Moldova

Health Transformation Project

P144892

Fiduciary Systems Assessment Report

(Last updated March 31, 2014)
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Abbreviations

CAPEX – Capital Expenditure
CFAA – Country Financial Accountability Assessment
CIFMA – Compulsory Insurance Funds for Medical Assistance
CNAM – National Health Insurance Company
CoA – Court of Accounts
COFOG – Classification of the Functions of Government
DLI – Disbursement Linked Indicator
DRG – Diagnostic Related Group
FCRS – Financial Control and Revision Service
FMIS – Financial Management Information System
GFS – Government Finance Statistics
HMIS – Health Management Information System
HSSAP – Health Sector and Social Assistance Project
HTP – Health Transformation Project
IAU – Internal Audit Unit
IPSAS – International Public Sector Accounting Standards
MHIF – Mandatory Health Insurance Fund
MNIAPS – Methodological Norms for the Implementation of Internal Audit in the Public Sector
MoF – Ministry of Finance
MoH – Ministry of Health
MTBF – Medium Term Budget Framework
NCPF – National Center for Public Health
NIAS – National Internal Audit Standards
NSIC – National Standard on Internal Control
PEFA – Public Expenditure and Financial Accountability
PER – Public Expenditure Review
PFM – Public Financial Management
PI – Performance Indicator
SSIF – Social Security Insurance Fund
TSA – Treasury Single Account
A. **EXECUTIVE SUMMARY**

The fiduciary systems assessment has been carried out in accordance with OP / BP 9.00 to determine whether the Program fiduciary systems provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purposes. The findings of the fiduciary assessment conclude that the overall fiduciary and governance framework is adequate to support the implementation of the proposed Health Transformation Program for Results (HTP) and includes a summary table of the key risks and corresponding mitigation actions to be undertaken.

The Program’s fiduciary systems and institutions provide reasonable assurance that the financing under the Program is used for intended purposes, with due regard to the principles of economy, efficiency, effectiveness, transparency and accountability. Specifically, Moldova’s fiduciary management systems for the Program (planning, budgeting, accounting, procurement, internal controls, funds flow, financial reporting, and auditing arrangements) provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. Furthermore, the Program’s fiduciary management systems perform at a satisfactory level to support the achievement of Program results.

**Summary Assessment**

*Program Planning and Budgeting* - The assessment confirmed that Program budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner. The structure and purpose of HTP expenditures captured on the Ministry of Health (MOH), National Center for Public Health (NCPH), and National Health Insurance Company (CNAM) budgets are part of the consolidated state budget, therefore the Program progress will be monitored through the regular budget reports. The budgets of all implementing entities are presented in sufficient detail to capture HTP expenditures. Parliament rigorously examines and scrutinizes the budget law on a timely basis. HTP's expenditure framework is comprehensive, clearly defined, and managed as part of the borrower’s regular budget and fiduciary management processes.

*Accounting and financial reporting systems* - The assessment confirmed that reasonable Program records are maintained and financial reports produced and disseminated for decision-making, management, and reporting. The MoH, NCPH, and CNAM accounting and reporting systems are adequate, and the quality and timeliness of key financial reports, record management and reconciliation of accounts and the usage of financial reports for managerial decision making are satisfactory. A modified accrual basis of accounting is used. Actual expenditures are compared to the budget on a monthly basis; explanations for significant budget variations are provided to MoF. Budget execution reports do not yet include information on commitments.

*Treasury and funds flow mechanisms* - The assessment confirmed that adequate funds are available to finance the Program, although there is a risk that for some sub-programs (such as Tobacco control), funds might be allocated with delay. The Treasury system operated by the MoF is a key element of ensuring proper authorization processes and controls over expenditure are followed and that budget institutions do not exceed the available appropriation and the monthly allocation. The Government operates a Treasury Single Account which functions in a comprehensive and satisfactory manner. Budgetary entities register contracts and payment orders, including payment plans, with the Treasury. Arrears are extremely low and Moldova has scored consistently well on arrears monitoring in recent PEFA assessments.
Internal controls - The assessment confirmed that there are adequate controls over Program funds. The MoH, NCPH, and CNAM internal control framework provides a sound basis for managing the Program. Both MoH and CNAM have well performing internal audit units and these units will include HTP in their annual work programs.

Public Sector Audit - The assessment confirmed that independent and reliable external audit arrangements are in place. The Court of Accounts (Supreme Audit Institution) is responsible for the financial and performance audits in Moldova’s public sector. The Court of Accounts performs adequately; and its work follows INTOSAI standards; in addition its reports are all publicly available. Court of Accounts audits the budget execution for the health sector on an annual basis, covering MoH, NCPH, CNAM, and subordinated units. The CoA issued a clean audit opinion and the main recommendations for the year 2012 do not indicate that there are serious internal control issues for the Program. The Court of Accounts will audit the Program in conjunction of its audits of MoH, NCPH, and CNAM based on audit terms of reference agreed with the World Bank. The annual Program audit reports will be provided within twelve months of the year end. As the CoA capacity develops, it is envisaged that the submission date of the reports can be submitted within six months by the end of the HTP.

Procurement – Procurement under the program will be carried out in accordance with the Public Procurement Law (PPL) No. 96 dated April 13, 2007 (amended periodically) and Regulation for public procurement of small value. The PPL is the governing law in the area of public procurement. It covers the procurement of goods, works, services (non-consulting), as well as advisory (consulting) services. Subject to exceptions of article 4, the PPL applies to all public procurement conducted by all public sector contracting authorities, which include public authorities and legal entities governed by the public law, for contract values of a defined threshold. Procurement activities with an estimated cost below the threshold specified in the PPL are subject to the Government Decision No. 148 dated February 14, 2008 on the regulation for public procurement of small value. A new draft PPL, better aligned to EU requirements, has been developed and is pending approval. The legal framework (the PPL and the secondary legislation) is published and easily accessible to the public at no cost. These are also available on the website of the Public Procurement Agency (PPA) which is the procurement oversight body. It is foreseen that the procurement under the program will be carried out in accordance with the 2007 PPL but will change to the new PPL as soon as it is approved and becomes effective.

The fiduciary assessment concluded that the procurement framework is based on clear rules and is generally appropriate for achieving competition and cost effectiveness. All information needed to properly conduct a procurement activity, including Standard Bidding Documents, is available on the website of the PPA. It is considered that the procurement processes are well established and duly followed by the MoH, NCPH and CNAM. The default procurement method applied by these institutions is the open bidding. Other methods are used solely under conditions expressly provided in the law. To ensure transparency, these institutions publish all the procurement notices in the Public Procurement Bulletin and on their websites. They are using the electronic procurement system which was launched in November 2012. The assessment also concluded that overall each agency has the capacity to conduct procurement under the program within the defined program boundaries.

Although the majority of program’s cost is recurrent and operating costs, the Program will also finance procurement of goods, works, consulting and non-consulting services. The size of contracts will be small and there will be no OPRC threshold procurement. Since the project includes a TA component, most of the procurement activities will be included under that component for which Bank procurement procedures will apply.
Sub-program I which will be implemented by the MoH includes the operating budget for the MoH to carry out its functions which includes mainly salaries, medical insurance charges, communication, utilities, rent of equipment, bank charges and others. Procurable items include, but not limited to: consumables, office supplies, office equipment, transportation services, renovation/construction works of small value. Under sub-program XVII, the Program is limited to the National Tobacco Control Program. In the implementation of this sub-program, the MoH will be supported by NCPH which is a MoH subordinated agency. This sub-program includes the operating budget of the NCPH and the following procurable activities: public awareness campaigns, development of promotion materials, logistical services, surveys, training of relevant bodies to monitor tobacco consumption and others. CNAM will be responsible for implementing the sub-program II (Administration of mandatory health insurance fund), sub-program V (Primary Care Services) which is limited to the following categories: (a) performance-based incentives for family medicine providers, and (b) CNAM reimbursement of hypertensive drugs in the outpatient; and sub-program IX (In-patient Care) which is limited to one category – performance-based incentives for hospitals. Sub-program II represents the operating budget of CNAM central and regional offices and small-value procurable activities, such as consumables, office supplies, minor office equipment, renovation works. Under sub-program V, the first activity will be financed through the TA component, while the second activity which refers to the increase in the average reimbursement rate of generic, first line medications for the three main categories of antihypertensive drugs relates to the compensated drugs which are purchased individually by patients. No procurement will be required to carry out this activity.

The following risks have been identified during the assessment: (a) implementation of multi-year contracts is problematic if funds are not available for years other than the budget year; (b) there are no Standard Bidding Documents for consulting services; (c) contract implementation is weak, and (d) the complaint review body is not independent.

B. BACKGROUND AND INSTITUTIONAL ARRANGEMENTS

B1. INSTITUTIONAL FRAMEWORK

The Program’s implementation will be based on the current institutional arrangements for the NHSDS. At the national level, the key stakeholders are the Ministry of Finance (MOF), MOH and CNAM. NCPH is a secondary budget holder subordinated to the MoH.

The MOF provides political support and allocates annual government budget to the health sector, which is then approved by the Parliament through the annual Law on State Budget and Law on Mandatory Health Insurance Fund. On the basis of the approved budget, the MOF is responsible for regular and timely channeling of funds to MOH, NCPH, and CNAM for implementation of Program activities. In addition, the MOF will play a key role in the adoption and implementation of increases in the tobacco tax for tobacco control in the context of the Program.

MOH, as the steward of the health system, is responsible for health policies, strategies, regulations, and oversight for the sector and the Program. It takes the lead in the development of the MTBF on a rolling basis, which forms the basis for negotiation with the MOF on the health budget and ensures adequate funding for the Program. Under the Program, MOH will take the lead in implementing activities related to National Tobacco Control Program (together with NCPH), rationalization of hospitals, development and roll-out of primary health care information system. Among various MOH-subordinated bodies, one national center will have particularly important roles in Program implementation, namely the National Center for Public Health (NCPH). NCPH takes the lead in development and implementation of strategies for health promotion, and disease prevention and control and is therefore critical to activities related to NCD control under the Program.

CNAM, a state agency with financial autonomy subordinated to the Prime Minister’s office, is the purchaser of health services and responsible for pooling contributions, managing health insurance funds and purchasing of services through contracts with providers. Under the Program, CNAM will take the lead in activities related to hospital payment reform (DRG), performance-based incentives,
and reimbursement of drug benefit package. MOH and CNAM have been working closely to implement NHSDS; this continued collaboration is required for Program implementation.

B2. PROGRAM ACTIVITIES

The proposed project will be a PforR operation with an additional technical assistance component (IPF, and for which the implementation details are included in a separate document). This will follow the existing fiduciary framework in the country. The program will be implemented by the MoH, NCPH, and the CNAM. Each Implementing Agency (IA) will be conducting procurement and financial management on their own as each of them have the established structures and the required authority.

Policy and Strategy in the Health Sector - Health sector development in Moldova is guided by the 2007-2021 National Health Policy (the Policy). The Policy is further elaborated and operationalized by the 2008-2017 National Health System Development Strategy (the Strategy). Together, they form a robust reform agenda for the coming years with the following objectives: (a) continuous improvement of population health; (b) financial risk protection; (c) reducing inequalities in the use and distribution of health care services; (d) enhancing user satisfaction; and (e) restructuring the health system to improve performance and population health regardless of limited resources.

A three-year Medium-Term Budgetary Framework (MTBF) is prepared on a rolling basis to finance the implementation of the Strategy. The MTBF has five programs:

1. “Health Policy and Management” which supports policy development, implementation management and monitoring through MOH, the National Health Insurance Company (CNAM) and other state institutions;
2. “Priority Public Health Interventions” which focuses on disease surveillance and control for infections as well as for non-communicable diseases;
3. “Personal Health Services” which concentrates on the delivery of a range of personal health care services rendered by family medicine, hospitals, specialized outpatient and community care providers;
4. “Development of health system resources” which focuses on investments in the health sector and rational drug management, and
5. “Special medical programs” which focuses on special issues like forensic services, etc.

The MTBF’s five programs are further divided into 17 sub-programs. The main sources of financing for MTBF are the state budget (59 percent) and health insurance fund (40 percent). Total cost of MTBF for the next four years (2014-2017) has been estimated at 26,115 million Moldovan Lei (MDL) or US$ 1,964 million. Out of 17 subprograms included in the MTBF, 5 sub-programs were identified for the HTP to support.

MoH will manage sub-program I. Policies and management in health care and subprogram XVII. Development and modernization of health care institutions; therefore the HTP expenditure framework will include: recurrent expenditures for the MoH to fulfill its management / stewardship functions for the sector and expenditures related to technical assistance (estimation of the capital expenditure (CAPEX) and updating DRG prices using country data). NCHM will participate together with MoH in sub-program III, while NCPH will be involved in sub-program XVII, together with MoH on the Tobacco Control activities.

