information was provided about the assets and liabilities in their financial statements, which formed the basis for setting the initial privatization exposure price of those undertakings.

Concerning the *privatization of objectives through commercial competitions*, we mention that this was mainly done in the absence of the elaboration of specifications, which establish individual criteria for qualifying bidders, quantifiable post-privatization obligations/indicators, as well as deadlines for their realization, based on the specifics of the branch in which the privatized companies they were carrying out the activity. The exposure of the minimum requirements towards the participants in the privatization was limited only to general/homogeneous conditions, indicated in the published informative communiqués. Those mentioned were conditioned by the fact that the normative framework applicable in this respect is a gap and ambiguous one.

The audit activities revealed that, at national level, there was no communication strategy applied by PPA on the purpose and conditions of privatization of state property, as well as the main legislative regulations on this dimension.

*The information of the public was non-transparent and did not lead to attracting a larger number of participants in the privatization, which led to the alienation of goods at reduced prices compared to market prices and the non-collection of related revenues in the state budget.*

The informative communiqués, in which the general conditions and the price of the goods exposed for sale were exposed, were placed on the official website of the PPA and published in the Official Gazette of the Republic of Moldova, the actions carried out having a formal character.

The formal aspect also persisted in disseminating that information abroad. In conclusion, the PPA limited itself to the submission to MFAEI of the communiqués on the initiation of privatization procedures, without requesting the diplomatic missions of the Republic of Moldova

abroad to send the informative communiqué to the competent authorities of the embassies' countries of residence, in order to encourage potential investors to participate in the process. privatization. In conclusion, informing the public about the exposure to privatization of public property was non-transparent and not focused on increasing the interest of potential investors and, implicitly, on attracting more participants to privatization, which led to the alienation of goods at reduced prices. with those of the market, and to the non-collection in the state budget of the afferent revenues.

The process of conducting commercial and investment competitions was marked both by the subjective decisions adopted by the Competition Committee and by the application of unfair treatment of the bidders to privatization, not ensuring fair competition in the participatory process of denationalization of public assets, the Committee adopting some non-compliant and arbitrary decisions in the process of privatization of public patrimony.

According to the audit findings, most of the sale-purchase contracts concluded following commercial tenders, auctions with a call/discount or on the Moldovan Stock Exchange between PPA and the buyers of state objectives do not contain clear terms and guarantees to ensure proper execution of contractual obligations.

At the same time, it is revealed that the contracts in question do not stipulate clear and measurable performance indicators, which limits the seller in his ability to monitor and evaluate in the post-privatization period the implementation of the obligations assumed by the buyer.

According to the changes made within the normative framework, starting with July 2016, the economic agents were obliged to legislate their right to use the publicly owned lands related to the privatized objectives. In the cases of non-compliance of the owners of private constructions with the normative provisions, PPA was to request from them the payment for the use of the public property land related to the private property constructions, under the conditions of the legislation in force. The audit revealed that these normative requirements were not complied with by both the economic agents and the PPA, and the established procedure is not fully

## Taken actions

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

- made amendments to the Law no.121 of from 2017 on the administration and denationalization of public property related to the privatization of uninhabitable rooms leased. These changes will ensure the privatization of uninhabitable rooms leased according to 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 amendments to the legal framework that refer to the determination of the sale of free construction lands, that also establish the need to calculate the market price of state-owned lands under the management of state-owned enterprises subject to privatization, but also regarding the corporate management of enterprises state etc. The draft law for the modification of some normative acts at the moment is to be examined by the Parliament in the final reading.

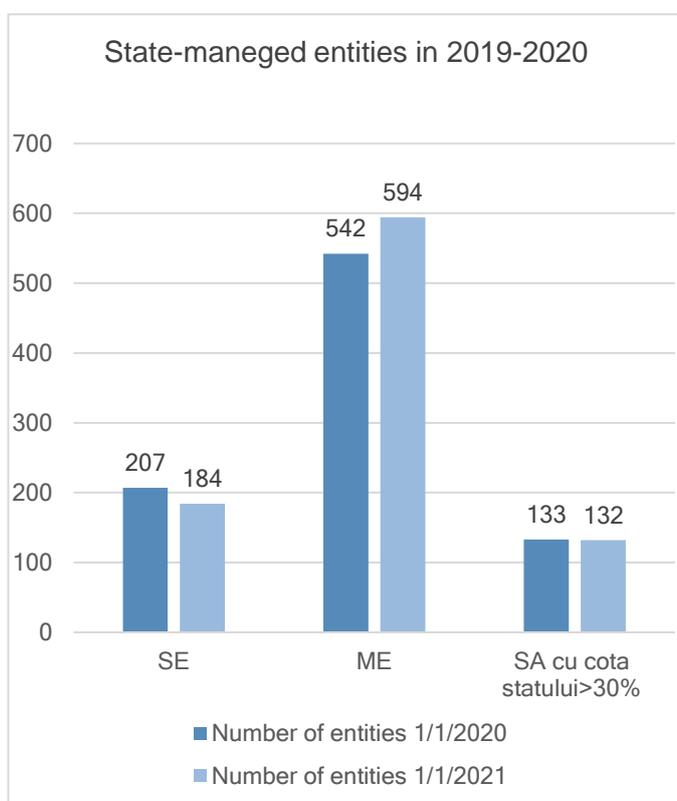
functional and does not ensure the capitalization of the funds in the state budget..

Consequently, the existing legislative gaps in the normative framework related to the privatization of public property, as well as the non-observance of the fundamental principles of legality, transparency and efficiency, applied in the field proper, have led to non-collection of revenues liable to be obtained from the state budget and local budgets estimated by the audit in the total amount of at least 371.2 million lei. On the other hand, the lack of a coherent set of privatization policies, which would outline development directions and priorities, measurable post-privatization actions and indicators, conditioned the impossibility of monitoring, achieving and quantifying the expected impact of denationalization of public property on as well as the development of privatized enterprises.

## State participation in the corporate sector

Corporate governance is the totality of systems and processes implemented to manage an enterprise in order to increase its value. Basically, it refers to the efficiency of management systems, insisting on the role of the founder, the board of directors, the management of the company and the remuneration of members, the credibility of the financial statements and the efficiency of risk management systems.

As of January 1, 2021, the central public authorities (including entities managed by the Public Property Agency) of the state managed 264 entities - economic agents, of which 184 state-owned enterprises and shareholdings in 80 joint-stock companies with a higher state share of 30%, and LPA - 648, of which 54 joint stock companies with local public share



higher than 30%, and respectively 594 municipal enterprises.

In 2020, dividends obtained from the share of public property in joint stock companies and deductions from the *net profit* of state-owned enterprises amounted to 191.55 million lei, including joint stock companies transferred *dividends* in the amount of 104.46 million lei and the enterprises - *breakdowns* in total value of 87.09 million lei, or 54.14 million lei more than in the previous year (dividends - 10.76 million lei; breakdowns - 43.39 million lei)<sup>35</sup>, the situation remaining unchanged from the previous

period.

The State, as the founder, exercises its rights of management of the enterprise through the Board of Directors and the administrator of the enterprise (executive body). The Board of Directors is the collegiate governing body of the enterprise, represents the interests of the state and exercises its activity in accordance with Law no. 246 from 23.11.2017 regarding the state enterprise and the municipal enterprise, the normative acts regulating the field of public property administration and the Regulation of the Board of Directors of the state enterprise, approved by the founder.

<sup>35</sup> Government Report on the execution of the state budget for 2020.

The legal and normative framework establish clear attributions and responsibilities for the management bodies of the state enterprises in the process of administration of the state property. Despite these regulations, the public audit within the audit missions performed at 2 state-owned enterprises<sup>36</sup> stated some shortcomings in the work of the Boards of Directors, which focus in particular on the effectiveness of the mechanism for representing the interests of the state, namely:

- there are no internal regulations regarding the elaboration, modification, disaggregation and monitoring of the annual estimate of revenues and expenditures;
- the nomenclatures and tariffs for services in the ancillary operational activities provided are not properly developed, coordinated and approved;
- the organizational-economic structure, the numerical composition of the enterprise, as well as the fund or the norms for the remuneration of the employees' work are not approved;
- the regulations for the organization and operation of the subsidiaries, as well as the internal regulations of the company, are not approved;
- decisions on ensuring the technical-material base and the elaboration/formation of the production program of the enterprise are not approved;
- no measures are taken to ensure the integrity and efficient use of the goods;

The above findings and the experience from the 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 change and rethinking.

- the presentation to the founder of the external auditor's report on the financial statements of the company is not ensured.

