

Summary of the Annual Report 2021

The purpose of the Annual Report of the Court of Accounts of the Republic of Moldova (CoARM) is to present to the Parliament, the Government, the audited entities and the society the main systemic problems and findings formulated in the context of the external public audit activity.

The report contains the analysis and generalization of the information concerning the formation, administration and usage of the financial resources and public patrimony in the 2021 financial year, and for some audits - and in other relevant periods, according to the Audit Activity Program related to the annual audit cycle (September 2021 - September 2022).

Audit background and environment

The audit environment during the reference period was different from the previous annual audit cycle. The Court of Accounts faced major challenges regarding the governance, policies, management and financial reporting, in particular, in the context of the Government's reform concerning the restructuring of the specialized central public administration, which was mainly performed during the fourth quarter of 2021. During this period, the impact of the energy and pandemic crisis was amplified and there were taken decisions to re-distribute, re-prioritize the activities and resources of the entire public administration system, with allocation of resources and payment of stimulatory and social payments.

Taken together, all these challenges had an impact on the audit environment in which the CoARM operated and led to an increase in the volume of audit work in relation to the emergence of new transactions, increase of significant audit risks and of the number of mandatory audits, from 12 to 16. The CoARM was able to carry out effectively and within the deadline set by the legislation the extended mandate of mandatory financial audits within the existing staff.

Unqualified opinion on the execution of the three budgets

The Court of Accounts annually audits the Government's reports on the execution of the state budget (SB), the state social insurance budget (SSIB) and the mandatory health care insurance funds from the expired budget year (MHCIF).

For the first time, after the 4th year of auditing the financial statements regarding the execution of the SB, the SSIB and the MHCIF, the **CoARM issued an "unqualified" audit opinion concerning all three budgets**, confirming that the separate execution of each budget presents, in all significant matters, a true and fair view according to the applicable financial reporting framework. The SB and the MHCIF maintained their previous performance, and in the case of the SSIB, an improvement was stated regarding its execution and reporting. *(see page 8, Annual Report 2021)*

This does not mean that everything is perfect regarding to the accounts or that the systems behind the reporting are free of errors. We mention that the amount of these errors **is below the materiality threshold established** according to audit standards and, most importantly, **they do not produce critical effects**. In the financial audit reports the Court of Accounts has made statements on the compliance of the elaboration and execution of the SB, the SSIB and the MHCIF during the 2021 budget year as well. *(see pages 8, 13, 14, 58, 61, 63, Annual Report 2021)*

State's consolidated balance sheet cannot be perfected

The accounting and reporting methodologies of the national public system differ from international practices. There are major discrepancies between the national public sector accounting and the reporting methodologies and international practices. Currently, there is a lack of a well-defined mechanism for consolidating state assets and liabilities. The record of the execution of the state budget is kept based on the cash method, the obligations towards the SB for the payment of taxes and fees (arrears), as well as state debt and state re-crediting are reported by the State Treasury to the off-balance sheet accounts, and within the ministries, the accounting records are organized based on commitments. This situation limits the overall vision of the way of administration of public financial resources and public patrimony.

The Court of Accounts repeatedly mentions the necessity to align to the accounting and financial reporting within the budgetary sector to the International Public Sector Accounting Standards (IPSAS). **This task must be among the priorities of the future Public Finance Management Strategy by setting the period and measures necessary to develop and introduce the National Public Sector Accounting Standards for the (NPSAS).** This strategic objective requires strengthening the efforts of all the actors involved, as well as the expertise and external support for taking over good international practices in the field. Following this exercise, the effectiveness, efficiency, responsibility and transparency of public finance management will be strengthened.

At the same time, we mention the efforts made in this regard by the budget administrators (MoF, NSIH and NMIC). Thus, in 2021, the Ministry of Finance, for the first time, included in the Annual Report on the execution of the state budget the information on the assets and liabilities managed by central public authorities (CPA), these also integrating the cash balances managed by the State Treasury. *(see page 21, Annual Report 2021)*

Aspects of the reorganization of central public authorities

The reorganization of the CPA was characterized by the **delay of the processes of inventorying and transmission of assets and by non-compliance with the procedures for concluding the financial statements and transmitting the balances to the newly created entities.** A negative factor in this regard was the rigidity of the Financial Management Information System (FMIS), which did not allow the automatic completion of the procedure for the preparation of distribution balances by the reorganized ministries to the newly created ones. *(see page 18, Annual Report 2021)*