CNAM will manage subprogram II. Administration of mandatory health insurance fund and subprogram V. Primary Healthcare and sub-program IX. In- patient Care; therefore the HTP expenditure framework will include: recurrent expenditures for CNAM administration at the central and regional levels to fulfill the tasks of contracting hospitals and doctors and recurrent expenditures
related to (i) contract payments to primary care establishments on a capitation basis and (ii) reimbursable outpatient prescription drugs.

The assessment does not cover the fiduciary processes in the entire public health sector. It was limited to the boundaries of the program and mainly to the following sub-programs of the Medium Term Budgetary Framework (MTBF):

(i) Sub-program I: “Policies and management in health care” which provides recurrent funding to the MOH for the fulfillment of its stewardship functions for the health sector. No activities under this sub-program are excluded from the Program.

(ii) Sub-program II: “Administration of mandatory health insurance fund” which provides recurrent funding to NHIF central and regional offices for the fulfillment of its management and administration of the health insurance fund. No activities under this sub-program are excluded from the Program.

(iii) Sub-program V: “Primary Care Services” which provides recurrent funding for the delivery of primary care services. The Program is limited to two categories under this sub-program: (a) performance-based incentives for Family Medicine providers under CNAM contracts, and (b) CNAM reimbursement of the outpatient drug benefit package.

(iv) Sub-program IX: “In-patient Care” which provides recurrent funding for the delivery of in-patient care. The Program is limited to one category under this sub-program, performance-based incentives to hospitals for in-patient services under CNAM contracts.

(v) Sub-program XVII: “National special health programs” which funds recurrent costs for special health programs. Under this category, the Program is limited to National Tobacco Control Programme activities only.

B3. ASSESSMENT OF PROGRAM EXPENDITURE FRAMEWORK

For the last four years, MHIF resources have registered 9.7% average growth and MHIF expenses have registered 11.4% average growth. More prominent growth of expenses is attributed to the measures taken with regard to full and efficient execution of planned expenses.

In the context of gradual increase of MHIF contribution in the share of percentage, there is registered a tendency of growth of the rate of the MHIF contributions sum collected from employers and employees, in the total savings of MHIF, from 41.7% (2008) to 44.5% (2012), and there is also recorded decrease in the rate of transfers from the state budget for the categories of insured persons by the Government, from 54.9% (2008) to 52.8% (2012).

MHIF contributions in the fixed sum had one of the biggest growths – 24.1% – within the framework of 2012 MHIF incomes, in comparison to the previous year. It may be regarded as an important realization in the process of incomes accumulation in MHIF, due to the fact that in 2009-2010, growth of these contributions accumulations was from 4% to 5%.

The revenues collected in CNAM’s single account during the year are distributed in accordance with the following standards: basic fund – at least 94.0%; reserve fund – 1.0%; fund for prophylactic measures – 1.0%; development fund – 2.0%; administration fund – up to 2.0%.

The basic fund has the biggest rate (95.6%) in the total amount of MHIF expenses in 2012, being used for coverage of expenses necessary for realization of the MHIF Program; it is followed by the development fund (2.8%), also having the biggest deviation in comparison to 2011, being used for modernization and optimization of public medical-sanitary institutions’ buildings and infrastructure,
for provision with high-performance medical equipment and for information systems and technologies implementation.

Evolution of consolidated structure budget of health protection during the 2008-2012 period reflects certain tendencies regarding the basic financing sources. Public health expenses are formed from expenses of the state budget, MHIF expenses and expenses of the territorial administrative units’ budgets. In 2012, CNAM controlled 83.2% of public health expenses and the rate of these expenses grew up to 7.4 percentage points in relation to 2008.

Sub-programs within healthcare sector are financed from the following main sources:
- State Budget;
- Mandatory Health Insurance Fund (MHIF);
- Budgets of territorial administrative authorities;
- Financial assistance official donors.

The main share of the amount of financial resources for the health sector in 2012 came from the state budget, which is 59%, followed by the first of compulsory healthcare largest percentage and fixed amount (40%). Administrative-territorial units budgets contribute 1% of resources in the sector.

In 2012, Moldova national public budget expenditures (NPB) for health care were more than 4.7 billion lei, or 13.5% of NPB (compared to 10.9% in 2005), and 5.4 % of GDP (compared to 4.2 % in 2005. In the same period, for services related to compulsory health insurance was spent 83% of total allocations to health from NPB (over 3.9 billion lei).

Within the top public healthcare expenditure, Moldova allocates more funds than neighboring Romania and Ukraine (both 4.4% in 2010), but less than the average Organization for Economic Cooperation and Development countries (OECD) and the European Union, 8.2% and 8.1 % respectively . However, in 2012, Moldova was lower than the OECD average and the European Union regarding the health index of the United Nations Development Program, with 0.783 points to 0.941 and 0.945, respectively.

Out of 17 subprograms included in the MTBF, the following sub-programs were identified for the HTP to support, out of which 2 are financed from MHIF:

<table>
<thead>
<tr>
<th>Name of the indicator</th>
<th>Approved</th>
<th>Rectified</th>
<th>Achieved</th>
<th>Deviations (r,-) of “realized” in relation to “re-determined”</th>
<th>Correlation (in %) of realized in relation to “re-determined”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund for current healthcare services payment (basic fund)</td>
<td>3 780 299,9</td>
<td>3 777 824,4</td>
<td>3 777 824,4</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>MHI reserve fund</td>
<td>39 822,0</td>
<td>9 814,8</td>
<td>2 059,3</td>
<td>- 7 755,5</td>
<td>21,0</td>
</tr>
<tr>
<td>Fund for prophylactic measures (disease risks preventions)</td>
<td>39 822,0</td>
<td>39 822,0</td>
<td>17 694,2</td>
<td>- 22 127,8</td>
<td>44,4</td>
</tr>
<tr>
<td>Fund for development and modernization of public providers of healthcare services</td>
<td>79 644,0</td>
<td>114 644,0</td>
<td>111 248,1</td>
<td>- 3 395,9</td>
<td>97,0</td>
</tr>
<tr>
<td>Fund for MHI system management</td>
<td>42 609,5</td>
<td>42 609,5</td>
<td>42 357,1</td>
<td>-252,4</td>
<td>99,4</td>
</tr>
<tr>
<td>EXPENSES, IN TOTAL</td>
<td>3 982 197,4</td>
<td>3 984 714,7</td>
<td>3 951 183,1</td>
<td>- 33 531,6</td>
<td>99,2</td>
</tr>
</tbody>
</table>
Structure of expenses from the fund for current health care payment (basic fund):

<table>
<thead>
<tr>
<th>Name of the indicator</th>
<th>Approved</th>
<th>Rectified</th>
<th>Achieved</th>
<th>Deviations (+,-) of “realized” in relation to “re-determined”</th>
<th>Correlation (in %) of realized in relation to “re-determined”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-hospital emergency health care</td>
<td>324 209,2</td>
<td>324 209,2</td>
<td>324 209,2</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Primary health care</td>
<td>1 134 089,9</td>
<td>1 119 575,6</td>
<td>1 119 575,6</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Including: compensated drugs</td>
<td>162 600,0</td>
<td>166 244,1</td>
<td>166 244,1</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Specialized outpatient health care</td>
<td>280 576,0</td>
<td>276 760,3</td>
<td>276 760,3</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Hospital health care</td>
<td>1 904 992,8</td>
<td>1 924 450,5</td>
<td>1 924 450,5</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>High-performance healthcare services</td>
<td>130 820,5</td>
<td>127 546,5</td>
<td>127 546,5</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Community, palliative and home health care</td>
<td>5 611,5</td>
<td>5 282,3</td>
<td>5 282,3</td>
<td>0,0</td>
<td>100,0</td>
</tr>
<tr>
<td>EXPENSES, IN TOTAL</td>
<td>3 982 197,4</td>
<td>3 984 714,7</td>
<td>3 951 183,1</td>
<td>-33 531,6</td>
<td>99,2</td>
</tr>
</tbody>
</table>

Program Financing (US$ Million)

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>82.9</td>
</tr>
<tr>
<td>IDA</td>
<td>30.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>113.7</td>
</tr>
</tbody>
</table>

Estimated Profile of Program Expenditures (US$ Million)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (US$ million)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits (for MOH, CNAM and relevant NCPH staff)</td>
<td>16.61</td>
<td>15%</td>
</tr>
<tr>
<td>Goods</td>
<td>0.92</td>
<td>1%</td>
</tr>
<tr>
<td>Civil works</td>
<td>2.21</td>
<td>2%</td>
</tr>
<tr>
<td>Performance based incentives for health providers</td>
<td>58.00</td>
<td>51%</td>
</tr>
<tr>
<td>Reimbursement of outpatient hypertensive drug benefits</td>
<td>29.69</td>
<td>26%</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>6.26</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>113.69</td>
<td>100%</td>
</tr>
</tbody>
</table>
C. SUMMARY OF FIDUCIARY RISKS AND MITIGATION ACTIONS

Fiduciary risk

The assessment findings conclude that the overall fiduciary framework for the program is adequate to support its implementation and to achieve its desired results. Overall fiduciary risk for the operation is assessed as "moderate". Financial management risk for the operation is assessed as "moderate". The procurement risk is assessed as "moderate".

The key institutions, MoH, NCPH, and CNAM, have well-functioning financial management systems, adequate financial and accounting staff to plan budgets, execute and record transactions and produce in-year and year-end financial reports.

In each of these institutions, an appropriate internal control framework is in place, with clear rules and procedures (for the segregation of and articulation of individual duties and responsibilities for key financial management functions).

With regard to external audit and oversight, the Court of Accounts (CoA) conducts annual audits of the health sector (MoH, NCPH, and CNAM). CoA is independent of the executive and accordingly is able to fulfill their duties and responsibilities free from interference.

The basic procurement legislation is in place which emphasizes the open competition as the basis for public procurement and further institutional improvements are envisaged in a draft law which is in an advanced stage of enactment. The main procurement concerns relate to the lack of qualified staff to administer contracts, lack of a contract monitoring mechanism, and implementation of multi-year contracts which depend on the availability of funds for years other than the budget year.

Notwithstanding the adequacy of existing financial management and procurement systems to plan, execute and report on the use of the resources for the components of the Program, there are some areas that could negatively impact program performance. A number of key fiduciary performance indicators are presented in table D7 below to allow monitoring during Program implementation. The reporting on each indicator will be part of the regular reporting to the Bank.

The main risk relate to the adequacy of funds allocations for the Program, and this could be influenced by possible future changes in the country’s fiscal and macro situation and impact from abroad. Adequate funds need to be available on a timely basis to finance Program implementation. MoF expressed its commitment to ensure availability of funds needed for the successful program implementation. Although past years’ experience does not suggest that the health sector has been affected by significant shortages, there is a risk of underfunding of some of the subprograms within the Program, such as the Tobacco Control sub-program, for which no funds are currently included in the 2014 NCPH budget. Since the health sector is not among the top priority sectors defined by the legislation to receive funding with priority in case of shortages, the Bank would monitor carefully the annual Program budgets, and the revisions within the year. One of the key actions included in the Program Action Plan is for the Bank team to work closely with MoF, MoH, NCPH, and CNAM to monitor the annual budgets for the availability of sufficient funds for the Program implementation.

Another important risk relates to the overall impact of the audit reports prepared by the CoA. One of the key actions included in the Program Action Plan is for the Bank team to work with the CoA and Parliament to strengthen oversight and the overall impact of CoA audits in the health sector. This could be scaled up later on to cover other sectors as well.