At the same time, the accounting of the financial operations within the audited enterprises is reflected based on the accrual accounting method and

the continuity of the activity, and is kept in the electronic system. Although the approved Accounting Policies were developed according to the National Accounting Standards, the public audit identified some economic facts that were not specified and disclosed in the accounting policy. In this way,

- ✓ the method of accounting for compromised receivables is not identified;
- ✓ the manner of creating, calculating and accounting for provisions, as well as their type (including for compromised claims and payment of holiday allowances) is not provided;

<sup>36</sup> CoA'sD no.68 from 17.12.2020 „On the Audit Report on the compliance of the management of public financial resources and public patrimony by S.E. "Moldovan Railway" during 2018-2019 "; CoA'sD no.71 from 21.12.2020 "Regarding the Audit Report on the compliance of the management of public financial resources and public patrimony by S.E."Security Services" in 2019".

- ✓ the way of keeping the fuel records is reflected vaguely, the data being presented in several positions, in different units of measurement (liters, tons, pieces, ampoule, etc.);
- ✓ the methodology of distribution of operating expenses on different types of services provided is a general one and needs to be improved;
- ✓ changes related to the accounting estimates of the means, etc. are allowed.

The gaps related to the establishment/definition of all the elements characteristic of the quality management system within the enterprise affect the transparency and efficiency of the internal control activities and processes.

The consequences of poor governance, identified in 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 the objectives set and investments to be made. performed.

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*The inadequate implementation within the state enterprises of the corporate governance principles conditioned: i) the non-development of the objective-oriented management systems; ii) inefficiency of financial control, as well as iii) failure to establish managerial control over the risks that may affect the achievement of objectives.*

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

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## Public procurement

Transparent public procurement sets the tone for a good governance. Lately, there is a strong tendency to maintain the number of public procurements made, and any improvement in this system can contribute substantially to increasing the benefits for society. For these reasons, the Court of Accounts intends to focus its efforts on auditing this area. Thus, in the Audit Programs of the Court of Accounts during 2020 and 2021 were included 9 audit missions<sup>37</sup> which aimed to assess the compliance of public procurement in ministries.

Public procurement is a procurement process, through a public procurement contract, of goods, works or services by one or more contracting authorities from the economic operators selected by them, whether or not the goods, works or services are intended for a public purpose<sup>38</sup>. The legal framework that ensures the regulation and governance of the procurement system in the Republic of Moldova consists of an organic law, developed according to the EU directives, and a set of underlying normative acts, containing general and specific provisions, to ensure its correct application.

*As a process, the public procurement is a succession of stages and operations through which a product, service or work is acquired definitively or*

*The experience of the previous years has elucidated the lack of transparency in this field, the imperfection of electronic means, as well as a low degree of professionalism on the part of the actors involved.*

*All these produce negative effects on the provision of quality public services and decrease the trust of the citizens and the business environment in state institutions.*

<sup>37</sup> CoA'sD no.57 from 30.11.2020 "on the Public Procurement Compliance Audit Report within the system of the Ministry of Health, Labor and Social Protection and to some subordinate entities, as well as to other parties involved"; CoA'sD no.73 from 22.12.2020 "on the Report of the compliance audit of public procurement within the Ministry of Education, Culture and Research and some subordinate entities"; CoA'sD no.17 from 29.04.2021 „on the Compliance Audit Report on public procurement within the Ministry of Economy and Infrastructure in 2019-2020; CoA'sD no.34 from 05.07.2021 "on the Public Procurement Compliance Audit Report within the system of the Ministry of Defense in 2019-2020"; CoA'sD no.38 from 19.07.2021 "on the Report of the compliance audit on public procurement within the system of the Ministry of Foreign Affairs and European Integration during 2019-2020"; CoA'sD no.40 from 23.07.2021 "on the Report of the compliance audit on public procurement within the system of the Ministry of Justice in 2019-2020"; CoA'sD no.46 from 29.07.2021 "on the Compliance Audit Report on public procurement within the system of the Ministry of Agriculture, Regional Development and Environment in 2019-2020"; CoA'sD no.48 from 30.07.2021 "on the Report of the compliance audit on public procurement within the system of the Ministry of Finance in 2019-2020" etc.

<sup>38</sup> Art.1 of the Law on public procurement no.131 from 03.07.2015 (hereinafter - Law no.131/2015).

temporarily following the award of a public procurement contract, in order to fulfill a public interest<sup>39</sup>.

The participants/subjects of the public procurement system are the *contracting authorities* (which procure goods/works/services) and the *economic operators* (which deliver goods, execute works and provide services).

Supervision, ex-post control and intersectoral coordination in the field of public procurement is provided by the *Public Procurement Agency*, and the resolution of appeals made in procurement procedures, according to the Law no. 131 from July 3, 2015 on public procurement, is provided by the *National Agency for Resolving Appeals*.



PUBLIC PROCUREMENT IN THE REPUBLIC OF MOLDOVA IS A VERY IMPORTANT AREA IN THE MANAGEMENT OF PUBLIC FINANCES, THEREFORE THE IRREGULARITY OF PROCUREMENT PROCEDURES IMPLIES MAJOR COSTS TO THE PUBLIC BUDGET. THE VALUE OF PUBLIC PROCUREMENTS MADE IN 2020 IS 9.04 BILLION LEI (12,416 CONTRACTS), THEIR SHARE WITHIN GDP IS ON AVERAGE 4.4%.

In order to ensure the transparency and digitization of the public procurement, at the end of 2018 the automated information system "State Register of Public Procurement" was established (hereinafter - AIS "SRPP"/MTender)<sup>40</sup>, which was to ensure the realization by electronic means of the entire cycle of public procurement procedures, from the planning stage to the last payment made upon completion of the execution of public procurement contracts.

The contracting authorities are directly responsible for the regular and efficient performance of public procurement. To this end, working groups are set up within the contracting authority whose tasks are to identify and assess the needs of the contracting authority, to draw up annual and quarterly procurement plans, and to carry out the procurement procedures themselves.

<sup>39</sup> Public procurement guide for contracting authorities. Publication made within the Project "Innovative improvements in the public procurement system of the Republic of Moldova through inclusion, creativity and compliance practices".

<sup>40</sup> G'sD no. 986 from 10.10.2018 "on the approval of the Regulation on the maintenance of the State Register of Public Procurement formed by the Automated Information System" State Register of Public Procurement "(MTender)"; G'sD no.705 from 11.07.2018 "on the approval of the Technical Concept of the Automated Information System" State Register of Public Procurement "(MTender)".

Table no.6

*Information on the distribution of procurement by type of object of procurement  
(goods/works/services) made by contracting authorities in 2020*

*Million lei*

Type of procedure	No.	Procurement procedure	Goods		Works		Services		Total for 2020	
			Amount with VAT	No. of contracts						
Procedures carried out by publishing the notice of participation in the BAP	1	Open auctions	2.962,62	4.939	3.956,46	914	650,31	740	7.569,40	6593
	2	Request for price offers with publication	422,64	3.795	535,54	1.008	112,47	480	1.070,65	5283
	3	Framework agreement, subsequent contracts	1,92	2	0,00	0	0,03	1	1,95	3
Procedures carried out without publication of the notice of participation in the BAP	4	Negotiation without publication	163,13	144	57,73	53	177,78	340	398,64	537
TOTAL			3.550,3	8.880	4.549,7	1.975	940,6	1.561	9.040,6	12.416
SHARE, %			39,27	71,52	50,33	115,91	10,40	12,57	100,00	100,00

Thus, given the significant value of public finances allocated for this purpose, the auditors in the audit missions performed analyzed the planning, conduct and implementation of the procurement procedure.

The main deficiencies found by the Court of Accounts in the audit of public procurement are attested at **the planning stage**, this is largely due to the unjustifiably low importance given to public procurement at this stage by the contracting authority, without taking into account its impact on the final results. Among the most common irregularities attested at the planning stage are:

- lack of annual and quarterly public procurement plans for several CPAs and LPAs;
- public procurement planning without examining and concretizing the needs of the institution for goods, works and services or existing stocks, being allowed the purchase of goods that are not subsequently used;
- incorrect calculation of the estimated value of public procurement due to the incompetence of the contracting authority, which creates impediments to the proper conduct of the public procurement procedure and ultimately leads to inefficient use of public money;
- approval of new capital investment items and directions without taking into account investments initiated and not completed in previous periods. As a result, a large number of objects were started, financed at the level of 20-70% and left unfinished,

- their cost being estimated in the amount of hundreds of millions of lei, this fact generating additional maintenance costs because objectives degrade ;
- lack/insufficiency of the skills of the working group members in developing documents, requirements, quality specifications and objectives, which determines the repeated organization of procurement procedures, delaying project implementation and increasing final costs;
  - lack of delegation/inadequate delegation of responsibilities/duties of the members of the working group and their low responsibility in the public procurement process, including in the execution of legal provisions, being compromised the proper conduct of public procurement procedures;
  - the division of public procurement in order to avoid competitive methods of public procurement procedures;
  - the lack/insufficiency of the working groups' capacities in terms of defining the appropriate evaluation criteria, as well as the lack of exhaustive regulations in this regard.

