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Initial Assessment Report on Current State of PIFC

1.0. Introduction

The aim of this report is to describe the current position of PIFC as the baseline for a new program. It is not intended as an assessment of the 2018-20 PIFC Development Program.

The assessment has been based on a review and analysis of findings included in the following reports:

- Government decision 124 on the approval of the Public Internal Financial Control Development Program for 2018-20 and the Action Plan for its implementation (February 2, 2018).
- Ex-Post Assessment on the public internal financial control development program for 2018-20 and the action plan for its implementation (2022).
- Questionnaire Part II: Chapter 32 – Financial Control (May 2022).
- Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report (July 2022).
- Consolidated Annual Report on Public Internal Financial Control for 2021 (2022).
- International Monetary Fund Technical Assistance Report – Republic of Moldova July-December 2020 (July 2021).
- SIGMA The Principles of Public Administration, 2015.

It is also informed by conversations held with members of the Ministry of Finance Central Harmonization Unit (CHU) and others, as time allowed.

In making the assessment the following have been considered for appropriate criteria:

- Law 229 on Internal Public Financial Control.
- Ministry of Finance Order 189 National Internal Control Standards
- Ministry of Finance Order 153 National Internal Audit Standards
- Ministry of Finance Order 161 Internal Audit Norms
- Assessing the Effectiveness of Internal Control: PEMPAL Guidance for Public Sector Auditors (October 2020).
- INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector (2004).
- Public Internal Financial Control: A European Commission initiative to build new structures of public internal control in applicant and third-party countries (Robert de Koning, January 2007).
- COSO Internal Control – Integrated Framework (2013).
- Association Agreement, Article 49 (2014).
- SIGMA key requirements 2.3 and 2.4.



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2.0. Key findings

Good progress has been made in PIFC development, especially in the areas of:

- Establishing a Central Harmonization Unit (CHU)¹ within the Ministry of Finance and a PIFC Council² to provide oversight and advice.
- Creating a regulatory framework and normative requirements for PIFC.
- Developing supporting resources (policies, guidance, templates, manuals, tools, etc.).
- Delivering professional development (including an internal audit certification).

Some weaknesses in the PIFC development program and action plan 2018-20 together with constraints on CHU resources have restricted further progress, limited the ability to monitor activities more closely, and resulted in a reduced impact overall, especially for LPA II entities.

Significant further progress is needed to develop FMC and IA to an acceptable level for:

- Moldova's EU candidacy.
- Conformance with Moldova's own laws, policies, and normative requirements.
- Stakeholder expectations for transparency, stewardship, and accountability.
- Improved economy, efficiency, and effectiveness.
- Satisfactory global rankings for government competitiveness and corruption.
- Internationally recognized frameworks, benchmarks, and standards.

Substantial obstacles persist that have hampered and are likely to continue hampering progress, most notably:

- Social, economic, and political factors.
- Limited resources and skills shortages.
- Other public sector reforms.
- Political instability.
- Incomplete commitment to PIFC reform at all levels of government.

3.0. Current state assessment

Despite the important progress already made in PIFC development, as noted above, the 2018-20 program fell short in several key areas with several actions not completed due to time and resource issues, including the development of alternative models for internal audit delivery and a cascading of good practice and lessons learned across all entities with particular emphasis on LPA I entities.

Any new program must address the following issues:

¹ In accordance with PIFC law 229, article 29.

² In accordance with PIFC law 229, article 30.



- There are significant skills gaps and shortfalls in resources, impacting:
 - The work of the CHU.
 - The functionality, scope, and effectiveness of internal audit services.
 - The effectiveness of the internal control environment.
 - Risk assessment and performance management.
- There is insufficient decentralization and accountability of leaders of public entities.
- There is limited appreciation of the nature and value of PIFC, respective responsibilities, and the contribution it can make to organizational success.
- There are ongoing public administration and financial reforms that are disrupting progress in PIFC development.

As a result, the impact of control activities and the contribution of independent assurance and advice to continuous improvement has been restricted.

It is important to note variability in the strength and maturity of PIFC across public entities. Interventions must be customized and proportionate.

The table below provides summary information of current state of PIFC.