Other risks relate to the MoH’s limited ability to procure consultant services, which will be mitigated by the technical assistance component, and limitations in the complaint handling effectiveness, which will be mitigated by sharing with the Bank the information on complaints received and actions taken and/or by the approval of the new PPL which foresees the creation of an agency to handle complaints.
Summary of the risks and mitigation measures:

<table>
<thead>
<tr>
<th>Description of Risk</th>
<th>Description of Mitigation Measure</th>
<th>Responsible Party</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy of funds allocations for the Program.</td>
<td>Ensure that funds are made available for such contracts; Bank team will closely monitor the yearly and multi-annual allocations and signal at the early stages any possible funding limitation to the MoH and MoF</td>
<td>MoH, CNAM, World Bank</td>
<td>Throughout project implementation period</td>
</tr>
<tr>
<td>There are no Standard Bidding Documents for consulting services. The IA are currently using the “Goods and Services (non-consulting)” document duly adjusted.</td>
<td>Under the IDF Grant funded by the Bank for the Public Procurement Agency, a firm was hired to update/develop the Standard Bidding Documents. One of the tasks is to develop the SBD for consulting services. The contract is currently under implementation.</td>
<td>Public Procurement Agency for the development of the SBD</td>
<td>Shortly after project effectiveness</td>
</tr>
<tr>
<td>MoH has limited ability to procure consulting services</td>
<td>Major consulting assignments will be procured as part of the TA component</td>
<td>MoH</td>
<td>Throughout project implementation period</td>
</tr>
<tr>
<td>Lack of qualified staff to monitor contract implementation in the MoH and lack of a contract monitoring mechanism in the country</td>
<td>Qualified staff will be hired as needed under the TA component; Staff of MoH and CNAM to attend regional workshops organized by the Bank on contract management</td>
<td>MoH and CNAM</td>
<td>Throughout project implementation period</td>
</tr>
</tbody>
</table>

D. PERFORMANCE OF PROGRAM FIDUCIARY SYSTEMS AND ARRANGEMENTS

D1. PROGRAM PLANNING AND BUDGETING

Overview of PI-1 – PI-3:

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-1</td>
<td>Aggregate Expenditure Out-turn Compared to Original</td>
<td>B</td>
</tr>
</tbody>
</table>
Approved Budget

<table>
<thead>
<tr>
<th>PI-2</th>
<th>Composition of Expenditure out-turn Compared to Original Approved budget</th>
<th>B+</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-2 i)</td>
<td>Extent of the variance in expenditure composition during the last three years, excluding contingency items.</td>
<td>B</td>
</tr>
<tr>
<td>PI-2 ii)</td>
<td>The average amount of expenditure actually charged to the contingency vote over the last three years.</td>
<td>A</td>
</tr>
<tr>
<td>PI-3</td>
<td>Aggregate Revenue Out-turn Compared to Original Approved Budget</td>
<td>B</td>
</tr>
</tbody>
</table>

**Summary** - The Program budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner. The structure and purpose of HTP expenditures captured on the MoH, NCPH, and CNAM budgets is part of the consolidated state budget, therefore the Program progress will be monitored through regular budget reports. The budgets of the two entities are presented in sufficient detail to capture HTP expenditures.

The Parliament rigorously examines and debates the budget law in terms of scope, procedures and adequacy of time. HTP expenditure framework is comprehensive, clearly defined, and part of the borrower’s regular budget and FM processes.

**Ministry of Health** - MoH is responsible for the estimation and justification of the financial resources for the operation of the healthcare system, including the MHIF budget, as well as for the development and approval of the Rules for its implementation. Together with the CNAM, the MoH is ensuring the acquisition of medical equipment and means of transportation for the medical institutions, ensuring technical and material support and control of the efficient and rational use of budgetary funds and state property management, located in public medical institutions.

MoH develops a three year strategic development program. For operational planning of its activities annual work plans are developed, which provide concrete measures to achieve which is an instrument for monitoring implementation of the program. For aligning the planning activity with the budget construction, the Ministry of Health uses the Government-wide budgetary classification of strategic programs and sector expenditure plans.

One of the main responsibilities of the Ministry of Health is to justify to the MoF the need for financial resources for the operation of the healthcare system. To do this the MOH uses official statistics, reports and information provided by the CNAM, and the results of studies in the field to substantiate the budget for the healthcare system and Mandatory Health Insurance Fund and other relevant data and information.

The MoH budget is prepared in accordance to the Law 847-XIII “The budgetary system and budgetary process”. According to Art.16, Ministry of Finance prepares the state budget expenditure based on the implementation of strategies and the economic, social of the Government and on detailed expenditure proposals of MoH, among others public authorities; according to Art. 17, Ministry of Health determines, prepares and presents the mandatory health insurance funds indicators to the Ministry of Finance that will develop preliminary estimates of revenue and expenditure; According to art.18, the Government approves the Medium Term Budget Framework (MTBF) which includes three year fiscal policy objectives, income and expenditure budget for the respective years, and spending limits on central public administration authorities.

**MoH Budget structure and approval** - MoH’s budget is developed and implemented based on a unified budget classification: functional classification of budget expenditures groups expenditures that

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1 According to the Government Decision No. 397 of 31.05.2011
reflect the use of funds to implement the basic functions; organizational classification of budget expenditures budget expenditures by type of enterprises, institutions, organizations and measures that reflect the distribution of allocations between the direct beneficiaries of budget resources; economic classification of budget expenditures groups and details budget expenditures in accordance with their exact destination.

The budget classification has not been fully compliant with international standards set out by GFS 2001 (and COFOG). Starting with 2015 the current budget classification will be updated to ensure international comparability of budgetary indicators, containing similarities with the classification systems used by international financial institutions.

The on-going PFM reform program (supported by the World Bank) includes training and skill development, strategic planning, medium-term budget planning, macroeconomic forecasting and introduction of modern costing techniques. All these activities will further strengthen the planning and budgeting capacity.

**Staffing of the MoH budget department** - Within MoH, the Budget, Finance and Insurance Department is staffed with 3 personnel whose main planning and budgeting tasks are as follows:

- develop policies, strategies, programs and concepts for medium and long term financing of the healthcare system, including the mandatory health insurance fund;
- approve the budgets of income and expenditure of subordinate institutions financed from the state budget and/or other sources;
- collate financial resources and monitoring their appropriate use in medical institutions;
- develop and promote regulatory and legislative framework in the field of healthcare financing and payment methods for health care providers who are enrolled in mandatory health insurance system;
- develop and promote staff remuneration policies in health care and medical education;
- propose policy prices of medical services for medical institutions.

**Organization chart of the MoH**
NCPH is a secondary budget holder subordinated to MoH. Its budget represents only a small fraction of the MoH budget, and the same budgetary procedures are in place. Most of the NCPH budgets relate to transfers from MoH, however the institution also has small budgets generated from grants, own-source revenues and other sources.

CNAM

CNAM was founded through Government Decision no. 950 of 7 September 2001 in order to implement the Law nr. 1585-XIII of 27 February 1998 on Mandatory Health Insurance. The CNAM’s Statute was approved through GD no. 156 of 11 February 2002.

Implementation of the Mandatory Health Insurance (MHI) in the Republic of Moldova in 2004 enabled the health care system to survive during the country’s transition to market economy by strengthening resources within healthcare institutions. Since then, MHI became one of the most indispensable financial instrument of health care system from the whole country. With this regard the development of health insurance system should be considered in the line with reformation of the whole health care system.

After implementing the Mandatory Health Insurance, the public expenditures on health have increased by 4 times, from 1.105,2 million lei in 2003 to 4.259,6 million lei in 2011 and this represents 13.3% from the total expenditures of consolidated budget of Republic of Moldova. Lately, public expenditures on health, reported to GDP are decreasing, slightly overcoming to 5 %. The funds represent 85% of public expenditures for health system.

CNAM beneficiaries are all the persons benefitting of health care within the MHI system framework.

CNAM partners are:
- Medical-sanitary institutions and pharmaceutical institutions with which contracts for services rendering were concluded, inclusive of republican, municipal, departmental, district, private hospitals, centers of family physicians, health centers, diagnostic centers, etc.
- Governmental institutions: Ministry of Health, Ministry of Finances, Ministry of Economy, Ministry of Information Technologies and Communications, Principal State Tax Inspectorate, Agency for Medical Preparations, National Council for Health Assessment and Accreditation, Health Management National Center, etc.
- Social partners: National Confederation of Trade Unions and National Confederation of Patronages from the Republic of Moldova, “Health” Trade Union and Trade Union of Telecommunication Workers.
- Civil society: profile NGOs (human rights and health protection), professional organizations of medical workers.

The Management Board is the CNAM supreme self-management body, through which interests of all the insured persons are supported in relations with the CNAM executive management and guarantees the correctitude of social equity realization in MHI.

Composition of the Management Board is approved by the Government and includes 15 members, amongst whom there are representatives: Parliament – 1 person, Presidency – 1 person, Government – 5 persons (including 2 persons co-opted by the Ministry of Finances and Ministry of Economy and 2 persons co-opted by the Ministry of Health), National Confederation of Patronages from the Republic of Moldova – 3 persons, National Confederation of Trade Unions from the Republic of Moldova – 3 persons, professional organization of medical workers – 1 person, and organizations for patients’ rights protection – 1 person.

The Executive Directorate of the CNAM exercises operational administration within the limits of the competences established by the Management Board.
The structure of CNAM is divided between central units and 12 territorial units which have the status of branches and are subordinated to the CNAM, and exercise their obligations in accordance with effective laws and normative acts.

Organization chart of the CNAM

CNAM Budget structure and approval - At the level of National Health Insurance Company, which is a State autonomous organization, planning and budgeting is the responsibility of the Economics and Planning Division, which performs the following tasks:
- prepare reports on the execution of mandatory health insurance funds in order to present to the CNAM management and Board and the Ministry of Finance, monthly and quarterly, volume and time limits set by it, to be used to prepare reports on the execution of the general government;
- prepare the report on the execution of MHIF mandatory health insurance fund for approval by the Board of Directors of the Company and the presentation to the Ministry of Finance by May 1st of the following year. Thereafter the Government approves the report and presents it before Parliament by June 1st.

Parliamentary oversight of the budget - Before submitting the budget to the approval of the Parliament, MoH must initiate a rigorous process. Through inter-ministerial working groups led by one of MoH’s vice-minister, which includes MoH, MoF, CNAM; as well as representatives of unions and employers the strategic plan, budget and MTBF are developed, analyzed and measures are prioritized.

After the public consultation process is fulfilled, the MoH’s budget (and MTBF) are included in the budget law that will be sent to the Parliament for examination, debate and approval. There are three stages that are mandatory to be followed by the Parliament in order to adopt the budget law. The Government submit the annual budget for the following year by October 1. Standing committees of Parliament will review the annual budget as determined by Parliament. Based on the advice of the

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2 According to the Law 847-XIII “The budgetary system and budgetary process”, “The discussion and adoption of the annual budget law by the Parliament”
standing committees and its own examination, the Budget and Finance Committee prepares the report and list of recommendations on the annual budget and submits them to Parliament.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses and Ongoing Reforms</th>
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</thead>
<tbody>
<tr>
<td>Moldova has performed well in budgeting area under the PEFA 2011 and there has been a marked improvement since the previous PEFA assessment.</td>
<td>The budget classification is not fully compliant with international standards set out by GFS 2001 (and COFOG); a new integrated budget classification and chart of accounts is being developed in line with GFS2001 standards;</td>
</tr>
<tr>
<td>Budgets of MoH, NCPH and CNAM are presented in sufficient detail to capture HTP expenditures.</td>
<td>Moldova’s on-going PFM reform programme (supported by the World Bank) includes training and skill development, strategic planning, medium-term budget planning, macroeconomic forecasting and introduction of modern costing techniques.</td>
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<tr>
<td>Parliament rigorously examines and debates the budget law in terms of scope, procedures and timeliness.</td>
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</table>

Risk assessment: Moderate

D2. PROGRAM PROCUREMENT

Overview of PI-19:

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-19</td>
<td>Transparency, competition and complaints mechanism in procurement</td>
<td>B</td>
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</tbody>
</table>

Public procurement in Moldova has continuously grown over the last years. The volume of public procurement has increased from USD 30 mln in 2000 to USD 435 mln in 2011 which represents almost 7 percent of the total GDP. In view of the above, the Government of Moldova attaches particular importance to the improvement of legal framework, procurement processes, and development of electronic procurement which will result in improved governance and reduced opportunities for corruption.

**Legal Framework** - Procurement under the program will be conducted in accordance with the Public Procurement Law (PPL) No. 96 of April 13, 2007 (amended periodically) and the Regulation for public procurement of small value (Government Decision No. 148 dated February 14, 2008). The PPL is the governing law in the area of public procurement. It covers the procurement of goods, works, services (non-consulting), as well as advisory (consulting) services. Subject to exceptions of article 4, the PPL applies to all public procurement conducted by all public sector contracting authorities (term used in the PPL), which include public authorities and legal entities governed by the public law for contract values, exclusive of VAT, equal or more than Moldovan Lei (MDL) 40,000 (equivalent of US$ 3,000) for procurement of goods and services and MDL 50,000 (equivalent of US$ 4,000) for procurement of works. Procurement activities with an estimated cost below the above threshold are subject to Regulation for small value procurement. The legal framework (the PPL and the secondary legislation) is published and easily accessible to the public at no cost. These are also available on the website of the Public Procurement Agency (PPA).