The public procurement procedure itself, as a rule, is characterized by increased attention from the contracting authority, at the same time there are some deficiencies related to the **execution stage**.

Irregularities related to the stage of performing the public procurement contract are largely caused by the lack/insufficiency of control by the contracting authorities over the fulfillment and completion of the procurement contract, but also by the abusive non-compliance or improper execution of contractual provisions by contracted economic agents, which generates a number of risks, including:

- modification of the contractual clauses, compared to those announced during the procurement;
- unjustified increase in the value of contracts through additional agreements;
- the essential extension of the deadlines for the execution of contracts, as a result of the irresponsibility of the economic agents or, in some cases, of the low-quality project documentation;
- carrying out the additional works without informing the contracting authority in advance and signing the additional agreements upon their completion;
- acceptance of non-qualitative services and goods (e.g. food), including expired, and in the case of medicines - near expiration, contrary to contractual provisions;
- non-execution of the contractual clauses, unpaid works being paid;
- substitution of products without informing the beneficiary and obtaining his approval.

An important issue that the Court of Accounts draws attention to are the 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. At the same time, there is an annual trend of increasing them, only in 2020 the value of the mentioned acquisitions increased by 1.52 billion lei compared to 2019. Although small value purchases have a total value almost equal to that of the procurement procedures themselves, the competent authorities do not yet have official statistics on their total amount, nor is any liability for non-presentation or presentation. erroneous reporting.

The law on public procurement stipulates that public procurement contracts whose estimated value, without value added tax, does not exceed the thresholds mentioned in paragraph (1) of art. 2, are regulated by the Regulation of low value public procurement, approved by the Government<sup>41</sup>.

According to the Regulation, low value public procurement represents public procurement contracts, planned and concluded by contracting authorities, whose estimated value, excluding value added tax, does not exceed 80,000 lei for goods and services and 100,000 lei for works<sup>42</sup>.

We mention that, within the normative framework that regulates low value purchases, the value thresholds were not adjusted, although in 2018, by making amendments to the Law

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*The framework for low value procurement contains only general requirements for carrying out such procedures, which refer to the efficient use of financial resources, transparency, objectivity and impartiality of the procurement process. We point out that, as compliance criteria, they are not sufficient, even for the detection of infringements and infringements, thus persisting the possibility for contracting authorities to act at their discretion.*

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on Public Procurement, the value thresholds were increased to 200,000 lei for goods and services and to 250 000 lei for works.

Also, by approving the flexibility mechanisms for the procurement of goods, services and works necessary to continue to provide assistance in the emergency of public health<sup>43</sup>, many of the mandatory requirements have been raised, creating opportunities to avoid complying with legal provisions.

<sup>41</sup> Art.2 para. (4) of Law no.131/2015.

<sup>42</sup> Point (2) of the G'sD no.665 from 27.05.2016 "For the approval of the Regulation on low value public procurement".

<sup>43</sup> G'sD no.494 from 08.07.2020 "For the approval of the Regulation on public procurement necessary for the prevention and control of COVID-19 infection".

If for the planning of low value public procurement the regulatory framework refers to the general rules for calculating the estimated value of public procurement contracts, provided by law, then when awarding contracts, the regulatory framework is very evasive and does not contain clear qualification criteria, selection and signing of the contract.

With regard to the activity of the working group and its attributions, the normative framework that regulates low value procurement does not contain provisions on this aspect, and the framework on the conduct of public procurement procedures is not applicable.

So, in the absence of additional and exceptional provisions in force, we conclude that the acquisition of low value is not regulated by law, but only by the Regulation approved by G'sD no.665 from 27.05.2016, which needs to be updated, completed, so to establish the exhaustive legal framework, to transpose and to detail the provisions of the Law on public procurement when making small value acquisitions.

Moreover, the regulatory framework expressly establishes which are the public procurement procedures<sup>44</sup>, low value acquisition being excluded from them. Thus, the application of low value procurement, according to the regulations in force, facilitates the non-transparent and inefficient use of public money and does not allow the monitoring of public procurement as a whole.

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, with the responsible authorities (PPA) having the obligation to monitor the compliance of the procurement procedures, except for *small value purchases*. This creates a vacuum for regulating and monitoring low value purchases.

Another significant aspect that influences the overall public procurement system in the Republic of Moldova is the Automated Information System "State Register of Public Procurement" (AIS "SRPP"/MTender).

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<sup>44</sup> Art.46 paragraph (1) of Law no.131 / 2015.

*The main purpose of implementing the AIS SRPP/MTender is to increase the transparency of the public procurement process as a whole, to achieve a better value for money in public procurement procedures and to reduce transaction costs for all parties involved, thus contributing to ensuring a competitive and sustainable national procurement system.*

The main objective of the AIS “SRPP/Mtender” is to prevent acts of corruption and corrupt acts by providing monitoring tools based on data from the entire public procurement cycle and recording all operations and transactions in real time<sup>45</sup>. The information resource on public procurement contracts is formed through the operation of the AIS “SRPP/Mtender”

AIS “SRPP/Mtender” is developed according to the principle „ **everyone sees everything**”, that is, regardless of whether you are a direct participant in the acquisition process, monitor or citizen. Those interested can see how

UNTIL NOW THROUGH THE AIS "STATE REGISTER OF PUBLIC PROCUREMENT" (MTENDER), CONTRACTING AUTHORITIES CAN CARRY OUT ONLY TWO TYPES OF PUBLIC PROCUREMENT PROCEDURES (OF 8 TYPES OF PROCEDURES.):

- OPEN AUCTION,
- REQUEST FOR PRICE OFFERS.

## In conclusion:

Public procurement is an area with high risks of inefficient use of public money, so eradicating this phenomenon requires a joint effort of several institutions, such as: audit and internal control bodies of contracting authorities, investigative and judicial bodies, the Public Procurement Agency and bodies hierarchically superior to contracting authorities. An important role in eradicating this phenomenon also belongs to the Court of Accounts, which presents relevant information on the compliance and performance of public procurement in state institutions.

<sup>45</sup> G'sD no.705 from 11.07.2018 "on the approval of the Technical Concept of the Automated Information System" State Register of Public Procurement "(MTender)".

correctly and efficient each entity spends public money, they can see all the information available, from planning to contracting and even billing.

The audit teams also faced many problems in viewing the information related to the procurement procedures carried out by the contracting authority, in particular concerning the tender evaluation section.

Another issue on which we want to draw attention is the non-correlation of the information from AIS "SRPP"/MTender with the provisions of Law no. 131/2015. The bidder is considered the economic operator that has submitted a bid <sup>46</sup> in the procedure for the award of the public procurement contract. By accessing the AIS "SRPP"/MTender, it can be found that in a certain procedure several economic operators are visible as bidders, but who have not attached any document to the corresponding documentation. In these conditions, we notice that the situation is generated by the lack of controls within the AIS "SRPP"/ MTender (in the module "eDeposition"), which jeopardizes the transparency and proper conduct of public procurement procedures.

The situation described results in a systemic problem, namely the economic operators registered in the procedure do not fall within the notion of *tenderer* and cannot be examined at the stage of selection of tenders and issuance of the contract award decision made by the working group, which influences fair competition, but also allows the registration of economic agents in the procurement procedure without submitting a tender corresponding to the provisions of the legal framework and, finally, limits the contracting authorities in identifying the most relevant tender.

Some shortcomings of the AIS "SRPP"/MTender continue to persist and produce constraints related to the impossibility of automatic generation of announcements, documents part of the award documentation, the award decision, reporting and require additional effort from the contracting authority.

The AIS "SRPP"/MTender system does not ensure full functionality at all stages of the procurement process, including monitoring of public procurement according to several criteria, allowing contracting authorities to neglect certain requirements (placement of documents, etc.), which affects the legality and procurement transparency.

Although the latest version contains a number of updates and improvements, so far only contracts can be found starting with 24.05.2021, i.e. a very limited number. In addition, the number of the procedure, the number of participants, etc. do not appear in the included

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<sup>46</sup> Offer - legal act by which the economic operator expresses its will to legally engage in a public procurement contract. The tender includes the financial proposal, the technical proposal, as well as other documents established by the award documentation.

contracts, thus it is impossible to identify the link between the procedure carried out and the concluded contract.