Failure to ensure good governance of the system of fiscal and customs facilities

Fiscal facilities represent a derogation from the normal taxation structure, which reduce the NPB's revenues and have a significant impact on the state's finances as a whole, and the decision regarding their granting belongs exclusively to the Executive and the Legislature. The Court of Accounts stated that **some fiscal facilities established throughout the budgetary-fiscal policies boost the development** of some sectors and economic branches with growth potential, as well as contribute to attracting investments and to the development of the national economy, **while others, being established and applied for a long period, do not generate an added value.**

The essence and the purpose of the customs facilities differs from that of the tax facilities. Through the budgetary-fiscal policies, the Executive and the Legislature establish and approve exemptions from the payment of import rights for natural and legal persons, which aims to support certain categories of beneficiaries¹. However, in terms of value, most customs facilities represent facilities that derive from international and bilateral agreements², which have legal value according to the rules of international trade.

In the context of the completed audit cycle, within the Single Register of fiscal and customs facilities, approved by the Ministry of Finance, 384 types of fiscal and customs facilities were entered, of which only 145 facilities were quantified, and concerning another 239 facilities, the budget costs were not estimated.

The Court of Accounts stated that **the responsible authorities did not ensure the good governance of the entire system of facilities**, a fact that generated irregularities resulting from the granting of inefficient or unjustified facilities from economic point of view, but also from the use of facilities in violation of the legislation in force. These violations caused losses of state financial resources, including additional costs from the public budget. (*see pages 14, 187, 197, Annual Report 2021*)

Due to the lack of elaboration of the Regulation on how to complete the Single Register of fiscal and customs facilities, there have been different interpretations of the reporting/non-reporting of exemptions from excise duties, customs duties, fees for customs procedures and VAT, with and without the right of deduction etc. For example, within the Single Register there were not reported the exemptions from the payment of import duties for natural gas imported by the JSC „Moldovagaz” for the LLC „Tiraspoltransgaz”, the estimated value being about 1.3 billion lei.

Imperfection of the salary system in the budget sector

The current salary system in the budget sector was standardized by the approval of the Law no. 270 from 23.11.2018, the purpose of which was to establish a transparent, fair, attractive salary system for the staff within the budgetary sector, able to reflect and reward performance. However, even from the first years of implementation of the new salary system, **reference values derogating from the established general value were applied for some categories of employees**, which has generated a considerable discrepancy in establishing the salaries in the budget sector, which becomes unattractive for new employees.

An increasingly alarming aspect is **the unemployment of qualified personnel in some institutions and the existence of vacant positions for a long time**, which conditions prerequisites for the lack of accomplishment of legal duties related to operational activities. This situation is also determined by the moratorium established by the Government for 13 thousand vacant positions (7237 functions within the CPA and 6248 functions within the local public authorities - LPA), for the efficiency of budget expenditures. Concomitant, the volume of activities carried out by public entities was not reduced and the reforms, exceptional situations and related crises of the last 2 years have conditioned an additional burden for the functionality of public institutions, which tries to manage these risks by strengthening the management of human resources and by financial and non-financial incentive of the staff.

¹ Individuals with special needs or legal entities representing the respective contingent; legal entities from the eastern districts of the Republic of Moldova, not constitutionally controlled etc.

² Agreements with the World Trade Organization, with the Republic of Turkey, with the CIS member countries etc.

As a result, **the moratorium on public sector hiring has not achieved its goal**, and public institutions/authorities use the approved allocations for vacant positions subject to the moratorium on granting additional salary rights to employed staff (bonus for cumulating of functions, bonus for additional work/overtime). *(see page 36, Annual Report 2021)*

The existence of vacant positions and the overburdening of staff in achieving the planned workload have generated another acute problem in the context of public sector payroll.

The unused vacations during the previous years, including historical vacations, represent anticipated additional budget expenditures, which are to be executed within the future financial years, not being covered by budgetary financial resources, which conditions the disruption of the budget balance of public entities for the following budget years. For example, the largest number of annual vacation arrears per employee was found within the Ministry of Internal Affairs' subdivisions and amounted to 378.9 thousand days, which imposes legal obligations towards the staff, in the amount of almost 135.4 million lei. *(see page 38, Annual Report 2021)*

The CPA and the LPA face major problems generated by the critical shortage of qualified personnel. More and more institutions within the budget sector suffer from a lack of specialists and from staff turnover mainly due to low salaries. Filling vacancies, both for beginners and experienced specialists, becomes a difficult task, because the discrepancy between the workload, responsibility and work intensity *versus* the work remuneration are increasingly unbalanced and unattractive. Salary and personnel policies need review and improvement, and the salary system in the budget sector needs to be gradually changed.