An assessment of public procurement system in Moldova (CPAR) was conducted by the World Bank in 2010 to assist the Government in defining the next phase of procurement reform. The assessment concluded that the PPL provides a good basis for the public procurement system and properly draws

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the legal framework for a reasonably sound procurement system. However, the main challenges (also identified in the assessment) remain to be the incomplete secondary legislation, the reviewing and approving of contracts function carried out by the PPA and the inadequate institutional arrangements for a complaints review mechanism.

As part of the Twinning Program with Romania, financed by EU, which ended in August 2012, a new PPL which is aligned to EU practices and standards has been developed. In 2013 the draft PPL has been reviewed by relevant public authorities. Currently the law is pending approval of the Government and the Parliament. The new PPL addresses some of the issues raised during the assessment conducted by the Bank, mainly: lack of provisions on conflict of interest (CoI) and lack of an independent review body. The draft PPL includes a separate chapter on CoI by providing a set of actions (rules) to be taken in order to avoid situations which could lead to a CoI.

Institutional Arrangements

- **Public Procurement Agency** - PPA is the institution subordinated to the Ministry of Finance (MoF) which ensures the implementation of the national public procurement policies. The PPA was established in 1997 and its major functions include: (i) development of standard bidding documents; (ii) guidance to contracting authorities in the procurement process; (iii) training of personnel of contracting authorities involved in the procurement process; (iv) development of the Public Procurement Bulletin and its publication; (v) management of the e-procurement system; (vi) review of procurement documents submitted by the contracting authorities and registration of contracts; (vii) handling of complaints.

- **Ministry of Finance** - MoF’s role in public procurement, through the Division for national economy funds, capital expenditures and public procurement, is to develop and promote policies.

- **MoH and CNAM (Contracting Authorities)** - Given that the procurement function is decentralized to contracting authorities with the PPA being an oversight body, each institution is responsible for conducting its own procurement and signing of contracts. However, the PPA reviews the entire set of documents, including the Evaluation Report and the signed contract, related to a procurement activity of above a certain threshold. Once the review is finalized and the PPA agrees with the outcome of the evaluation process and contract award, the contract is registered, duly stamped and signed by the PPA Director. Once the contract is registered with the PPA, it is considered effective and can be registered at the Treasury to enable disbursements.

Procurement processes in Program Implementing Agencies and Program Procurement

The majority of program’s cost is recurrent and operating costs, which include: salaries, mandatory health insurance, contributions to the social fund, bank charges, rent, utilities, maintenance services for vehicles and office equipment, communication costs, and others. Procureable items are, but not limited to: office supplies, minor office equipment, renovation and other small value construction works, logistical services, training and public awareness campaigns. Since the project includes a TA component, most of the procurement activities will be included under that component for which Bank procurement procedures will apply.

The size of contracts under the first component will be small and there will be no OPRC threshold procurement. **Procurement Capacity of Implementing Agencies**

All the IAs, including the subordinated agency, follow the same procurement processes which are established by the relevant legislation. These refer to procurement planning, development of the bidding documents, publication of procurement notices, evaluation procedures and contract management. Details on procurement processes are provided below. Overall each agency has the capacity to conduct procurement under the program within the defined program boundaries.
Ministry of Health (MoH):

There is no separate procurement department under the MoH. Procurement is conducted by different divisions depending on the nature of the procurement activity based on the yearly approved Procurement Plan for the entire institution. The Evaluation Committee for each procurement includes the Minister and Deputy Ministers. The Ministry has extensive experience in conducting procurement of civil works and goods, but has limited ability to procure consulting services by applying the national procedures.

Procurement volume for year 2012 was around US$ 2.9 mln and included: capital investments (mainly construction, re-construction or rehabilitation of hospitals) / IT system for primary healthcare MEDEX, consumables, office supplies, maintenance services, and others.:

Sub-program I which will be implemented by the MoH includes the operating budget for the MoH to carry out its functions which includes mainly salaries, medical insurance charges, communication, utilities, rent of equipment, bank charges and others. Procurable items include, but not limited to: consumables, office supplies, office equipment, transportation services, renovation/construction works of small value. Under sub-program XVII, the Program is limited to the National Tobacco Control Program. In the implementation of this sub-program, the MoH will be supported by the National Center for Public Health (NCPH) which is a MoH subordinated agency. This sub-program includes the operating budget of the NCPH and the following procurable activities: public awareness campaigns, development of promotion materials, logistical services, surveys, training of relevant bodies to monitor tobacco consumption and others.

National Center for Public Health (NCPH):

There is Procurement Division in the agency which includes three specialists. The procurement volume for year 2013 was around MDL 20 mln (equivalent of US$ 1.5). The activities procured by the agency were: minor renovation works of the office and laboratories, office supplies, minor office equipment for the agency and its laboratories, logistical services, consumables for laboratories. Since the agency implemented various programs funded by the WHO, it has extensive in conducting public awareness campaigns, developing promotion materials, conducting surveys, and procuring logistical services. To deliver the training to various institutions responsible for monitoring tobacco consumption, the agency will hire trainers.

National Health Insurance Company (CNAM):

The CNAM is an autonomous, including financially, state institution of a national level which carries out non-profit activities in the field of mandatory health insurance. The company has the following main sources of income: (i) Percentage-based Mandatory Health Insurance (MHI) contributions paid by employers and employees; (ii) MHI in the fixed sum paid by individuals residing or domiciled in the country; (iii) transfers from the state budget for health insurance of the categories of persons insured by the Government; (iv) transfers from the state budget for compensation of foregone incomes.

CNAM has a separate Procurement Division which includes two specialists. The procurement volume for year 2012 was US$ 3.1 mln and included activities such as: procurement of vaccines, drugs, IT equipment and software, vehicles, renovation works for the HQ office and its territorial agencies, and various consulting services, including public awareness campaigns which promote healthy life style. CNAM has extensive experience in conducting procurement of various size, complexity, and nature. The entire procurement process follows the national procedures. No delays have been reported in the evaluation process and contract award. Several complaints have been filed mainly when procuring IT products but none of the complaints were validated by the PPA and CNAM. Procurement of vaccines and drugs is done from the fund for prophylactic measures which, among others, is used to purchase, in accordance with Government Decrees, medical devices and equipment, drugs and expendable
materials for taking the measures for diseases risk reduction and for treatment in case of public health emergencies. In all other cases, the procurement of drugs and medical equipment is being carried out by the Drug Agency.

CNAM will be responsible for implementing the sub-program II (Administration of mandatory health insurance fund), sub-program V (Primary Care Services) which is limited to the following categories: (a) performance-based incentives for family medicine providers, and (b) CNAM reimbursement of hypertensive drugs in the outpatient; and sub-program IX (In-patient Care) which is limited to one category – performance-based incentives for hospitals. Sub-program II represents the operating budget of CNAM central and regional offices which includes as well small-value procurable activities, such as consumables, office supplies, minor office equipment, renovation works. Under sub-program V, the first activity will be financed through the TA component, while the second activity which refers to the increase in the average reimbursement rate of generic, first line medications for the three main categories of antihypertensive drugs relates to the compensated drugs which are purchased individually by patients.

The procedures of compensating the cost of drugs under the mandatory medical insurance are described in the Government Decision No. 1372 dated December 23, 2005. Once the patient is issued a prescription, he/she can purchase the prescribed compensated drugs at any authorized pharmacy which has a contract with CNAM. The price that the patient is paying for the compensated drug is already the price discounted in line with the percentage established in the drug benefit package. There are no restrictions for any private pharmacy to file a request with CNAM to sign a contract for selling compensated drugs. Currently CNAM has contracts with all private drugstore chains in the country (there are no public pharmacies in the country). Both CNAM and pharmacies are following the reporting requirements established in the national legislation. Pharmacies submit monthly reports to CNAM on the volume of compensated drugs sold enclosing as well copies of prescriptions based on which CNAM reimburses the cost to the pharmacies. In its turn CNAM submits to the MoF on quarterly basis reports on the use of funds for covering the cost of compensated drugs.

Procurement of drugs for hospitals is carried out centrally by the Drug Agency in accordance with the Government Decision No. 568 of September 10, 2009. CNAM may procure vaccines and drugs from its prophylactic measures fund only for taking actions to reduce diseases risks and to treat in case of public health emergencies. Procurement of drugs and medical equipment is not foreseen under the Health Transformation Program.

**Procurement Planning:** All the implementing agencies, including NCPH conduct their own procurement in accordance with the provisions of the PPL. On annual basis each agency develops a Procurement Plan. Procurement planning follows budget planning and annual procurement plans are developed on the basis of the approved financing plans and budget allocations. Normally the procurement plans provide the following information: description of the procurement activity, estimated cost exclusive of VAT, procurement method to be used and tentative time frame.

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<th>Findings</th>
<th>Suggested actions</th>
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<tr>
<td>The national budget is prepared and approved on annual basis and it reflects the expenditures to be incurred during one calendar year only. This fact has certain implications on multi-year contracts. The procurement planning is made on the basis of the approved budget allocations. Therefore only payments for the current budget year are guaranteed and contract provisions state that</td>
<td>Sufficient funds must be secured to cover the total amount for multi-year contracts under the programs so that contracts are implemented and respective payments are made without any delays</td>
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payments for subsequent years are subject to budget allocations. This results in contract implementation delays. Most of the capital investment contracts implemented by the MoH are multi-year contracts and as such, funds are secured only for one budget year. The Government Decision No. 640 dated July 19, 2010 provides for procedures to periodically adjust the value of multi-year contracts by applying a formula.

**Procurement procedures:** While the PPL provides for 10 procurement methods, only a few are currently used. The default method (above a defined threshold) applied by the agencies is the open bidding and request for quotations. Other methods are used solely under conditions expressly provided in the law.

Procurement activities of small value (subject to the Regulation on small value procurement) are conducted by the agencies without tender provided that the activity is included in the annual or quarterly plan of activities or in response to emergency situations. Identification of the supplier is based on its managerial competence, experience, reputation, personnel, technical and financial capacity to perform the contract, decided on the basis of the supporting documents proving the above. Prices and costs quoted by the identified supplier should not exceed the market prices at the stage of contract award.

**Electronic procurement:** All agencies are using the e-procurement application to conduct procurement above the defined threshold.

**Publication of procurement notices and transparency:** The Procurement plan and all procurement notices, including contract awards, are published in Public Procurement Bulletin (published two times per week) on the PPA’s website ([www.tender.gov.md](http://www.tender.gov.md)) and on the Implementing Agency’s website ([www.ms.gov.md](http://www.ms.gov.md) or [www.cnam.md](http://www.cnam.md)). In the case of large value contracts (above MDL 2.5 mln (equivalent of US$ 0.2 mln) for goods and services, and MDL 99 mln (equivalent of US$ 7.5 mln) for works), the PPL mandates the publication of procurement notices also in the “Official Journal of the European Community”. However, in practice publication in this journal is not done as Moldova is not yet a member of EU. For large value contracts which require publication in this Journal, the publication of procurement notices is done as in the case of open bidding.

No contracts which would require international publication are foreseen under the program.

**Bidding Documents, Evaluation and Contract Award:** Technical specifications/Terms of references are developed by specialized departments/experts within agencies.

Qualification criteria are based on the bidders’ ability to perform the contract and reflect the broad categories of participation requirement accepted in international systems.

The evaluation criteria are relevant and required to be precisely specified in advance in the bidding documents. The award criterion is to choose “the most economically advantageous bid” or “the least cost bid”. As a result, the criteria are not always quantified in monetary terms or assessed on a pass/fail basis, and in fact evaluation must be based on a weighted score. In the PPL, the weighting is also prescribed to some extent: price must account for not less than 80 percent of the score in
procurement of works and not be less than 40 percent for services. However, in practice, irrespective of what criterion is applied, evaluation committees in most of the cases select the least cost bids. The evaluation is carried out by the Working Group (Evaluation Committees) established through the decision of the head of the institution. The working group comprises staff of the relevant division and is normally chaired by the head of the institution. For activities which are of specific nature and for which the institution does not have the expertise, experts in the field are invited to provide advice and guidance to the Working Group.

Record Keeping: Agencies keep the procurement files for a period of 5 years from the day the tender was launched. In the MoH, procurement records are kept in different units which conducted procurement. In CNAM the filing is well-maintained and is kept in the procurement unit. The file includes all documents starting from the Bidding Document and ending with copies of contracts and payments made.

Contract Monitoring: Contract monitoring function at the MoH has been observed to be weak due to limited capacity of human resources, financial resources, lack of relevant legislation, knowledge and experience. Each unit which has conducted procurement is responsible for monitoring the implementation of the contract. Most of the times, staff of these units are monitoring the implementation of contracts even if they lack technical knowledge to do so. In CNAM and NCPH this function is carried out by the procurement division with the support of the technical specialists who developed the specifications and terms of references.