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*In order to allow the full implementation of the 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.*

*Thus, there is a need for the Ministry of Finance to ensure the full functioning and continuous development of the AIS "SRPP"/MTender, including by adjusting the legal and normative-secondary framework on system functionalities, as well as the development of its user guide.*

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## Measures taken by the authorities to combat the COVID-19 pandemic crisis

COVID-19 infection is a global challenge, being caused by a new virus, SARS-CoV-2, which produces serious consequences, with a medical, social and economic impact.

The World Health Organization has declared COVID-19 a pandemic infection, classifying it as an international public health emergency. The systemic measures taken by the state institutions aimed at preparing the health system, providing technical support, strengthening the capacities of medical institutions and informing the citizens about COVID-19.

Throughout the Parliament's Decision from 17 March 2020<sup>47</sup>, was declared a state of emergency on the entire territory of the Republic of Moldova for 60 days, from March 17 to May 15, 2020. The government had the mission to manage an unprecedented economic and social crisis, amplified by challenges and a number of problems concerning the existing chronic diseases.

The urgent actions undertaken by the Government of the Republic of Moldova were carried out through the National Extraordinary Public Health Committee and the Committee for Exceptional Situations.

The Government, throughout the mentioned Commissions, has approved a series of measures for the identification, reallocation and mobilization of financial means, in order to support the public sectors and mitigate the impact of the COVID-19 pandemic on the economy and the population. Existing spending programs have been revised and decisions with immediate and long-term impact have been approved, aimed at reducing the negative effects on the economy, the health system and the social sphere.

Shortly after the onset of the emergency, a series of regulations were drafted and promoted on the platform of the Exceptional Situations Committee, in order to reduce the negative economic impact of the pandemic crisis on the business environment, including for SMEs. The measures envisaged were aimed at supporting economic and contributing to the fight against the crisis, in particular by:

*In the Republic of Moldova, on March 7, 2020, was confirmed the first case of import of Covid-19 infection. Soon, due to the substantial increase in the number of infections, was announced the national yellow code, from March 8 - the orange code, and on March 13 - the red code.*

<sup>47</sup> Parliament's Decision no.55 from 17.03.2020 on declaring the state of emergency.

- direct support programs for entrepreneurial activity;
- the most significant changes in the fiscal field operated by the CES's Provisions, Law no.60/2020, Law no.69/2020, Law no.102/2020 (other than those of direct support), which reflected a more flexible framework of measures budgetary support, including to support the other components of the national public budget, such as local budgets, the state social insurance budget and compulsory health insurance funds. Thus, based on the amendments made to the Annual Budget Law, budget allocations were provided for measures taken in the economic field, social support, health and education.

The budgetary system in 2020 was under the effects of the pandemic, which led to the urgent and significant revision of the main indicators of the components: the state budget, the state social insurance budget, the compulsory health insurance fund, and local budgets.

The basic factors that determined the changes to the SB for 2020 were: (i) the impact of the COVID-19 pandemic on the national economy; (ii) adjusting the amounts of inflows of grants and loans for budget support and projects financed from external sources; (iii) reviewing and prioritizing spending programs, without affecting priority spending, including new programs; (iv) compensation of missed revenues by local budgets (192.1 million lei), SSIB (682.3 million lei) and CHIF (410.6 million lei), while maintaining the level of CHIF expenditures, despite the failure income by them. At the same time, budgets incurred expenditure from own sources that was not reported on separate expenditure lines.

The measures envisaged were aimed at supporting economic and combating the crisis, in particular:

- granting subsidies to enterprises and non-commercial organizations, residents of the Republic of Moldova, which have established technical and/or stationary unemployment as a result of the epidemiological situation, in the amount of 59.2 million lei;
- granting subsidies for expenses related to the payment of salary/allowance in case of technical unemployment, with the amount of subsidies requested in the amount of 88.5 million lei;
- subsidizing the compulsory state social insurance contributions in a fixed amount, in the amount of 529.9 thousand lei.

The audit missions carried out by the Court of Accounts highlighted the problems, non-compliances and difficulties faced by public entities during the pandemic period in managing the public system and combating the effects caused by COVID-19, largely caused by:

- ✓ priority and lack of practices in emergency management;
- ✓ ambiguities of the normative framework;
- ✓ fragmented inter-sectoral communication of the parties involved;
- ✓ low responsibility of decision-making management;
- ✓ insufficiency of the measures for monitoring and supervising the implementation of the established actions;
- ✓ lack of integrated information systems for facilitating and holding data related to the processes of registration of medical services, public procurement, etc.

An important aspect of the reporting period relates to public procurement related to the management of the COVID-19 pandemic.

Central public authorities have conducted public procurement of consumables and medical equipment to combat the COVID-19 pandemic. Whether it is the centralized or individual procurement mechanism, they were accompanied by deficiencies, which denote the need to streamline management control mechanisms and processes, taking into account the lessons learned. These experiences can provide lessons for possible future reforms of public administration authorities in the Republic of Moldova.

During the same period, were established reporting, transparency and audit measures on public procurement to prevent and combat COVID-19 infection, with contracting authorities being required to report to the Public Procurement Agency and publish separate reports on their websites within those deadlines. In turn, the Agency shall ensure the collection, generalization and publication of relevant public procurement data at national level.

Public procurement related to the prevention and control of COVID-19 infection was intended for the purchase of disinfectants, gloves, protective masks, medical equipment, pharmaceuticals, computer technology, purchased under low value public procurement contracts. It should be noted that all the deficiencies related to small value acquisitions also

*For the social and medical sectors specific measures have been established, aimed at providing quality and supportive services to citizens, in particular related to the provision of free medical care for patients with COVID-19, the purchase of medicines and personal protective equipment, support for people who during the state of they lost their jobs, providing financial support for disadvantaged families, distributing pensions, state social allowances and other social benefits, etc.*

influenced the acquisitions made in the context of the pandemic. Moreover, the facilities granted (simplification of contracting conditions) favored the avoidance of compliance with legal provisions and contributed to accentuating non-transparency and diminishing fair competition between economic operators.

In this regard, the Court of Accounts has made recommendations aimed at improving management processes, remedying the deficiencies and deficiencies found, by implementing measures and activities related to:

- adjusting the regulatory framework in order to eliminate ambiguities, in particular the regulation of the commercial supplement for medical devices, in particular those purchased from public financial means;
- efficient administration with the use of public resources and the processes of contracting, reporting and paying for medical services;
- increasing access to state-guaranteed medical and social services, ensuring the accountability of institutions involved in the provision of social and medical services, with the resulting use of public financial means;
- the proper conduct of public procurement, ensuring the exact planning of needs, but also the stages of approval, evaluation and determination of winning bids, contracting, execution, monitoring and reporting, in terms of their responsibilities;
- development of the integrated information system related to the entire public procurement process, in particular on: determining the needs of medicines, medical devices, etc., contracting, delivery, use and stock records, which will ensure the management of the consolidated public procurement system for all institutions levels etc.

The pandemic generated by the SARS-CoV-2 virus put pressure on the budgetary system, which is in the situation of allocating and redirecting financial means under the conditions of an austere budget.

The health and social systems have been the main segments in the management of the pandemic situation, being a priority concerned with the continuous provision of services and the necessary support to citizens, especially through the implementation of policies for consolidation and financial support of public institutions.

## Use of external financing

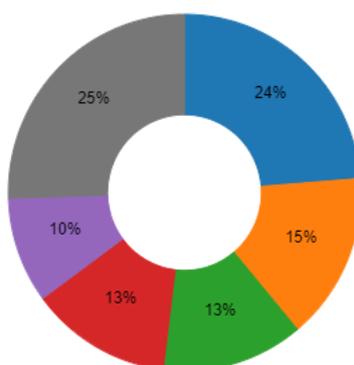
The contradictions between growing needs and declining own economic incomes <sup>48</sup> increase the need for external assistance, which, in the form of funding, largely contributes to bridging the gap between underdeveloped and underdeveloped countries. For the Republic of Moldova, external development assistance is a relatively new concept. Given the fact that the Republic of Moldova is a relatively young state, the external assistance provided by the development partners plays an important role in supporting the country's development and in achieving the objectives set in the reform agenda.

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 its main development partners and external donors, such as: the European Union, the World Bank, the United States America, the European Investment Bank, etc.<sup>49</sup>

### TOP GRUPARI DE FINANȚATORI

Angajamente curente: 5,4B EUR

● Uniunea Europeană      ● Banca Mondială      ● Statele Unite ale Americii      ● Banca Europeană de Investiții  
● Banca Europeană pentru Reconstrucție și Dezvoltare      ● Altele



We mention that *the European Union (EU) remains the main actor* in terms of non-reimbursable financial assistance provided to the Republic of Moldova, allocating from the beginning of cooperation over 1.29 billion. euro in the form of a grant. The main objective of the European Union's external assistance is to establish a strengthened public administration. A substantial contribution is intended to support the strengthening of the institutional and functional capacities of central and local public administration authorities.