Internal control element	Key findings
Control environment (PIFC law 229, articles 9, 14-5)	<ul style="list-style-type: none"> • Lack of clarity regarding responsibilities for FMC and FMC development, further exacerbated by ministerial reforms. • Insufficient decentralization of responsibilities and accountability of public entity managers coupled with limited understanding and awareness of PIFC. • Lack of resources and expertise, including limited skills and experience in public finance. • Inadequate arrangements for training and professional development. • Inadequate use of delegation of powers.
Risk assessment (PIFC law 229, article 10)	<ul style="list-style-type: none"> • Risk management is uneven with many entities lacking a risk management strategy or comprehensive risk register. • Many key risks (including fraud, embezzlement, corruption, and IT) are not systematically identified, documented, evaluated, monitored, and reported. • Knowledge of and expertise in risk management are limited. • Performance management is weak.



Internal control element	Key findings
Control activities (PIFC law 229, articles 11, 17-28)	<ul style="list-style-type: none">• Preventive and detective controls are often inadequate, poorly documented, and irregularly monitored. Of note are controls for:<ul style="list-style-type: none">○ IT.○ Investment and asset management.○ Low value procurements.○ Revenue risk management.○ Sensitive functions.○ Databases.• Controls are not always well correlated with risk assessments.• Performance management is weak.• There is insufficient segregation of duties (due to resourcing and policy issues).
Information and communication (PIFC law 229, article 12)	<ul style="list-style-type: none">• Documentation and dissemination of information is not systematic.• Use of electronic communication is sporadic.• Information security is an issue.
Monitoring (PIFC law 229, articles 13, 16)	<ul style="list-style-type: none">• Self-assessment by management of FMC is unreliable.• Performance indicators for FMC are often unclear.• There are significant vacancies for public entity internal auditors.• Many internal audit subdivisions are not operational.• The absence of audit committees or boards impacts oversight, quality, and the independent status of internal audit.• Internal audit subdivisions are sometimes asked to take on managerial responsibilities in monitoring and control.• The effectiveness of internal audit is further reduced by:<ul style="list-style-type: none">○ Poor understanding by management of the role and value of internal auditing.○ Frequent failure to adopt audit recommendations (for multiple reasons).○ Gaps in audit plans (with a focus on high compliance risks and limited assurance on IT and value for money (performance)).○ Common absence of a strategic plan.○ Inadequate quality assurance arrangements○ Shortage of resources.○ Shortage of skills.



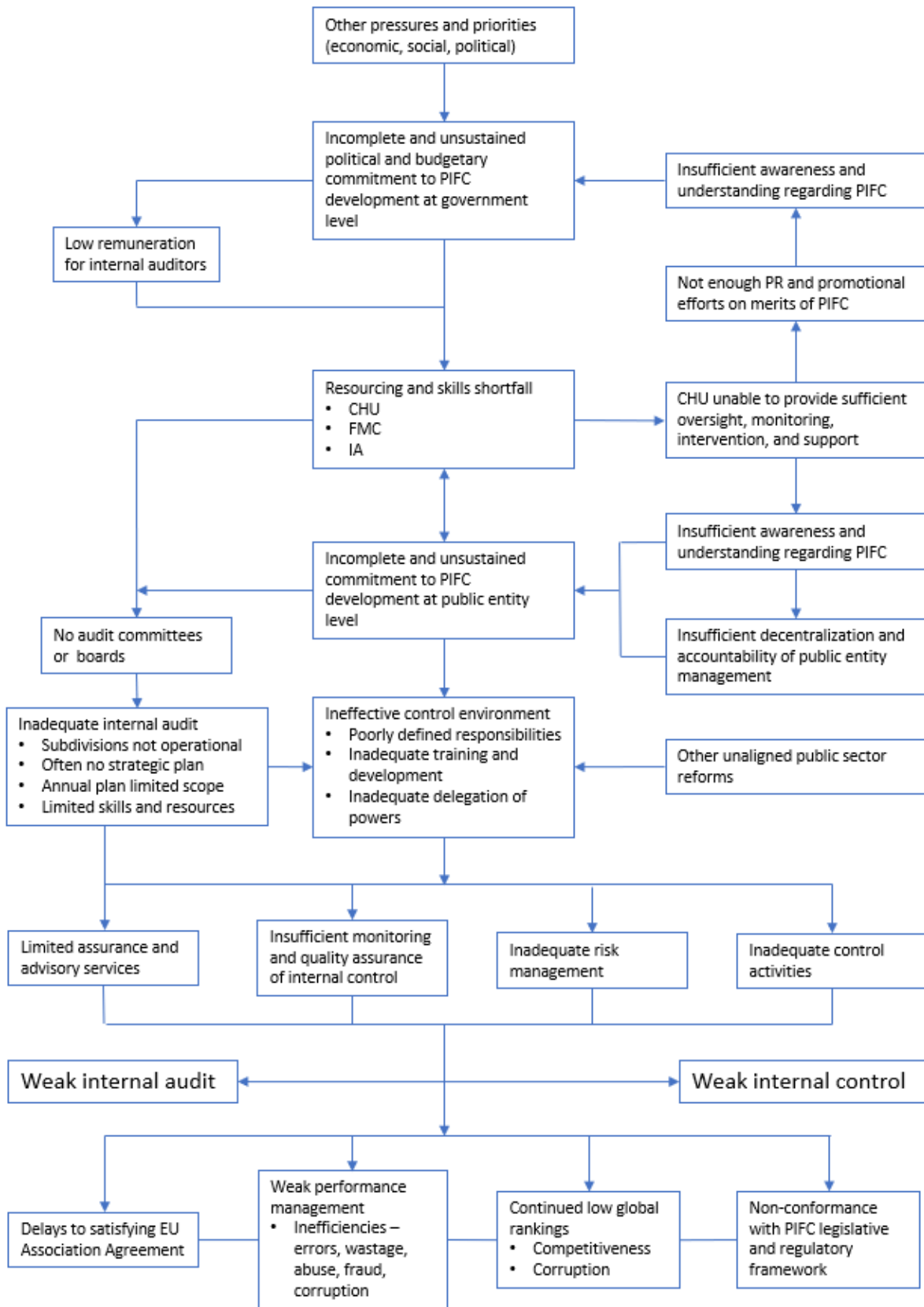
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4.0. Impact of current state