<table>
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<tr>
<th>Findings</th>
<th>Suggested actions</th>
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</thead>
<tbody>
<tr>
<td>There is no formal control of how contracts are implemented, especially for small value contracts and for procurement of goods. Lack of adequate information available with regard to contract administration and monitoring of implementation.</td>
<td>Since contract monitoring function is carried out by different units, the MoH will need to develop an adequate contract administration and monitoring system which will provide information on contract performance with regard to time, quality and cost, inspection of quality of goods and services delivered, and timeliness of payments.</td>
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Complaints Handling Mechanism

One of the functions of the PPA is the review and approval of documents related to procurement activities (above a defined threshold) conducted by contracting authorities.

On the other hand, it is also the responsibility of the PPA to handle procurement-related complaints. As part of the assessment conducted in 2010, the Bank considered that these two functions are conflicting as PPA cannot be responsible for handling complaints related to those cases which have already been reviewed and approved by the agency. PPA’s dual responsibility in approving the procurement decisions and also in resolving complaints related to those cases is not an internationally accepted practice. The PPA is involved in the decision-making process and thus becomes both defendant and judge. Although the complaints review department of the PPA is a functionally independent unit within the PPA, it is not administratively independent from other units, and this
apparent conflict in responsibilities may impose constraints in its freedom of action when handling complaints.

The draft PPL somewhat addresses the issue of conflicting responsibilities by taking the complaints review function away from the PPA through the establishment of the Agency for Solving Complaints (ASC). According to the draft PPL, the ASC is defined as a specialized administrative authority subordinated to the MoF. It is stated that the ASC operates in accordance with a regulation approved by the Government. With respect to the decisions taken by ASC, the Agency is independent and is not subordinated to the MoF. Since the regulation on the organizational structure and functioning of the ASC is not yet available, it is not clear whether this agency is to be considered a court or an impartial and independent review body. The agency is clearly independent of the PPA and the issue of conflict of responsibilities related to the review of complaints and registration of contracts by the same body seems to be addressed. However, it is not clear how independent this new agency can be from the rest of the system being in the subordination of the MoF, a concern raised as well by the donors who provide support to the Government of Moldova in its public procurement reform agenda.

Information on complaints for year 2012:

MoH: There was only one complaint to which the MoH responded by providing arguments for its decision on the contract award. The complaint was invalidated. There were several requests from the MoH to include certain suppliers in the list of debarred firms. No decision has been taken in this regard by the PPA yet.

CNAM: There were several complaints (especially under IT procurement) but these have been invalidated by the CNAM and by the PPA.

NCPH: There were several complaints which were eventually invalidated by the PPA, but these resulted in the cancellation of tenders as the validity of bids expired by the time the PPA took a decision. Complaints mainly related to the tailored specifications, opening of bids procedures, and others.

D3. PROGRAM ACCOUNTING AND FINANCIAL REPORTING

Overview of PI-22 – PI-25:

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
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<tbody>
<tr>
<td>PI-22</td>
<td>Timeliness and regularity of accounts reconciliation</td>
<td>A</td>
</tr>
<tr>
<td>PI-23</td>
<td>Availability of information on resources received by service delivery units</td>
<td>A</td>
</tr>
<tr>
<td>PI-24</td>
<td>Quality and timeliness of in-year budget reports</td>
<td>C+</td>
</tr>
<tr>
<td>PI-25</td>
<td>Quality and timeliness of annual financial statements</td>
<td>C+</td>
</tr>
</tbody>
</table>

The assessment confirmed that reasonable Program records are maintained and financial reports produced and disseminated for decision-making, management, and reporting. The MoH, NCPH, and CNAM accounting and reporting systems are appropriate, and the quality and timeliness of key financial reports, record management and reconciliation of accounts and the usage of financial reports for managerial decision making are satisfactory. Since the Government wide IFMIS is not yet fully implemented, there is no automated commitment management system at the budget holders, however information on commitments is maintained in the Treasury system. The lack of commitment reports explains the relatively weak PEFA scores in reporting. The introduction of the new chart of accounts and GFS 2001 advanced well, but it is unclear when it will be finalized. According to internal
procedures in MoH, NCPH, and CNAM, as well as in practice, the actual expenditures are compared to the budget on a monthly basis, and explanations for significant variations from the budget are provided to MoF.

**Background** - Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by primary health clinics across the country. The information is compiled into reports at least annually.

The allocation of budgets to primary health clinics is per capita based. Amounts allocated to each primary health clinics are adopted by their respective Administrative Territorial Units authorities, in the frame of the budget of the relevant parent budget institution.

Inter-governmental transfers are made from the State budget to the Administrative Territorial Units (ATU) for the purpose of filling the gap between local income (local tax and other revenue and revenue from shared taxes) and expenditure needs calculated on the basis of a per capita formula. The formula is regulated by Article 10 of the Law on Local Public Finances. This “Financial Support Fund” is funded from the State budget and from resources of those ATUs where revenue collection exceeds by more than 20% the national average of per capita expenditure.

All inter-governmental transfers are made by the MoF to the Level 2 ATUs. Level 2 ATUs are then responsible for transferring to ATUs of Level 1 their corresponding share of the fiscal transfer. The allocation of transfers from the State budget to Level-2 ATUs is regulated by the Law on Local Public Finances (No. 397 of the 16th of October 2003). The amounts transferred from Level 2 to Level 1 ATUs are regulated by the same formula according to the Law on Local Public Finances.

Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. There are no significant concerns regarding data accuracy.

**Budget Execution Reporting** - MoF prepares monthly and annual budget execution reports. The monthly budget execution reports are cumulative and structured by component of the budget (main component, capital projects funded from external sources, special funds and special means), for the State Budget and for the ATUs (consolidated overall ATUs). They contain planned figures for the year and for the period, executed amounts, deviations in amount and percentage. Reports on the National Public Budget contain also comparative figures for the corresponding period of the previous year. Reports are provided in aggregated form with the main headings, as well as on the detail level by administrative, economic and functional classification. CNAM submits monthly and quarterly reports to the MoF which prepares a consolidated monthly budget execution report on the National Public Budget covering the State Budget, the ATUs as well as SSIF and CIFMA.

All monthly and annual reports are published on the MoF website. The MoF additionally prepares quarterly budget execution reports for internal monitoring use. These reports are not published, and they are submitted to the Government or to other institutions only on request.

All budget reports are generated from the FMIS. The monthly ATU budget execution reports are submitted to the MoF by the Territorial Treasury (TTs), whereas the quarterly and annual ATU budget execution reports are submitted to the MoF by the ATU Finance Departments after approval by the local councils.

The evidence on budget execution is kept in the TTs. The TTs prepare daily account statements for each budget institution in their territory on expenditure and revenues, and provide them electronically and on paper base to the institutions. At the end of the month, the TTs prepare monthly budget execution reports for each budget institutions in their territory, broken down by budget classification on line item level, and by subordinated institutions. These reports are provided on paper base to the institutions, and electronically to the State Treasury who uses them to prepare the consolidated report.
The budget execution reports include information on commitments which are generated by the existing Treasury FMIS. Besides, the information on commitments related to public procurement contracts is maintained at the level of the TTs.

The monthly budget execution reports on all components of the budget are generally prepared within three weeks of the end of the month and published on the MoF website.

Government financial statements - The State Treasury prepares, based on the format and instructions provided by MoF, the annual budget execution report. Then, MoF submits the State Budget Execution Report to the Government by the 1st of May of the forthcoming year and the Government submits the Report to the Parliament by the 1st of June. After adoption by the Parliament, the Report is published in the Official Gazette. Separate budget execution reports are prepared by the ATUs, SSIF and CNAM, which are consolidated by MoF into one single document covering the State, the ATUs, CIFMA and SSIF, i.e. the whole national public budget.

The budget execution report itself is structured by component of the National Public Budget and lists expenditure and revenue by functional and economic classification. There are sections on capital investments, on the reserve fund, on the deficit, on the public debt and on inter-budgetary relations.

In addition to the budget execution report, the MoF prepares an explanatory note containing information on policy matters (tax, customs, expenditure, salaries, debt); public debt; capital investments; reserve fund; deficit; state debt; Inter-budgetary relations; monitoring results on state enterprises; privatisation proceeds; arrears.

The complete report is published in the Official Gazette. It is broadly in line with international standards for cash based accounting. It does however not include a disclosure of accounting policies, nor information on fiscal risk and contingent liabilities. The quality of the report is reliable, since it is generated from the existing Treasury FMIS. The Report is not formally submitted to the CoA (and there is no legal stipulation for such submission), but the CoA starts auditing budget execution already during the budget year, generally in October, based on data available. The audit by the CoA is generally completed by June of the forthcoming year.

Financial statements of the budget institutions - All budget institutions (at central and local level) as well as SSIF and CNAM, maintain accounting systems on modified accrual basis. They all keep records for each of their subordinated tertiary institutions (such as primary health clinics across the country), prepare quarterly and annual consolidated reports and send annual financial statements, which also include a balance sheet, to their parent institutions which sends them further on to the MoF. These reports are however not consolidated nor published by the MoF. Several budget institutions do not have modern IT systems and maintain their accounts in a mix of paper base and Excel sheets, reporting to the MoF on paper basis.

MoH, and NCPH accounting and reporting - For MoH and NCPH, as for any public institution in Moldova, budget expenditures are classified under three aggregate-type of headings of the general budget (economic, organizational and functional). First is an economic classification (operating costs, investment, and public debt). An organizational classification is also cross-cutting expenditures according to the level of the administrative authority by which expenditures are implemented (ministry, central or local authorities). A third classification, derived from the two other classifications, provides for functional classification in line with COFOG norm.

The MoH, and NCPH accounting system is based on the Accounting Law and modified accrual basis used. The accountants maintain separate accounting systems, i.e., administrative accounting and treasury accounting, as described above. All these data are recorded and reported in details and aggregated level. These two types of accounting systems are reconciled on a monthly and annual basis to compare payments made and the Single Treasury Account. All these budget transactions from commitments until payments are reflected in financial management system managed by the State.
Treasury, as the systems allows full commitment control. The current information system has been developed to optimize the use of financial information; however it does not provide adequate standard procurement reporting.

The ongoing upgrades of the government information system would allow better functionality of the tool, provide regular reports on procurement and contract progress, and provide the ability to extract customized synoptic data including selected statistical indicators. However, given the delays in the implementation of the IFMIS, MoH would continue to use its existing systems and it is unclear when these upgrades would be fully implemented.

**CNAM accounting and reporting** - CNAM and its twelve subordinated units (branches) keep the accounting records for state social insurance budget execution and mandatory health insurance funds according to rules approved by the Ministry of Finance, and use modified accrual basis. The entities ensure recording of transactions on revenue and expenditures budget execution state social insurance and mandatory health insurance funds and the debts paid before December 31 (fiscal year’s end), records of transfers from the state budget, social security budget execution of the returns State and compulsory health insurance funds by closing the revenue and expenses. Also, all public institutions financed from the budget of the state social insurance and the mandatory health insurance funds, whose managers are budget holders, have to maintain appropriate accounting records under the approved budget.

Budget execution reports are accurate, comprehensive and produced in a timely manner. The consolidated annual budget execution report is the basis for the annual financial statements which are prepared on cash basis, using a national methodology which is not fully compliant with IPSAS. A unified single chart of accounts and a new GFS 2001 compliant budget classification is being used.