Since the declaration of independence and until now, the Republic of Moldova has benefited from external financial assistance in a total amount of about 5.4 billion euro for

<sup>48</sup> Government's Report on the execution of the State Budget for 2020, page 46.

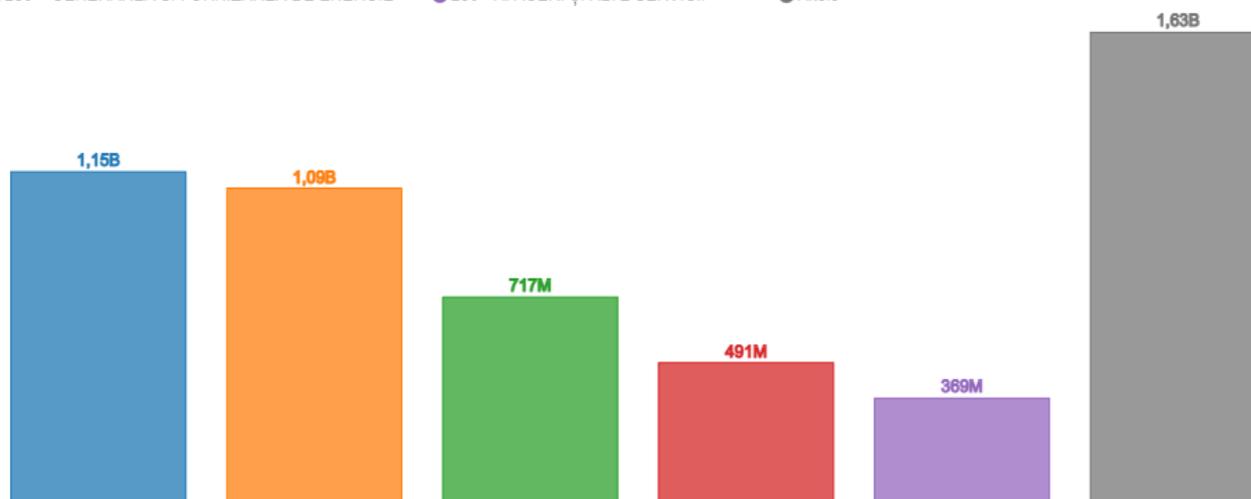
<sup>49</sup> <http://amp.gov.md/portal/>

the following core sectors:

### TOP SECTOARE

- 150 – GUVERNUL ȘI SOCIETATEA CIVILA
- 210 - TRANSPORT ȘI DEPOZITARE
- 311 – AGRICULTURA
- 230 – GENERAREA ȘI FURNIZAREA DE ENERGIE
- 250 - AFACERI ȘI ALTE SERVICII
- Altele

**Angajamente curente: 5,4B EUR**



Most of the donated 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 irrigation systems and in agriculture.

The administrative capacity to absorb external funds is important from the perspective of Moldova's accession to the EU, as well as the general process of economic and social development of the country. That indicator corresponds to a country's competence to spend efficiently and effectively the financial resources allocated by development partners.

The institutional framework determines the efficiency and the optimal and timely development of the external assistance projects implemented by the national authorities. In this concern, the constantly changing circumstances at national and European level have determined the need to adapt the management and control system for externally funded programs to the new programming requirements, ensuring the concentration of the coordination and management function of external assistance (both financial, as well as technical) only in the sphere of competence of a single authority of the central public administration, namely the Ministry of Finance.

The distribution of responsibilities between the institutions involved in the management of the field and the systemic approach in setting development priorities are the factors that determine the overall efficiency of the processes of allocating external assistance. In this regard, it is crucial to have strong institutions with well-qualified and motivated staff, because no reform will be possible without it.

The sustainability of the implementation of external assistance projects depends on the existence of effective procedures and tools, which refer to relevant instructions, methods, manuals, forms or procedures. The system of procedures and tools, in order to be effective, must guarantee the accumulation and transmission of knowledge.

The existence of systems and tools reduces the vulnerability of implementing institutions, reducing the negative impact generated by staff turnover and helping them to function efficiently. Increasing the administrative and knowledge capacity of local and central authorities should be achieved in order to identify opportunities for the development of more revenue-generating projects to repay borrowed funds.

The role of the CoARM in this process is to help ensure the procedures for implementing externally funded programs, namely in the field of audit and control management, as well as to prevent and combat fraud or corruption in these matters. It is important to assume the responsibility to maintain and promote the values and bridges of communication through our activity, thanks to the external financial partnerships created, thus contributing to the promotion of the European credibility of the Republic of Moldova.

Also, in the context of the use of external financing, the Republic of Moldova has benefited since 2006 from *sector budget support programs* from the European Union.

Budget support involves the transfer of funds to the partner country subject to compliance with the agreed payment terms. Compliance with these conditions is an essential requirement for budget support (a principle known as "conditionality"). Fixed installments are paid if the eligibility criteria are met. European Union budget support is subject to the following eligibility criteria: a stable macroeconomic framework, sound management of public finances, transparency and budgetary and policy oversight, relevant and credible reforms at national/sectoral level. The tranches also depend on the progress made under the specific conditions.

The total volume of budget support programs offered to the Republic of Moldova so far has been about 280 million euros (in the form of a grant for 6 programs). The sectors that have benefited from this support are: social assistance, health, water and sewerage, economic stimulation of rural areas, energy and justice.

Table no.6

*Grants to support the budget in 2020*

	<i>Approved</i>	<i>Specified</i>	<i>Executed</i>
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	Million euro	Million lei	Million euro	Million lei	Million euro	Million lei
The European Committee (budget support)	43,0	968,8	23,0	456,7	16,7	335,4
Macro financial support	20,0	450,6	10,0	196,7	11,7	229,8
Police reform, including support for the General Inspectorate of Carabineers	13,0	292,9	13,0	260,0	5,0	105,6
Public finance reform	10,0	225,3	-	-	-	-

*The grants for projects financed from external sources*, supported by the European Commission, the World Bank, the EBRD, IFAD, the German Bank KfW and other donors, were initially approved in the amount of 804.7 million lei (equivalent to 43.55 million US dollars). As a result of the execution of projects during the year, the conclusion of new agreements, as well as the fluctuation of the exchange rate, the initial plan for disbursement of grants was reduced by 309.4 million lei and amounted to 495.3 million lei (the equivalent of 27,1 million US dollars). Disbursements amounted to 288.8 million lei (equivalent to about 17.1 million US dollars). Compared to 2019, fewer grants were disbursed for projects financed from external sources, by 17.1 million lei.

We draw attention to the low level of capitalization of allocated financial resources, which, in the end, has a negative impact on the state budget. In this context, we mention that, during 2020, 3 amendments were made to the Annual Budget Law, including the increase for the domestic state debt ceiling up to 29,500.9 million lei (+3 793.6 million lei), and for the external state debt - up to 45,660.2 million lei (equivalent to 2,519.9 million US dollars) (+3,839.3 million lei). According to the Ministry of Finance, the situation occurred *"due to the planned increase in the financing of the budget deficit from external and internal state loans intended to finance budget support"*.

The audit activity<sup>50</sup> clarified that the use of external resources below the level of allocations was mainly due to:

- 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, determined especially by the long process of carrying out the acquisitions of goods and services;

<sup>50</sup> CoA'sD no.60 from 04.12.2020 "on the Audit Report on the financial reports of the Project" Education Reform in Moldova "concluded on December 31, 2019"; CoA'sD no.44 from 28.07.2021 "on the Audit Report on the financial statements of the Technical Assistance Project component of the Program" Modernization of the health sector in the Republic of Moldova "concluded on December 31, 2020".

- non-disbursement of contracted financial means increases the risk of incurring additional expenses, as a result of applying commissions to non-disbursed resources;
- modest project management capabilities in some sectors;
- slow execution of works by local contractors, etc.

External assistance provided by development partners is essential in the process of modernizing the public sector.

In this context, the role of the Court of Accounts is a substantial one in carrying out the independent and objective evaluation of the way in which the external financial resources were managed/realized and of the way of implementing the projects with their support.

Over the years, the Court of Accounts has audited several projects financed by the World Bank, which, in this context, highly appreciated the quality of public audits, confirming the confidence in the quality and credibility of the CoARM's work.

The Court of Accounts notified the Prosecutor's Office and other law enforcement bodies on time and in the established manner and submitted the materials related to the audit missions within which fraud and corruption indices were established.