- Non-conformance with laws, policies, and normative expectations, including:
 - Law 229 on Internal Public Financial Control.
 - Ministry of Finance Order 189 National Internal Control Standards.
 - Ministry of Finance Order 153 National Internal Audit Standards.
 - Ministry of Finance Order 161 Internal Audit Norms.
- Slow progress toward EU Association Agreement objectives for an “accountable, efficient, transparent and professional civil service.”
- Non-conformance with international standards and frameworks, including those of IIA, INTOSAI, and COSO.
- Failure to achieve the intended gains in transparency, accountability, economy, effectiveness, and efficiency.
- Failure to make positive impacts on international government benchmarks, such as:
 - The estimated value of the bribes given (as amounts of money and as gifts) in one year (2020-21) grew from MDL 405 million to MDL 566 million (National Integrity and Anti-Corruption Strategy Impact Monitoring Survey – Moldova 2021)
 - 22% of public officials paid a bribe in the last 12 months (Transparency International).
 - 86/140 competitiveness ranking (World Economic Report, 2019).



Appendix 1: PIFC Current State Analysis





Appendix 2: Detailed Findings

	Findings
General	Significant progress is needed to develop FMC and IA to an acceptable level for: <ul style="list-style-type: none"> • EU candidacy • Moldova's own laws, policies, and normative requirements • Stakeholder expectations for transparency, stewardship, and accountability • Improved economy, efficiency, and effectiveness • Satisfactory global rankings for government competitiveness and corruption • Internationally recognized frameworks, benchmarks, and standards
	Limited staff resources in internal control, internal audit, and centralized harmonization
	Insignificant progress in developing internal audit and internal control
	The PFM Strategy and PIFC Program do not identify impact or outcome level indicators to monitor implementation of strategy-level objectives.
	There are limited resources in relation to the volume of coordination and harmonization tasks
Control environment	There is a low degree of compliance with the component "control activities" especially with respect to sensitive functions, as well as identification, documentation, and review of basic processes
	The lack of an institutional decision on the appointment of subdividibles/persons responsible for coordinating the development activities of the MIF
	Restructuring of ministries will require new guidelines on governance, policies, and financial management.
	Non-implementation of audit recommendations due to: <ul style="list-style-type: none"> • low responsibility of operational managers
	The PIFC (especially FMC) is perceived as a technical reform of the MoF, and not as a cross-sectoral management reform
	Poorly developed managerial accountability
	Low managerial accountability with insufficient decentralization of authority and responsibility
	PIFC and PIFC reform are regarded as MoF responsibility only (part of Public Administration Reform Strategy 2016-20)
	Low awareness of the need and benefits of internal control systems and internal audit drive
	Managers are not fully aware of the responsibility or benefit of FMC
Low managerial accountability with insufficient decentralization of authority and responsibility	
Incorrect delegation of powers	