Moldova has envisaged implementing a Government-wide Integrated Financial Management System (IFMIS), with the support of a Bank-financed PFM project (P082916). The project closed on December 31, 2013, and the IFMIS implementation has been incomplete, due to reasons related to the contract of the system provider. A number of line ministries, including MoH, would thus have to continue to use their existing systems, until a Government wide solution will be found to address the remaining implementation challenges. Since the solution depends on the entire Government approach and it is beyond the control of the Program entities, the relevant action on the IFMIS implementation has not been included in the Program action plan.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses and Ongoing Reform Areas</th>
</tr>
</thead>
</table>
| • Moldova scored very well on PI-22 (Timeliness and regularity of accounts reconciliation) and PI-23 (Availability of information on resources received by service delivery units)  
  • MoH, NCPH, and CNAM accounting and reporting systems are adequate, and the quality and timeliness of key financial reports, record management and reconciliation of accounts and the usage of financial reports for managerial decision making are satisfactory. | • The unified single chart of accounts and a new GFS 2001 compliant budget classification which was originally planned to be used from the 1st of January 2012 for 2013 budget preparation is currently under implementation but it is unclear when it will be finalized; given delays in implementing the Government wide IFMIS, MoH, and NCPH will continue to use their existing systems. |

Risk assessment

**D4.PROGRAM TREASURY MANAGEMENT AND FUNDS FLOW**

26
**Overview of PI-16 – PI-17:**

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-16</td>
<td>Predictability in the availability of funds for commitment of expenditures</td>
<td>C+</td>
</tr>
<tr>
<td>PI-17</td>
<td>Recording and management of cash balances, debt and guarantees</td>
<td>A</td>
</tr>
</tbody>
</table>

The assessment confirmed that adequate funds are available to finance the Program, although there is a risk that for some sub-programs (such as Tobacco control), funds might be allocated with delay. An action related to the Program funding has been included in the Program action plan. The Treasury system operated by the MoF is well managed providing strong authorization processes and controls over expenditure through ensuring that budget institutions do not exceed the available appropriations and their monthly allocations. The move to a Single Treasury Account (TSA) was completed in March 2007. All revenue are collected, and budgets (including the local level, SSIF and CIFMA) are executed through the TSA, which is held in the National Bank of Moldova. Beginning with 2008, Treasury introduced zero balance accounts for spending units that further tightened the spending ability for the following three years.

Budgetary entities currently register contracts and payment orders, including payment plans, with the Treasury. Arrears are extremely low and Moldova has consistently scored the maximum A score for PI-4 on arrears monitoring in both 2011 and 2008 PEFA assessments.

Cash flow problems can happen primarily due to the shortfalls in revenue collection rather than a failure in financial and cash flow planning/management. However these cash flow disruptions (due to revenue shortfalls) do not appear to have resulted in the generation of arrears. Although availability of funds has not been a major issue for the health sector in the last years, there is a risk that given internal and / or external causes it may represent a risk, and this area is included in the Program Action Plan. Adequate funds need to be available on a timely basis to finance Program implementation. MoF expressed its commitment to ensure availability of funds needed for the successful program implementation.

**Background** - After the State Budget is approved by Parliament, MoH and CNAM are informed of their budget ceilings by MoF and on that basis, both institutions prepare annual and monthly financial plans. These plans are forwarded to the MoF where the Treasury enters them into the existing financial management system operated by Treasury. The MoF furthermore estimates the monthly funding requirements (and hence expenditure limits) for the CNAM. MoH and CNAM are required to submit monthly financial plans (which however are not cash flow plans). These are not forecasts, but requests for monthly spending quotas. This means that the aggregate expenditure forecast produced by the Treasury may to some extent be incomplete or not fully accurate.

The Treasury uses the financial plans and estimated funding requirements received by all central government entities together with the revenue forecasts from the State Tax Inspectorate and the Customs Service to prepare a cash flow forecast for the upcoming fiscal year. In this process the Treasury also takes into account historical revenue and expenditure trends so as to assess whether the consolidated financial plans and expenditure (cash flow) patterns correspond with earlier years. This enables the Treasury to produce a regular overall cash flow forecast for the fiscal year.

The Treasury (Cash Flow Management Unit) prepares weekly aggregate cash forecasts which are in effect updated daily as soon as there is a change in circumstances. Cash flow forecasts may not always be accurate as a result of liquidity shortages due to the adverse fiscal circumstances which force Treasury to enforce a cash rationing process. A Liquidity Committee (comprising

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3 According to this process end-of-the-day cash balances in the accounts of spending units are cleared back into the treasury single account, and the Treasury may impose a cash disbursement limit (for a given spending unit) on a particular transaction account, enabling proper monitoring. Thus the payment orders sent by spending units will be accepted up to a certain limit defined by Treasury - Public Expenditure and Financial Accountability (PEFA) Assessment update for Moldova (2008-2010) from October 2011.
Reliability of periodic in-year information - Annual financial plans prepared by central government entities (including MoH and CNAM) includes separately all subordinate units and are broken down by monthly cash plans based on clear in-year expenditure plans for the fiscal year. These plans enable MoH and CNAM to plan and commit expenditures for the full fiscal year in accordance with their appropriations. However, when cash shortages could arise, this information may not be systematically communicated to spending units. In such situations, the MoF prioritizes non-discretionary spending in a transparent manner, with debt/interest payments, salaries and pensions, scholarships and energy payments being given priority.

Frequency and transparency of adjustments to budget allocations - Adjustments to budget allocations, which are beyond the virement rules, are specified in the Law on the Budgetary System and the Budgetary Process (No. 847 XIII of the 24th of May 1996 with later amendments), specifically Article 41 (Rectification of the State Budget) and Article 42 (Additional appropriations in cases of rectification of the State Budget).

In the case of a major revenue shortfall, the MoF would ration cash and withhold discretionary expenditure. Changes in the budgetary allocations have always received Parliamentary approval through a revision in appropriations.

Quality of debt data recording and reporting - The legal basis for borrowing of the State is set out by the Law on Public Debt, State Guarantees and On-lending from State Borrowings no. 419 from the 22nd of December 2006 (hereinafter: PDL) and secondary legislation regulating its implementation.

The Public Debt Department in the MoF is responsible for management of and reporting on the State debt. The Debt Management Financial Analysis System (DMFAS) version 5.3 from UNCTAD is used for monitoring, settlement and accounting of the foreign debt, whereas accounting and settlement of the domestic state debt is carried out with in-house software (since DMFAS is not adequate for the purpose) and data is periodically migrated into DMFAS for reporting. On-lending is managed as well with an in-house developed software tool.

Public debt reporting and monitoring is based on reports that the MoF receives from other entities as regulated in article 9 of the PDL. The Ministry of Economy and the National Bank of Moldova (NBM) as well as other central and local level public authorities are to provide input to the MoF for the preparation of forecasts. Beneficiaries of on-lending (public enterprises with State or ATU majority) have to submit quarterly reports used by the MoF to monitor its exposure, disbursements and debt service.

Reconciliation of domestic and foreign State debt is carried out on a monthly basis. Data of MoF in DMFAS is reconciled with invoices submitted to MoF by creditors. At the end of the month, after payments are made, MoF receives statements of accounts from creditors for reconciliation and confirmation of outstanding/balance debt.

A detailed report, which includes information on state guarantees and on-lending, is prepared on quarterly and annual basis and published on the MoF website. This Report contains a debt stock analysis, data on debt servicing and sources for debt financing. The Quarterly Report contains comparative figures, but no risk analysis, whereas the Annual Report additionally includes trends in macro-economic indicators, debt sustainability indicators and contingent risks (market risk, liquidity risk, credit risk and operational risks) without however identifying mitigation strategies. IMF’s Special Data Dissemination Standard (SDDS) Reporting is used for reporting.

Complete records of the domestic debt are also maintained by the NBM, given its function as fiscal agent for the execution of auctions of Government Bonds.

Consolidation of the government’s cash balances - The development of the Treasury Single Account (TSA) system was carried out progressively starting in 1993. Initially, the 38 Territorial Treasuries (TTs), SSIF and CIFMA maintained accounts of budget institutions in commercial banks. Since the
1st of March 2007 all budgets, including the whole local level as well as SSIF and CIFMA, are executed via the TSA. SSIF and CNAM budgets are processed using a specialized Treasury client software for submission of payment orders to the State Treasury. All revenue is thus collected on the TSA and all payments are executed from there. The TSA is held in the NBM. Since the 1st of January 2008 all accounts in commercial banks have been closed (exceptions described below).

Every TT has three accounts within the TSA corresponding to the budget components: one for the State Budget - main component; one for the State Budget - special means and special funds; and for the ATU budget.

The State Treasury has, like all domestic commercial banks, a real-time participant’s access in the Interbank Payment System operated by the NBM for executing all domestic payment transactions directly in the real-time. The State Treasury has thus real-time access to the consolidated cash position on the TSA. Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF on a daily basis.

MoH and CNAM accounts are maintained in Banca de Economii for cash operation and projects funded from external sources. Banca de Economii operates a special electronic payments system designed specifically for CNAM. All bank accounts are reconciled on a daily basis by the institution holding the account, and on a quarterly basis by the MoF.

Monitoring and forecasting the cash flows - The Government forecasts cash flow for the purpose of planning budget execution based on the estimated revenues, which determines the aggregate expenditure level. After the State Budget is approved by Parliament, the line ministries are informed of their budget ceilings and on that basis all institutions prepare annual and monthly financial plans. These plans are consolidated by the line ministries and forwarded to the MoF where the Treasury enters them into the existing financial management system operated by Treasury.

The MoF furthermore estimates the monthly funding requirements (and hence expenditure limits) as required transfers to the CNAM. MoH is required to submit monthly financial plans. These are requests for monthly spending quotas.

Program Funds Flow - HTP includes two main components, and there will be two different funds’ flow mechanisms. For the main component of US$ 28 million, credit funds will be disbursed by the Ministry of Finance, once the Disbursement Linked Indicators (DLIs) will be met. Each DLI has been allocated a certain value, and achievement of a DLI allows MoF to request a credit disbursement for that value. Certification of DLIs achievement will be based on verified achievement of agreed specific results, the satisfaction of certain criteria, documented under the agreed verification protocols for DLIs. The TA component (US$ 2 million) uses traditional disbursement procedures and is not addressed in this Assessment, but in a separate document.

Although the health sector has not been affected by significant cash shortages in the past, there is a risk of underfunding of some of the subprograms within the Program, specifically the Tobacco Control sub-program, for which no funds are currently included in the 2014 NCPH budget. Since the health sector is not among the top priority sectors defined by the legislation in case of shortages, the Bank will carefully monitor the annual Program budgets, along with in-year revisions within the year. One of the key actions included in the Program Action Plan is for the Bank team to work closely with MoF, MoH, NCPH, and CNAM to monitor the annual budgets for the availability of funds for the Program.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses and Ongoing Reforms</th>
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<tbody>
<tr>
<td>• Moldova scored very well on PI-17 (Recording and management of cash balances, debt and guarantees).</td>
<td>• Although the health sector has not been affected by significant cash shortages in the past, there is a risk of underfunding of some of the subprograms within the Program, specifically the Tobacco Control sub-program, for which no funds are currently included in the 2014 NCPH budget.</td>
</tr>
<tr>
<td>• Existing financial management information system of the MoF covers all Treasury operations and is the main factor in</td>
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</tbody>
</table>
providing proper authorization processes and controlling expenditure, ensuring that budget institutions do not exceed the available appropriation and the monthly allocation. The financial control system can therefore be considered as sound.

- Moldova has a very good score (A) on arrears monitoring indicator (PI-4).

| Risk assessment | Moderate |

**D5. PROGRAM INTERNAL CONTROLS AND INTERNAL AUDIT**

*Overview of PI 18 – PI 21:*

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-18</td>
<td>Effectiveness of payroll controls</td>
<td>B+</td>
</tr>
<tr>
<td>PI-20</td>
<td>Effectiveness of internal controls for non-salary expenditure</td>
<td>B+</td>
</tr>
<tr>
<td>PI-21</td>
<td>Effectiveness of Internal Audit</td>
<td>C+</td>
</tr>
</tbody>
</table>

The assessment confirmed that there are reasonable controls over Program funds. The existing MoH, NCPH, and CNAM internal control systems are considered sound and able to ensure an appropriate control framework for the Program. Both MoH and CNAM have well performing internal audit units and these units would include in their annual work programs appropriate internal audit missions of the HTP.

According to the consolidated annual report on public internal financial control in 2012, published on the website of the Ministry of Finance of the Republic of Moldova, both MoH and CNAM are among the 37 public entities that has submitted annual reports to MoF on internal audit activity based on National Internal Audit Standards (NIAS) and Methodological Norms for the Implementation of Internal Audit in the Public Sector (MNIAPS). Following the evaluation⁴ of internal audit unit conformity to NIAS and MNIAPS, both MoH and NIHC were awarded the maximum possible 10 grade points (See Annex A for detailed findings). Based on the above total points accumulated, both entities MoH (with 55 points) and CNAM (with 56 points) out of a maximum of 56 points, comply completely with National Internal Audit Standards (NIAS) and Methodological Norms for the Implementation of Internal Audit in the Public Sector (MNIAPS).

*Internal Control:* Internal control is based on the 'four eyes' principle, stipulating that every transaction with a financial implication is reviewed by at least two officials and requires two signatures: by the head of the institution and by the chief accountant. Internal control procedures within budget institutions, including for MoH and CNAM are stringent and form the basis of a strong and reliable control framework.