Deficient governance of state-owned companies

The external public audit finds, over the last several years, the reduced efficiency of state companies, characterized by poor quality of services provided and goods produced, high operating costs and poor management. The deficiencies in the activity of the boards of directors, of the executive management as a whole, determined the non-compliant management of the owned public patrimony and, in some cases, did not contribute to the achievement of the strategic objectives of the entities.

The consequences of poor governance of state-owned companies have been manifested in **poor performance, loss-making, lack of uniformity, as well as poor funds management**. Under these conditions, is attested the very low capacity of the public entrepreneurial sector to attract financing from external sources, in order to capitalize on the assets held and to modernize the technologies used within the operational activity. *(see pages 31, 135, 138, 149, Annual Report 2021)*

Poor management of public assets

The lack of adequate control by the state affects the integrity of the public assets and generates its inefficient use.

The non-delimitation of public property lands into public property of the state and public property of the administrative-territorial units (ATU), as well as of the land in the public domain from those in the private domain remains a pressing problem in the context of public assets management. The national legal framework provides several possibilities for the assessment of public and private state assets, and the lack of uniform criteria for calculating the value of real estate, the

methods and procedures for their evaluation and reevaluation do not provide uniform criteria for establishing the fair value of the assets. (*see page 25, Annual Report 2021*)

Another major difficulty that endangers the integrity of state assets is the **lack of registration and lack of accounting of the real estate and land** by public authorities, both at the central and local levels. During several years, the state enterprises (SEs) did not account in separate accounts, intended for the accounting of fixed assets and lands received under economic management, the property that belongs, with the title of ownership, to third parties. This fact allows the irregular inclusion of the state assets transferred to the management of the SE in the process of insolvency in the debtor mass and generates the risk of losing control over state assets and not ensuring their integrity. (*see pages 20, 25, Annual Report 2021*).

During the reorganization of the central public administration, the transfer of assets from the reorganized institution to the newly created one was carried out in the absence of a determined and clearly established mechanism. Under these conditions, the risk of the **alienation of state-owned assets** or the erroneous reflection of their value persists.

Combating fraud and corruption

During the reporting period, as a result of the assessment of the risks of fraud and error in the process of administration of public finances and patrimony, the Court of Accounts transmitted the materials from 13 audits to the legal bodies, on the basis of which 5 criminal cases were initiated, was disposed the refusal to start a criminal investigation regarding an audit report, and 6 audit reports are in the process of examination.

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

- process of purchasing equipment for the creation of the TETRA radio communication network;
- public procurement within the system of the Ministry of Education, Culture and Research;
- performances achieved within the projects financed from external funds for agricultural development;
- calculation and payment of public funds for the remuneration of some employees in the social and health fields;
- process of managing water, protection zones, the land of water funds and related hydro technical constructions;
- management of the budget and public assets by the ATU of the municipality of Balti, etc. (*see page 44, Annual Report 2021*)

Cooperation with the Parliament

During the reporting period, the Public Finance Control Committee (PFCC) examined 50 reports approved by the CoARM, in the meetings attended by representatives of the Court of Accounts and of the audited entities. As a result of these hearings, the PFCC issued 50 reports with decisions on the conditions and deadlines for reporting on the actions taken to implement the CoARM's recommendations.

Some audit reports of the Court of Accounts were also examined within the Social Protection, Health and Family Committee (Compliance audit report on the implementation of the Housing Construction Project for the Socially Vulnerable Categories) and within the Environment and

Regional Development Committee (Compliance audit report on the administration and management of the forest fund by the "Moldsilva" Agency).

During the plenary session, there were examined the audit reports on the execution of the SB, the SSIB and the MHCIF for the 2021 budget year, simultaneously with the examination of the relevant reports of the Government.

In addition, during the reporting period, the Court of Accounts sent the materials related to 4 audits to the Committee of Inquiry, which examines how useful mineral substances are exploit and how their impact on the environment is determined. (*see page 46, Annual Report 2021*)