## Fight against fraud and corruption

In accordance with the International Standards of Supreme Audit Institutions <sup>51</sup>, the Court's role is to assess risks in audit missions so as to enable the auditor to obtain reasonable assurance that any significant errors and distortions caused by fraud can be detected. The main task in preventing and detecting fraud lies with those responsible for organizational governance and management of the audited entity.

During the reporting period (16 September 2020 - 15 September 2021), following the assessment of the risks of fraud and error in the management of finances and public assets, the Court of Accounts submitted to the law enforcement bodies the materials of 8 audit missions performed during the reporting period, on which a criminal case was initiated, a refusal was ordered to start the criminal investigation, and 6 audit reports are under examination.

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

- management of public financial resources and public patrimony by the State Enterprise "Moldovan Railway" during 2018 - 2019<sup>52</sup>;
- management of the public patrimony within the administrative-territorial unit of Băcioi commune<sup>53</sup>;

<sup>51</sup> INTOSAI-P 12 "The value and benefits of Supreme Audit Institutions - to make a difference in the lives of citizens"; ISSAI 100 "Fundamental principles for public sector audit"; ISSAI 200-299 "Fundamental principles of financial audit".

<sup>52</sup> CoA'sD no.68 from 17.12.2020 „on the Audit Report on the compliance of the management of public financial resources and public patrimony by S.E. "Moldovan Railway" during 2018-2019".

<sup>53</sup> CoA'sD no.65 from 14.12.2020 "on the Compliance Audit Report on the budgetary process and management of public assets at the administrative-territorial unit of Băcioi commune in 2019".

- the process of sale-purchase of lands in the private domain of the state related to real estate privately owned for the years 2013-2019<sup>54</sup>;
- the process of managing the financial resources of the Civil Aviation Authority<sup>55</sup>;
- the salary process in 2019 in some pre-university education institutions subordinated to the Local Public Authorities<sup>56</sup> etc.

One of the domains most often affected by fraud is the transparent and responsible management of public assets and finances. To a large extent, the economic and financial situation of the entity will depend on the efficiency of the asset management. It is plausible that multiple public entities transfer unused assets on lease or loan, however such activity always involves the presence of corruption risks. In this context, the imperfect management of the public patrimony is found by carrying out the defective privatizations, the fraud of the auctions, the underestimation of the value of the goods, etc., which can generate significant annual losses for the budget. Likewise, in the audit missions it was found countless times that the normative prices for the privatization of uninhabitable areas are several times lower than the market ones, which also leads to the damage of the budget.

The vulnerabilities of the public procurement system, both at the level of the legislative framework and at the institutional level, are likely to potentiate the risk of corruption in the field, and the conduct of procurement procedures implies the likelihood of numerous risks of fraud. As a result of the audit activity, non-compliances were found at all stages of planning, awarding and executing public procurement contracts.

The analysis of the audit findings demonstrates the existence of risk areas and patterns (representative patterns) of corruption, such as:

- elaboration of technical specifications, so as to favor certain bidders;
- dividing a lot into several purchases with lower values, in order to avoid competitive procedures;
- conflicts of interest affecting various stages of the procedure;
- unjustified exclusions from tenderers' procedures;
- unjustified use of emergency procedures;
- lack of an adequate analysis of the very low prices offered;
- excessive use of the lowest price criterion to the detriment of quality, etc.

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<sup>54</sup> CoA'sD no.69 from 18.12.2020 "on the Report on the audit of the conformity of the sale-purchase of lands related to state public property during 2013-2019".

<sup>55</sup> CoA'sD no.16 from 29.04.2021 "on the Audit Report on the consolidated financial statements of the Ministry of Economy and Infrastructure concluded on December 31, 2020".

<sup>56</sup> CoA'sD no.48 from 28.10.2020 "on the approval of the Report on the audit of salary compliance in 2019 in some pre-university educational institutions subordinated to the Local Public Authorities".

Possible losses in public procurement affect the development of the infrastructure and public services, while damaging the business environment and affecting the quality of life of citizens. Moreover, achieving high performance in public procurement can be ensured by improving the regulatory, supervisory and control framework for public procurement.

In the activity of SEs and JSCs with the state's share, several risks of fraud and corruption were also identified, of which the highest probability of materialization is the risks of embezzlement and misuse of assets, as well as exceeding the duties of decision makers, influence peddling, abuse of office, non-declaration of conflict of interest. These risks are mainly generated by the interpretability of the regulatory framework with reference to the activity and administration of assets, gaps in the regulatory framework regarding procurement procedures, ambiguity of administrative procedures and inefficient control over economic and financial activity by the founder, poor implementation of internal management control mechanisms within private law entities, etc. (State Enterprise "Moldovan Railway"). In order to ensure the finality of the cases initiated, during that period the Court of Accounts participated as a party in legal proceedings. Thus, the interests of the Court of Accounts were represented in the courts in 4 cases, of which 2 are finalized with a win, the decisions of the courts being final and irrevocable. The other 2 cases are being examined in court for the decision:

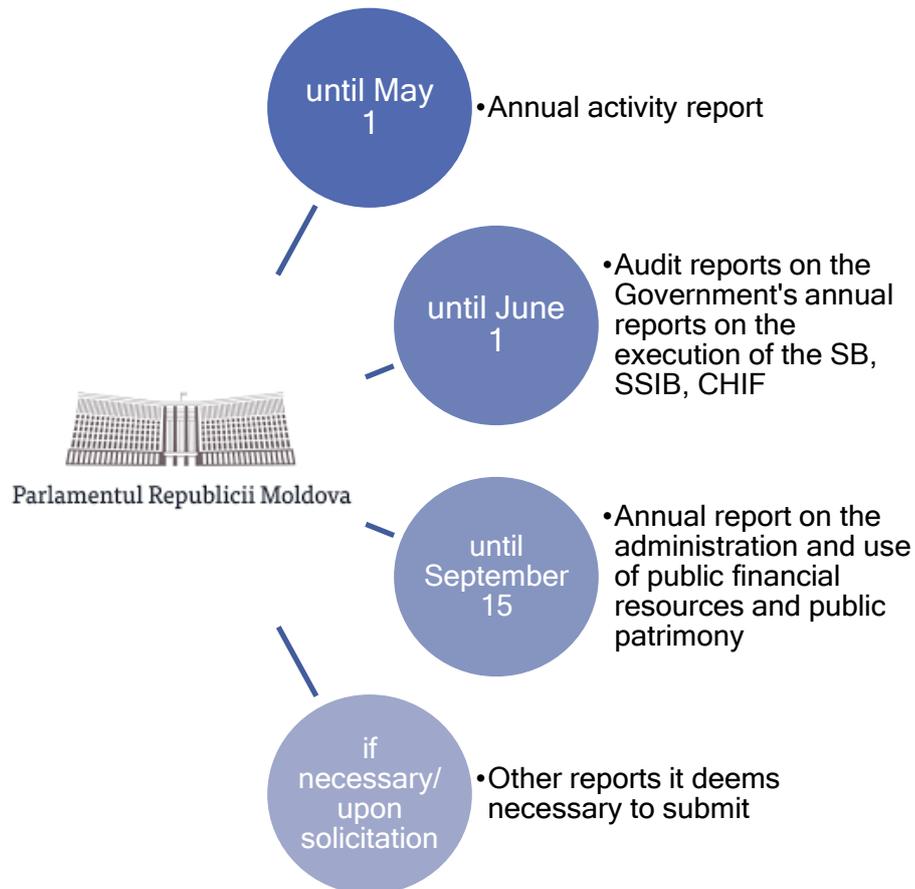
- the criminal case filed by the prosecutor's office on the audit materials submitted by the Court of Accounts, the investigation of the case being completed;
- civil case under examination in the administrative contentious court.

In conclusion, although fraud can manifest itself in various ways, the implementation within the entity of a zero tolerance policy against fraud and corruption and the establishment of an appropriate control system can make it possible to prevent and detect acts of fraud, as well as correcting their impact, if they occur.

*We mention that so far all the litigations with the participation of the Court of Accounts have been finalized with a win, the decisions of the courts being final and irrevocable.*

## CoARM's collaboration with the Parliament

In accordance with the requirements of the Law no.260 from 07.12.2017 on the organization



and functioning of the Court of Accounts of the Republic of Moldova, the CoARM annually prepares and presents to the Parliament, in May, the Annual Activity Report of the Court of Accounts, in June - Audit reports on the Government's annual reports on the execution of the state budget, the state social insurance budget and the compulsory health insurance funds, as well as the Reports of the obligatory financial audits, carried out at the ministries, for the concluded budget year, and in September - Report on resource administration and use public finances and public assets.