The Central Harmonization function for internal audit and financial management and control was moved from the Financial Control and Revision Service (FCRS) to the MoF in 2008, and the Division

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⁴ Based on MOF Consolidated annual report on public internal financial control in 2012
for Harmonisation of the Public Internal Financial Control System in the MoF was established as Central Harmonisation Unit. The new Law on Public Internal Financial Control (No. 229 of the 23rd of September 2010) is based on the PIFC framework and has entered in force on the 26th of November 2011.

A monitoring system on employee numbers and costs has been put in place in the MoF since 2009, which is supported by the fact that limits for employee numbers are adopted within the annual budget since 2010. The monitoring system allows the MoF to control the number of civil servants and related costs against budget limits for headcounts and costs and thus to monitor, inter alia, decrease of personnel in the context of policy measures such as the Education Reform.

Some existing internal control deficiencies still exist, but mainly at the local level, which does not have a direct impact on the HTP. At any rate, Moldova scored very well on Effectiveness of payroll controls5.

Internal Audit - The internal auditors in the public sector operate under Public Internal Financial Control Law6. Internal audit units (IAU) submit7 reports on internal audit activity to MOF in the form and to deadlines set by the ministry. Besides, the manager of the public entity, as a result of self-evaluation, performs an assessment of the organization of financial management and control and issues annually for the previous year, a statement of good governance.

The Department of harmonization of public internal financial control system within the Ministry of Finance has developed the Regulation on reporting of internal audit in the public sector of Moldova, including the form, manner and time of presentation of the report on internal audit in the public sector.

Internal audit units have been established within MoH8 as well as the CNAM9. The MoH’s internal audit department has two staff – having average work experience of 8 years of which 2 years in the internal audit function. The IA department prepares a regular audit plan – 4 audits were planned for 2012 and which had been carried out to completion. The IA department submitted 21 recommendations to the management, all accepted. The CNAM’s internal audit department also has two staff – having average work experience of 12 years of which 2.5 years in the internal audit function. The IA department prepares a regular audit plan – 6 audits were planned for 2012 and which had been carried out to completion. The IA department submitted 21 recommendations to the management, all accepted. The staff numbers within the internal audit departments is adequate to deal with the volume of work and level of risk in the MoH and CNAM.

NCPH has an internal auditor position included in its organogram, however, there are no internal auditors currently appointed. NCPH management plans to appoint an internal auditor in the coming months, and in the meantime will benefit from the support of the MoH internal audit unit. It has been agreed that MoH would continue to help strengthen the capacity of NCPH internal audit unit, and once the capacity of the NCPH internal audit unit would increase, the unit would also be involved in the internal audit of the HTP.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses and Ongoing Reform Areas</th>
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</thead>
<tbody>
<tr>
<td>• Moldova scored well on PI-18 (Effectiveness of payroll controls) and PI-20</td>
<td>• While MoH and CNAM IA units are performing well there is an ongoing program</td>
</tr>
</tbody>
</table>

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5 Public Expenditure and Financial Accountability (PEFA) Assessment update for Moldova (2008-2010) from October 2011 has reviewed the personnel and payroll systems at the Ministry of Education, the Ministry of Health, SSIF, CIFMA and in the Finance Directorate of the Chisinau Municipality. Following the assessment it was awarded score B+ for PI-18. Effectiveness of payroll controls.

6 National Internal Audit Standards (NIAS) were approved by Order no. 113 of 12.10.2012, Methodological Norms for the Implementation of Internal Audit in the Public Sector (MNIAPS) were approved by Order No 118 of 29.12.2008 and the Code of Ethics of Internal Auditor and Internal Audit Chart (Regulation – model functioning of the internal audit unit) was approved by Order no. 139 of 20.10.2010

7 According to art. 28 of the Law on public internal financial control


9 Government Decision 1432 of 07.11.2002 on measures for the implementation of mandatory healthcare

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Effectiveness of internal controls for non-salary expenditure;
- Both MoH and CNAM entities have well performing Internal Audits units10.
- Lack of internal audit function in NCPH. NCPH needs to appoint an internal auditor and receive support from the MoH to build up its internal audit capability.

D6. PROGRAM EXTERNAL AUDIT

Program External Audit

Overview of PI 26 – PI 28:

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-26</td>
<td>Scope, nature and follow-up of external audit</td>
<td>B+</td>
</tr>
<tr>
<td>PI-27</td>
<td>Legislative scrutiny of the annual budget law</td>
<td>B+</td>
</tr>
<tr>
<td>PI-28</td>
<td>Legislative scrutiny of external audit report</td>
<td>C+</td>
</tr>
</tbody>
</table>

The assessment confirmed that independent and reliable external audit arrangements are in place. The Court of Accounts (Supreme Audit Institution) is a member of the International Organization of Supreme Auditing Institutions (INTOSAI) and European Organization of Supreme Auditing Institutions (EUROSAI) and participates in some INTOSAI working groups. The Court of Accounts is responsible for the financial and performance audits in Moldova’s public sector. The Court of Accounts is considered strong and its external audit reports of the Government are publicly available, and the audits meet the requirements of INTOSAI auditing standards. The Court of Accounts has in place a medium-term development strategy to further strengthen its capacity and for developing more modern audit tools and practices.

The Court of Accounts will audit the Program in conjunction of its audits of MoH and CNAM. The Court of Accounts annual audit would be based on audit terms of reference agreed with the World Bank and also cover the technical assistance component. The annual Program audit reports will be provided initially within twelve months after the year end. As the CoA capacity develops, it is envisaged that the submission date of the reports is brought down to six months by the end of the HTP. The Program information would be provided to CoA in advance, to ensure adequate resources, given the fact that CoA is engaged in the audit of two others results-based financing programs in Moldova which might affect their capacity to audit one more program. Capacity constraints maybe mitigated through technical assistance if required.

Background- Court of Accounts (CoA) began a process of transformation since 2009, with the adoption of the new Law of the Court of Accounts, which began to shift from external financial control to a new external public audit system and represents a major shift under the new model of public finance management.

CoA has in place the second medium-term development strategy to further strengthen its capacity and for developing more modern audit tools and practices, through enhancing the professionalism of its staff and promotion of stronger internal and external accountability. The performance of CoA could be further improved, by publishing audit reports within six months after the end of the fiscal year. The World Bank and other donors (Swedish National Audit Office and European Union) agreed to support CoA in its efforts.

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10 Based on PEFA Assessment for Moldova from 2011, MoH and NHIC were nominated between the public institutions having the most developed IA units besides MoF, the Customs Service, SSIF, the National Bureau of Statistics and the Court of Accounts.
CoA conducts annual mandatory audits on the execution of the government budget: state budget, state social insurance budget and compulsory health insurance funds. CoA audits the administration and use of public funds and public property by: regularity audit; performance audit; and other types of audit, including operational reviews of some World Bank-supported programs.

Draft audit reports containing findings, conclusions and recommendations are presented for discussion in public meetings with the audited entity, stakeholders and the media. The audited entities may provide comments within five days, before the Plenary of the CoA approves final report by voting. The Report is then submitted to the Parliament, Government, MoF and President, and published in the Official Gazette and on the CoA website. In cases of fraud, the Report is submitted to law enforcement agencies (Prosecutor, Centre for Combating Crime and Corruption).

Audited entities involved in the decisions of the CoA are required to report on implementation of recommendations and / or performance requirements of the Court within the deadline set by the Court and communicate measures taken. In case that the audited entity does not address the issues raised by the CoA and does not inform about the implementation of the recommendations, and if this violates the law, the Court could refer the matter to the relevant authorities and other competent bodies.

Court of Accounts audits the budget execution for the health sector on an annual basis, covering MoH, NCPH, CNAM, and subordinated units. The CoA issued a clean audit opinion and the main recommendations for the year 2012 do not indicate that there are serious internal control issues for the Program.

Parliament Oversight - According to the Law on the CoA, the review of the CoA Annual Report by the Parliament in undertaken in October, together with the review of the Report on Budget Execution submitted by the Government and the Budget and Fiscal Policy document. The Government submits the budget execution report for the State budget to the Parliament by the 1st of June, and the Parliament examines and approves it by Parliament Decision by the 15th of July. The review of the Budget execution report is carried out by a Parliamentary commission with participation of the concerned central public authorities. A working group is established to scrutinize the three documents. In general the Plenary completes the review of the CoA Report within three months, and usually before the review of the next Draft Annual Budget Law. It is this review which results in the adoption of a Parliament Decision.

In addition to the Annual Report, the CoA submits other reports and, since February 2011, monthly reports to the Budget Committee which include reports of audit missions carried out. Whenever the Budget Committee considers that a topic is of significant public interest, it selects it for discussion in the plenary session. Moldova scored only a C+ on PI-28 (Legislative scrutiny of external audit reports) in the 2011 PEFA. While this represents an improvement compared to the D score in the 2008 PEFA, it shows that the capacity of the Parliament to analyze audit reports still needs strengthening to ensure proper Parliament oversight. In-depth hearings are only rarely used as an instrument of parliamentary supervision. Members of Parliament have relatively little experience in interpreting CoA reports, and capabilities in this regard still need to be strengthened.

Over the past years, the Court of Accounts has performed audits of several World Bank financed operations. CoA issued clean audit opinions on these project financial statements and made a few recommendations which are detailed in Annex B. The Bank will continue to support CoA through its long term engagement which also includes a recently approved grant to help strengthen the CoA institutional capacity. One of the key actions included in the Program Action Plan is for the Bank team to work with the CoA and Parliament to strengthen oversight and the overall impact of CoA audits in the health sector. This could be scaled up later on to cover other sectors as well.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses and Ongoing Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Moldova scored well on PI-26 (Scope, nature and follow-up of external audit) and PI-27 (Legislative scrutiny of the annual budget law)</td>
<td>- CoA works to improve the timeliness of the Audit Report by publishing public audits no later than 6 months after the end of the fiscal year, and publish the actions taken in response to audit</td>
</tr>
</tbody>
</table>
• Well established laws and regulations provide a strong foundation for external audit, coverage and independence.
• Capacity of CoA to perform and deliver audits findings.
• Capacity of the Parliament to analyze audit reports needs strengthening to improve oversight; The Bank will continue to work with the CoA and Parliament to increase oversight and overall impact of health related audit reports.

Risk assessment
Moderate

D7.  **KEY FIDUCIARY PERFORMANCE INDICATORS**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measure</th>
<th>Baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Planning and Budgeting</td>
<td>Budget Variance (program)</td>
<td>2013</td>
</tr>
<tr>
<td>Program Audit</td>
<td>Audited financial statements of the Program received within 6 months of the end of the previous fiscal year by the end of 2018.</td>
<td></td>
</tr>
<tr>
<td>Contract Administration</td>
<td>- Percentage of contracts delayed due to available funds</td>
<td>Multi-year contracts delayed due to unavailability of the funds for years following the budget year</td>
</tr>
<tr>
<td></td>
<td>- MoH to develop an adequate contract administration and monitoring system which will provide information on contract performance with regard to time, quality and cost, inspection of quality of goods and services delivered, and timeliness of payments</td>
<td>Lack of adequate information available with regard to contract administration and monitoring of implementation</td>
</tr>
<tr>
<td>Complaint Handling</td>
<td>- Number of complaints received and description of actions taken</td>
<td>Under the current PPL there is no independent complaint review body</td>
</tr>
</tbody>
</table>

**E. TRANSPARENCY**

*Overview of PI-8, PI-10, PI-13:*

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-8</td>
<td>Transparency of Inter-Governmental Fiscal Relations</td>
<td>A</td>
</tr>
<tr>
<td>PI-10</td>
<td>Public Access to key fiscal information</td>
<td>A</td>
</tr>
<tr>
<td>PI-13</td>
<td>Transparency of Taxpayer Obligations and Liabilities</td>
<td>A</td>
</tr>
</tbody>
</table>

The State Budget is published in the in the official gazette (Monitorul Oficial) and posted on the website together with the MTEF. Budget execution reports are posted on the website of the Ministry of Finance on a monthly basis and made available the press and mass media. The Court of Accounts finalizes its report on the audit of the execution of the State Budget within one month from receiving the report from the Government. The report on the execution is published in the Monitorul Oficial within 15 days from the date of presentation to Parliament. The outcomes of all audits are published on the website of the Court of Accounts. Tenders and contract are published quarterly in Buletinul de Achizitii (“Procurement News Bulletin”) and on the website of the Public Procurement Agency.
Information regarding the resources of all primary service units is available both at the State Treasury and the subordinate territorial treasuries and can be provided on request. It is possible to obtain information about the primary health care units from CNAM.