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Findings	
	There is no proper understanding and application of delegation of powers
	Internal procedures are general or insufficient for clear segregation of responsibilities <ul style="list-style-type: none"> • The subdivisions and job descriptions do not include responsibilities related to the MIF • The unbalanced allocation of staff resources in relation to the volume of delegated tasks
	Inadequately defined responsibilities and performance objectives for operational managers
	Non-implementation of audit recommendations due to: <ul style="list-style-type: none"> • Changing organizational management and / or operational priorities
	PIFC and PIFC reform are regarded as MoF responsibility only (part of Public Administration Reform Strategy 2016-20)
	Intervention policies for PIFC have poor coordination and coherence with related government reforms, in particular: <ul style="list-style-type: none"> • Public Administration Reform • Public Finance Management Reform.
	Performance management process is not sufficiently correlated with budget planning process
	Internal Management Control does not achieve its objectives due to limited supply of specialists competent in public finance.
	There is limited experiences and insufficient specific knowledge in public entities
	Superficial and formal identification of employee training needs
	Insufficient resources allocated for training for managerial capacities
Risk assessment	Risk management is not functional, the identified risks are not based on a cause analysis, control activities are not always correlated with the results of the risk assessment
	Risk management and process documentation have the lowest degree of implementation in PIFC (especially in LPA II)
	Inefficient performance and risk management
	Risk management is uneven – only a few entities have risk registers in place
	Internal Management Control does not achieve its objectives due to poorly developed performance and risk management systems
	Risk management and process documentation have the lowest degree of implementation in PIFC (especially in LPA II)
	Most public entities do not have a risk management strategy
	Risks, including fraud, embezzlement, and corruption, are not systematically identified, evaluated, monitored, and reported



Findings	
Control activities	<ul style="list-style-type: none"> control activities deficiencies in the processes of management of resources, material values, databases identifying and documenting processes is a limited activity, the usefulness of this tool is not perceived the sensitive functions policy is not fully enforced
	Weak internal controls (ex-ante preventive and ex-post detective)
	Improvements needed in internal controls in investment and asset management, low value procurements, and revenue risk management
	Internal Management Control does not achieve its objectives due to <ul style="list-style-type: none"> limited interest and poor assumption of responsibility by the higher levels of management insufficient internal procedures
	Software related controls are not being evaluated and back-up of data is not being performed
	Inefficient performance and risk management
	Use of performance information is merely bureaucratic as information is scarcely reviewed and acted on
	There is a low degree of compliance with the component "control activities" especially with respect to sensitive functions, as well as identification, documentation, and review of basic processes
Information and communication	<ul style="list-style-type: none"> insufficient procedures to ensure information security gaps in the process of dealing with petitions interinstitutional communication officienta
	Risk management and process documentation have the lowest degree of implementation in PIFC (especially in LPA II)
	There is sporadic use of electronic means of transmitting and receiving information
	Use of performance information is merely bureaucratic as information is scarcely reviewed and acted on
Monitoring	<ul style="list-style-type: none"> decrease in the rate of implementation of audit recommendations involvement of internal auditors in activities of organization, implementation, and self-evaluation of the MIF
	Performance evaluation is carried out under the conditions of establishing monitoring indicators that are not sufficiently detailed and measurable to assess the degree of achievement of objectives and actions
	There is considerable opportunity for improving all aspects of monitoring FMC activities
	Non-implementation of audit recommendations due to: Changing organizational management and / or operational priorities



Findings	
Monitoring – internal audit	Undersized internal audit subdivisions with limited capacity for quality assurance and compliance with professional stakeholders
	Internal audit plans are mainly focused on areas of high compliance risk
	Internal audit is less focused on evaluation of performance and information systems
	Non-implementation of audit recommendations due to: dependence on the implementation of audit recommendations on some external factors
	Non-implementation of audit recommendations due to: loss of relevance of the recommendation over time
	Non-implementation of audit recommendations due to: pandemic situation and reduced activity in the office, etc.
	There is only 58-9% implementation of audit recommendations
	Non-implementation of audit recommendations due to: the negligent or superficial approach of recommendations by the audited unit
	73% of internal audit functions have a QAIP
	Undersized internal audit subdivisions with limited capacity for quality assurance and compliance with professional stakeholders
	Non-implementation of audit recommendations due to: limited staff resources needed to implement the recommendations in time
	Undersized internal audit subdivisions with limited capacity for quality assurance and compliance with professional stakeholders
	There is a low level of remuneration of internal auditors
	Lack of knowledge by internal auditors to conduct IT and performance audits
	Only 58% of internal audit subdivisions have strategic plans
	15% of IAS reported involvement in operational tasks
	67% of IAS consist of one person
	Half the internal audit units in central government are not operational, mostly due to lack of qualified personnel
	Only 62% of internal audit subdivisions are functional
	Some internal audit activities are merged with other activities such as internal control, internal security, integrity, economic security.