During the reported period, the Court of Accounts submitted 75 audit reports to the Parliamentary Committee, 31 audit reports were examined during the PFCC's meetings, with the participation of both the public auditors of the Court of Accounts and the representatives of the audited entities. Following these hearings, reports were issued by the Committee, which includes its decisions on the conditions and deadlines for reporting on the actions taken to implement the audit recommendations, informing the Committee of the results of the monitoring of the execution of the Court of Accounts' judgments.

By examining within the Public Finance Control Committee the results of the external public audit missions performed by the Court of Accounts in the context of its legal mandate, the budget is controlled after its implementation, including in terms of reliability, accuracy,

completeness and compliance with procedures/the laws applied, as well as the evaluation of the extent to which the budget has been executed for the purposes indicated at its adoption.

The decisions of the Court of Accounts are published in the Official Gazette of the Republic of Moldova, and the audit reports are available on the official website of the institution (<http://www.ccrm.md/ro/decisions>).

The activity of the Court of Accounts is carried out on the basis of an annual Audit Program, on which the Court decides independently. During the reporting period, on the basis of Parliament's proposals and judgments, the Court of Accounts decided to include in the audit program and carried out several tasks, including assessing the denationalization of public property, privatization of state assets, public-private partnerships, as well as the resources allocated by various projects and funds, etc. The Court shall report to the Parliament within the required timeframe on the outcome of the missions carried out. These audit reports, as well as others, formed the basis for hearings in parliamentary committees and in plenary sessions of the Legislature.

During the reporting period, the attention of the profile Committee focused on the examination of the financial reports of the ministries, the audits carried out within the SEs and JSCs with the share of the state, in which were revealed the existing problems, which are relevant for citizens, and last but not least, the results of thematic audit missions that elucidated priority topics for the country and society, such as: implementation of national projects and programs in the field of agriculture and social protection, including funded by external partners, audits of the environment and IT systems, etc.

During the reporting period, the CoARM, in addition to the audit reports, prepared and presented for the first time to the PFCC a set of general summaries of the results of the audit activity in some areas of major importance to society, which

## SIGMA

### Document no.54

"A fundamental role of a Parliament is to approve the Government's budget, ensuring, on behalf of citizens and users of public services, that the Government uses the resources legally and responsibly, for the intended purposes and economically, effectively and efficiently. In order to carry out this task effectively, the Parliament needs objective and evidence-based information on how the Government collects and spends public funds. "

aim to aggregate the main findings of the thematic reports and to elucidate the situations identified in numerous audit missions.

The PFCC strongly promotes the development of the external public audit activity and the increase of the impact of the results of the audit activity. In this context, the activity of the profile Committee focused during the reporting period on the implementation of the audit recommendations, in this respect a meeting was organized with the participation of the representatives of the CoARM and the audited entities, during which the way in which the audit recommendations were put into practice was examined, as well as the improvements that followed.

Although the reports sent to the profile committee form the basis of the relationship between the Court of Accounts and the Parliament, the Court not only provides audit materials, but also takes initiatives to establish good working relations with the Legislature, raising awareness of the role of the Supreme Audits and assists in understanding the audit reports. In the context of the many problems related to the good management of public money, the role of the Committee is a strong one, taking into account the levers of responsibility of the management of audited entities and not only, and the Court of Accounts places special emphasis on working with the Committee by having a transparent and efficient collaboration in this process. Also during the same period, the CoARM, together with the PFCC, emphasized the impact of the audit activity, holding meetings to examine the results of the implementation of the Court of Accounts' recommendations, which aims to remedy audit deficiencies and compliance and accountability of audited entities. on the importance of implementing the formulated recommendations.

We mention that, during 2021, the reports of the Court of Accounts, in addition to the examinations within the profile Parliamentary Committee, were also examined within the specialized parliamentary committees, according to the assigned areas of competence.

## Impact of the audit activity

The Court of Accounts is the public institution that constantly provides information in its reports on how money is spent by central and local public authorities and on the performance of the public sector. Also in its reports, the Court makes recommendations aimed at supporting audited entities by improving and strengthening institutional management and eliminating audit deficiencies. The recommendations made are likely to contribute to addressing the weaknesses or problems identified by the audit, to optimizing the management of resources based on the principles of good governance, in terms of benefits for society.

The obligation to implement the recommendations of the Court of Accounts is expressly provided by the Law on the organization and functioning of the Court of Accounts of the Republic of Moldova. 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, and the Court must ensure the monitoring of their implementation.

The Court of Accounts has set up its own mechanism for monitoring the degree of implementation of the audit recommendations, which ensures the monitoring of the execution time of its decisions, visualization in real time of information on the actions taken by audited entities to execute audit recommendations, evaluation in quantitative and qualitative aspect of their degree of compliance with the audit recommendations.

The retrospective analysis of the degree of implementation of the audit recommendations from previous years shows an increase in the quality of financial management in several entities, as a performance generating factor and premise for optimizing the activity, and in other institutions - an efficiency of financial-accounting management with effect on the correct, real and exact presentation of the situation of the patrimony administered by them.

## Priority

Through the recommendations made and the measures ordered, the Court of Accounts has consistently and continuously aimed at promoting a culture of management quality and improving the economic and financial performance of the entities within its audit competence, based on compliance with the regulatory framework specific to each area of activity. Based on the principle of the prevalence of the qualitative side, the activity of the Court of Accounts is not limited to the ascertaining aspect of the deviations identified in the audit missions, the approach area aiming at supporting any legal approach by the audited entities.

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.

Depending on the defining nature of the discovered irregularities, the recommendations made were mainly operational (50%) and aimed, in large part, at approving and amending the internal regulations of the entity or those issued by regulatory authorities or hierarchically superior bodies, elaboration of processes and procedures, implementation of the elements of the internal control system, etc. The number of technical recommendations was also considerable (40%), which essentially referred to the keeping of accounts according to the reporting framework in the field. The recommendations regarding the adjustment of the legislative-normative framework, taking into account the complexity of their implementation, constituted about 10%.

At the same time, the audited entities properly addressed the problems found, as a result, during the period 2019-2020, during the audit missions carried out, it was succeeded:

- the registration in the accounting records of lands in the amount of about **410.4 million lei**;
- proper accounting of real estate in the amount of about **262.8 million lei**;
- the correction of the entries in the accounting records of the ministries in the total amount of **52.6 million lei**, as well as within the accounting records of other audited entities in the amount of over **94.4 million lei**;
- evaluation and accounting of buildings and lands in total amount of **218.8 million lei**, including **76** buildings at the value of **156.0 million lei** and **26** lands at the value of **62.8 million lei**.

The analysis of the remedies performed during the audit missions demonstrates a significant improvement of the quality of the accounting and financial reporting process within the ministries, which is due to the annual accomplishment of the mandatory financial audit missions.

*The summary of the impact of the implementation of the measures issued by the Court of Accounts* on the activity of the audited entities reveals a series of positive aspects, with an impact on the entire activity of the audited entities and not only, from the realistic substantiation of the draft annual budget, the registration of all operations in the accounting and fiscal records, the administration of the patrimony in legal conditions, until the increase of the quality of the economic-financial management.

Following the audit recommendations, concrete steps have been taken to adjust the legal and regulatory framework governing the activity of the audited entities, the public sector and, finally, to bring about a change in the lives of citizens.

- *Improving the legal framework.* The audit missions carried out by the Court of Accounts identified some legislative imperfections and concerning their elimination/settlement were formulated recommendations that led to the adoption of normative acts, as well as to the modification and/or completion of the existing ones, most of the amendments referring to the system of accounting and financial reporting. In this regard we mention several examples:
  - the operation of the amendments to the Law no.1134 from 02.04.1997 regarding the joint stock companies, by which it was established the obligation to audit the annual financial statements of the companies in which the state share exceeds 50 percent of the share capital;
  - approval of amendments<sup>57</sup> to the Law on public internal financial control no.229/2010 and the Law on local public authorities no.436/2006, which extended the rights of LPA bodies and mayors to contract or associate in internal audit, which will strengthen the implementation the internal managerial control system and the internal audit activity in the public sector, including at the level of LPAA;
  - adopting the amendments to the Law on public finances and budgetary-fiscal responsibility no.181/2014 in case the Court of Accounts issues a contrary opinion or in case of impossibility to express the opinion on the financial situation, by which the hierarchically superior authority or the authority that has the legal competence to appoint the head of the budgetary authority/institution or independent budgetary authority will initiate disciplinary proceedings against the manager responsible for the audited period<sup>58</sup>;
  - approving the amendments to Law no.260/2017 on the organization and functioning of the Court of Accounts of the Republic of Moldova which established functional mechanisms of managerial responsibility for good governance and increasing the impact of audit reports, with real effects on the management of public financial resources and use public patrimony<sup>59</sup>etc.
- *Elaboration and substantiation of the own budget project.* Within the audited entities there was an upward trend in awareness of the importance of how to forecast, substantiate and schedule public funds, according to the entity's objectives, while establishing performance indicators at their level, aiming at a good execution and avoidance of budget appropriations.
- *The accuracy and reality of the data reflected in the financial statements.* The measures provided helped to optimize the activity of the entities in terms of the quality of the data

<sup>57</sup> Law no.257 from 16.12.2020 regarding the amendment of some normative acts.

<sup>58</sup> [https://www.legis.md/cautare/getResults?doc\\_id=126144&lang=ro](https://www.legis.md/cautare/getResults?doc_id=126144&lang=ro)

<sup>59</sup> Law no.10 from 12.02.2021 for the modification of some normative acts.

mirrored and presented in the financial statements, by making staff aware of the importance of the accuracy of the data recorded in the accounting records.

- *Organizing, implementing and maintaining internal management and control systems* (including internal audit). The formulated recommendations contributed to the consolidation of the internal managerial control of the audited entities. It is necessary to understand the internal managerial control as the activity that influences the resources, systems, processes, culture, structure and tasks of each public institution and the fact that there must be coherence between the organization and functioning regulation, the elaborated procedures and the tasks highlighted in the job descriptions, so that the general objectives at the level of the organization are translated into objectives at an individual level.
- *The quality of the economic-financial management.* Through the measures ordered regarding the quality of the economic-financial management, the Court of Accounts contributed to the increase of the degree of compliance with the principles and rules governing the execution of the budgetary expenditures and to the promotion by the audited entities of the responsibility in the act of public resources management.

**We draw attention to some of the concrete results obtained through the actions taken by the audited entities in order to implement the audit recommendations with a positive impact on the following areas.**

➤ ***Patrimony management:***

- amendments were made to the annexes to the *Government's Decision no.351/2005* - **429 state-owned real estates** under the management of the National Agency for Food Safety were registered;
- amendments were made to the *Government's Decision no. 161/2019* - **216 real estate** were registered;
- was completed the *Government's Decision no.351/2005* with **46 new lands** delimited by belonging and domain and **33 new goods** identified;
- amendments were made to the annexes of the *Government's Decision no.467 from 09.10.2019* - were registered **532 real estate** under the management of the Ministry of Defense;
- changes were made in the annexes of the *Government's Decision no.346 of 10.06.2020* - **32 assets** from the administration of PPA were registered;
- amendments were made to the annexes of the *Government's Decision no.470 of 08.07.2020* - **27 real estate** managed by the Ministry of Defense were registered;
- amendments were made to the annexes of the *Government's Decision no.351/2005* - were registered **475 real estate** under the management of the

National Agency for Food Safety and 7 real estate under the administration of the National Anticorruption Center;

- PPA was empowered with competences regarding the approval of the surface of state-owned land used in the technological process, related to privatized or being privatized objectives, private objectives, as well as land used in the technological process, related to unfinished constructions and elaboration of price calculation slips land sales;
- were approved the *Government's Decision no.91/2019* and the amendments to the *Government's Decision no.1428 from December 16, 2008 "For the approval of the Regulation on the sale-purchase and the lease/tenancy of the afferent lands"*;
- was elaborated the State Program for the delimitation of real estate, including the lands of public property for the years 2019-2023, approved throughout the *Government's Decision no.80/2019*;
- were identified: **86 lands in the public domain** on which private property constructions are located and **35 lands in the private domain** on which private property constructions are located (inventory of lands included in the *Government's Decision no.161/2019*).

➤ **Accounting and financial reporting:**

- Was modified the Plan of accounts accordingly to the:
  - *Order of the MoF no.132 from 08.10.2019*;
  - *Order of the MoF no.133 from 08.10.2019*;
  - *Order of the MoF no.180 from 31-12-2020*,
- Were modified:
  - the Form no.35 according to the *Order of the MoF no.216 from 31.12.2015*;
  - MRI 19 report - was created the new MRI 19 report according to the *Order of the MoF no. 33 from 19.02.2019*;
  - changes were made in the calculation of the annual prize according to point 7 of the *G'sD no.537 from 06.06.2018*;
- the form MF-6 Minutes regarding the increase of the value of fixed assets and the recalculation of the annual wear and tear according to the *Order of the MoF no.216 from 28.12.2015* was added;

- the method of calculating medical leave was changed according to the amendments in the legislation from 01.07.2019;
  - the calculation document of the annual award for teachers was modified according to the *G'sD no. 1231 from 12.12.2018*;
  - was modified the Personal file/Annex no.8 according to the *G'sD no.970 from 03.10.2018*;
  - was modified the Order no.38 from 17.02.2017 in the aspect of the forms of the Reports regarding the execution of the state social insurance budget and of the Methodological Norms regarding the way of their elaboration;
  - was developed and approved a new real estate and land valuation mechanism, which does not require financial resources for contracting valuation services, being used as the primary recognition value the cadastral value of real estate and land.
- **Lease of publicly owned land:**
- PPA assured the cash-in in the state-budget of the lease payment which surpasses **6 million lei** from the submittance of the agricultural terrains included within the *Law no.668/1995*;
  - was assured the cash-in of the payment for the lease/tenancy/royalty in the amount of 20,3 million lei compared to the estimated amount of **20,0 million lei** within the state budget.
- **Execution of the objectives established in the PPP contract:** the private partner made investments amounting to 37.5 million lei.
- **Privatization of state property.** Amendments were made to the Government's Decision no.453/2010 on how to establish the initial sale price of publicly owned shares subject to privatization, by which the initial price of exposure to privatization for packages of state shares greater than 33% and the shares (shares in the LLC) higher than 25% will be established as a result of the expertise performed in accordance with the International Valuation Standards by an independent evaluator.
- **Management of the state debt.** The Program "Medium Term State Debt Management (2020-2022)" was finalized and approved by the Government's Decision no.56/2020 from 05.02.2020, as well as were negotiated and signed 4 external loan agreements.
- **Informational technologies:**
- Starting 2021, a new functionality of the MPay platform has been implemented which facilitates the realization of the right to withdraw all social benefits related to previous months, which excludes the possibility of blocking

payments on the provider's accounts, thus remedying the situation previously found by which, annually, about 28 thousand monthly payments of social assistance and aid for the cold period, in the amount of over 10.0 million lei, were not paid to the beneficiaries, being reimbursed in the budget.

- The Government approved the Concept of the Information System "Register of state information resources and systems" and the Regulation on how to keep the Register of state information resources and systems, which will ensure a centralized record of existing state information resources and systems and to be implemented, which will facilitate the reuse of existing technical solutions and their interoperability<sup>60</sup>.

We draw attention to the degree of compliance of audited entities with audit recommendations. Thus, if at the CPA level it is a relatively satisfactory one, being about 60%, then at the LPA level the compliance with the audit recommendations is much lower (20%), sometimes no actions are reported in this respect. We notice a lack of interest in remedying the stated deficiencies, an aspect resulting precisely from the attitude of the representatives of the entities not to implement the recommendations, even if in the conciliation meetings they agreed with the identified findings and the recommendations submitted.

Also, we would like to mention that the implementation of the audit recommendations, which was sometimes tedious was generated prevalent by:

- lack of actions by the responsible authorities in order to remedy the deficiencies and change the legislative and normative framework;
- irresponsibility in the proper exercise of the attributions by the competent persons within the verified entities;
- low concern of the competent authorities towards promoting radical changes in the managed areas.

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<sup>60</sup> Follow-up mission on the Performance Audit Report on the record of state information resources and systems. (CoARM's Decision no.81 from 24.12.2020).

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*The Court of Accounts will continue to deepen its impact assessment actions in the future. It should be noted that obtaining plausible results depends on the extent to which the management of each public entity will comply with legal regulations defining specific responsibilities in the field of substantiation, preparation, approval and execution of the budget, public and private assets management and the principles of economy, efficiency and effectiveness regarding the capitalization of the material, human, financial and informational resources at their disposal.*

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CoARM has successfully promoted a series of adjustments to the legal framework that were approved at the beginning of 2021 throughout the Law no.10 from 12.02.2021 for the amendment of some normative acts. The normative changes will contribute to increase the impact of the external public audit by filling the existing legislative lacks regarding the measures and recommendations formulated by the auditors and, at the same time, to eliminate the normative deficiencies and inconsistencies to overcome the issues related to the management of audited entities, increasing the impact of audit reports and simplifying the procedure for notifying criminal prosecution bodies. Coupled with each other, they will eventually generate the establishment of functional mechanisms of managerial responsibility superior to the existing ones, for good governance, with real effects on the use of public financial resources and the administration of public patrimony.

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 and the standards of good governance.