Since 2010 there is a Regulation on information, consultation and participation in the development and decision-making in the Ministry of Health approved by the Ministerial Order no.173/2010. It was established a special unit within MoH - Partnership inter-sectorial communication and cooperation with civil society - which coordinates the process of public consultation and participation in the development and adoption and ensure the inter-sectorial communication and cooperation with civil society. In order to ensure transparency in decision making all budget and financial information is comprehensive and accessible to the public, through the MoH website.

The general director of CNAM has issued a similar order no.75A/2010 on ensuring transparency in decision-making in the CNAM. Similarly CNAM’s budget and financial information are accessible to the public, through the CNAM’s website.

Both MoH and CNAM entities are publishing, on their websites, the annual reports on the transparency of decision-making, as well as all key financial information (budgets, budget execution reports, year-end financial statements, audit reports, contract awards).

In the latest 2013 Transparency International (TI) corruption perceptions index, Moldova scored a fairly low 35 points (out of 100 points). This place the country on the 102nd place out of the 177 countries surveyed. Moldova's score has remaining virtually unchanged compared to the 2012 TI index, when it scored 36 points. At any rate, even if it is fairly low, the score reflects that the improvements of the past couple of years are solid and stable and the achievements have not reversed course. Moldova's score for 2011 and 2010 TI index surveys was the same at 29 points.

F. ALIGNMENT WITH THE ANTI-CORRUPTION GUIDELINES

To address the fraud and corruption associated with fiduciary risk, the program implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR operations. The National Anti-Corruption Center and the Public Procurement Agency will take the lead in ensuring that the ACG are followed by providing the required support and information. It is planned that a memorandum of understanding will be signed by the above Moldovan entities and the Bank.

Sharing of debarment list of firms and individuals. The Borrower will use the World Bank’s List of Debarred and Cross-Debarred firms and individuals to ensure that persons or entities debarred or suspended by the Bank are not awarded contracts under the program during the period of such debarment or suspension. The list can be accessed on the World Bank’s website (www.worldbank.org/debarr). The bidding documents for goods, works and services financed under the program will include clauses to the effect that firms and/or individuals that have been debarred by the World Bank would not be eligible to bid under the program.

Sharing of information on fraud and corruption allegations. As part of the progress reports, the Borrower will share with the World Bank information on all complaints and actions taken or being taken on complaints and grievances received on fraud and corruption under the program. The World Bank will be also informed about the actions and decisions taken by the relevant institutions to address the matter raised in the complaint.

Investigation of fraud and corruption allegations. The implementing agencies will provide full support to the National Anti-Corruption Center when carrying out investigations related to fraud and corruption allegations made during the program implementation. As part of the progress reports, the

11 According to Government Decision no. 96/ 2010 and Law. 239-XVI/2008
World Bank will be informed of all credible and material allegations or other indications together with
the investigative and other actions that the Borrower proposed to take with respect thereto.

G. **INPUTS TO IMPLEMENTATION SUPPORT PLAN**

The Bank’s fiduciary team will regularly review the previously mentioned fiduciary indicators. The
team will pay particular focus on: (i) quality and timeliness of MoH and CNAM financial statements,
(ii) progress in the implementation of the Financial Management Information System, (iii)
enhancements in the audit work of internal audit units at the MoH and NHIS, (iv) timeliness and
quality of annual audit reports prepared by the Court of Accounts, (v) improvements in Parliament’s
oversight function, and overall impact of CoA audits in the health sector (vi) increase in MoH’s
capacity to procure consulting services, (vii) enhancements in contract administration, and (viii)
improvements in complaints handling.

In addition, the Bank fiduciary team will also work with the Borrower to monitor overall
implementation progress and address areas which need improvement as identified above, as well as it
will have a continued involvement as follows:

- Reviewing implementation progress and achievement of program results, including
effectiveness and quality of procurement planning, timeliness and cost effectiveness of
delivering of goods and services to end-users, competitiveness of the procurement processes,
extent of the implementing agency’s compliance with the applicable rules with regard to use
of different procurement methods, timeliness and efficiency of contracts’ implementation and
payments.
- Providing support for implementation issues and institutional capacity building, as relevant.
- Monitoring the performance of the fiduciary systems, regular reports and audits, as well as
compliance with fiduciary provisions of the legal covenants.
References

- Sector expenditure strategy health, 2014-2016, September 26, 2013;
- Medium Term Budget Framework for healthcare, 2014-2016;
- Medium Term Budget Framework indicators for healthcare, March 29, 2013;
- Moldova Public Expenditure Review, June 2013;
- Public Expenditure and Financial Accountability (PEFA), 2008;
- Public Expenditure and Financial Accountability (PEFA) update, 2011;
- Operational audit report of the Court of Accounts on the project HSSAP, 2007 – 2010;
- Regularity audit report of the Court of Accounts on the project Strengthening the Effectiveness of the Social Safety Net on the situation of the project as of December 31, 2012;
- The report on the activity of National Health Insurance Company for 2012;
- MoF Consolidated annual report on public internal financial control in 2012;
- Consolidated annual report on public internal financial control in 2012, Ministry of Finance - Department of harmonization of public internal financial control, 2013.
Annex A – Performance of the MoH and NIHC Internal Audit Units

Following the evaluation\textsuperscript{12} of internal audit unit conformity to NIAS and MNIAPS, both MoH and NIHC were awarded the maximum possible 10 grade points.

On Control environment chapter, Ministry of Health scored A for Ethics and integrity – National standard of internal control (NSIC1), Functions, duties and tasks (NSIC2), Approach and operating style of management (NSIC4), Organizational structure (NSIC5), Delegated powers (NSIC6) and B for Commitment to competence (NSIC3).

On Performance and risk management chapter, Ministry of Health scored A for Setting objectives (NSIC7), Planning, monitoring and reporting on performance (NSIC8), Identify events that may create risks and opportunities (NSIC9) and C for Risk Management (NSIC10).

On Control activities chapter, Ministry of Health scored B for Types of control activities (NSIC11), The division of duties and responsibilities (NSIC13) and C for Documenting business processes (NSIC12).

On Information and communication chapter, Ministry of Health scored A for both Information (NSIC14) and Communication (NSIC15).

On Monitoring chapter, Ministry of Health scored A for Continuous monitoring (NSIC16).

On Transactions and information technologies chapter, Ministry of Health scored A for Cash, Fixed assets, Public procurement, Salaries, IT and B for Liability.

The table below shows the applicable legislation related to IAUs in the MoH and CNAM:

<table>
<thead>
<tr>
<th>Public entity</th>
<th>Legislative act under which it was established IAU</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Health Insurance Company</td>
<td>Government Decision 1432 of 07.11.2002 on measures for the implementation of mandatory healthcare</td>
</tr>
</tbody>
</table>

The table below reflects the variation between the internal audit missions planned and the actual number of missions. As mentioned, all planned missions have been completed:

<table>
<thead>
<tr>
<th>Public entity</th>
<th>Planned internal audits missions during the reporting period</th>
<th>Planned internal audits mission during the reporting period and not performed</th>
<th>Causes of the failure in achieving the annual plan of internal audit activity during the reporting period</th>
<th>Head of the entity is informed about the results of the internal audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>4</td>
<td>0</td>
<td>-</td>
<td>At the weekly staff meeting</td>
</tr>
<tr>
<td>National</td>
<td>6</td>
<td>0</td>
<td>-</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

\textsuperscript{12} Based on \textit{MOF Consolidated annual report on public internal financial control in 2012
The table below reflects the total number of recommendations submitted to the management and accepted. As mentioned, all recommendations have been accepted by the management.

<table>
<thead>
<tr>
<th>Public entity</th>
<th>Audit recommendations submitted to the management for 2012</th>
<th>Audit recommendations sent to the management for 2012 and accepted by the management</th>
<th>Accepted / Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>21</td>
<td>21</td>
<td>100%</td>
</tr>
<tr>
<td>National Health Insurance Company</td>
<td>31</td>
<td>31</td>
<td>100%</td>
</tr>
</tbody>
</table>

The tables below reflect the main results of the MoF’s 2012 consolidated report on its review of the public internal financial control and internal audit for MoH and CNAM:

| Public entity                        | IAU is under direct supervision of the budget holder | IAU has internal audit chart prepared by the management | The draft of the internal audit chart has been submitted to MoF for approval | The internal audit chart is approved by the manager of the public entity | The copy of the approved internal audit chart was submitted to MoF | IAU staff have job descriptions | IAU has applied the provisions of the legal framework for internal audit when elaborating job descriptions | IAU employees are engaged exclusively in tasks listed in the job description | All employees of the IAU have access to the legal framework for the internal audit | The internal audit activity is guided by the regulatory framework developed and approved internally | Grade points awarded |
|--------------------------------------|------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------|

39
### Ministry of Health

<table>
<thead>
<tr>
<th>Chapter</th>
<th>National standard of internal control</th>
<th>The average score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ethics and Integrity</td>
<td>A</td>
<td>Standards of ethical behavior and regulations on the prevention of fraud and corruption are communicated to all employees. Managers and employees of the public entity meets the standards of ethical behavior and regulations on the prevention of fraud and corruption (no instances of non-compliance)</td>
</tr>
<tr>
<td>2</td>
<td>Functions, duties and tasks</td>
<td>A</td>
<td>The public entity has a Regulation of organization and operation, which includes functions, powers and duties of the entity, as well as job descriptions, which include basic tasks, duties, responsibilities and powers of each employee. Regulation of organization and functioning, and job descriptions are communicated to all employees</td>
</tr>
<tr>
<td>3</td>
<td>Commitment to competence</td>
<td>B</td>
<td>Public entity knowledge and skills defined for each. The public entity shall assess the training and professional developments, properly conducted, monitor and document employee training. Public entity conducted performance appraisal of employees</td>
</tr>
<tr>
<td>4</td>
<td>Approach and operating style of management</td>
<td>A</td>
<td>Public entity management promotes and contributes to the development of the financial management and control, and to correct its deficiencies. In the public entity is promoted and understood the importance of the control environment and operating style of leadership is shared</td>
</tr>
</tbody>
</table>
by employees. The public entity has procedures for tracking complaints / appeals received from citizens.

<table>
<thead>
<tr>
<th></th>
<th>Organizational structure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>The public entity has defined and updated organizational structure (which is appropriate resources, responsibility and objectives entity) and competences, rights, responsibilities, tasks, objectives and reporting lines of each structural subdivision. Organizational structure and competences, rights, responsibilities, tasks, objectives and reporting lines of each structural subdivisions are communicated to employees</td>
<td></td>
</tr>
</tbody>
</table>

Managers in the public entity delegated powers are responsible for the delegated powers have established subordination levels for delegated tasks, as well as providing for the delegation of powers only to employees who have the necessary competence. Public entity records kept in writing and signed delegated powers.

<table>
<thead>
<tr>
<th></th>
<th>Delegated powers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>The public entity has a mission, strategic objectives and operational targets (consistent with the strategic objectives) specific, measurable, relevant, realistic and time-bound. Mission, strategic goals and operational objectives of the public entity are communicated to all employees. Public entity employees assigned responsibilities to achieve objectives.</td>
<td></td>
</tr>
</tbody>
</table>

The public entity has strategic and annual action plans, which include strategic objectives / operational risks associated objectives and indicators Performance. Public entity systematically reviews and updates action plans. The public entity has written detailed procedures for the preparation, execution and reporting of the annual budget. The public entity shall assess, monitor, review and report of reaching the targets / performance indicators and financial performance.

<table>
<thead>
<tr>
<th></th>
<th>Planning, monitoring and reporting on performance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>The public entity identifies future events that may have a negative impact on the objectives, taking into account their internal and external sources.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Identify events that may create risks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Public entity identifies future events that may have a negative impact on the objectives, taking into account their internal and external sources.</td>
<td></td>
</tr>
<tr>
<td>Control Activities</td>
<td>Types of control activities</td>
<td>Documenting business processes</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>Public entity identifies key risks areas.</td>
<td>Public entity identifies and assesses the risks.</td>
</tr>
<tr>
<td><strong>Types of control activities</strong></td>
<td>Public entity identified some core operational processes.</td>
<td>Public entity separate functions as possible to initiate a transaction with financial consequences and verification of its validity. People who are sensitive positions periodically evaluated or verified.</td>
</tr>
<tr>
<td><strong>Information and Communication</strong></td>
<td>Public entity provides managers and employees with the information necessary to fulfilling their tasks efficiently and effectively. Public entity established quantity, quality and frequency, and the sources and recipients of information. Public entity produces, transmits and receives accurate, clear, useful and complete. Information systems help achieve the objectives.</td>
<td>The public entity has established efficient and effective internal and external communication that ensures fast movement, complete and timely information. The public entity shall notify both horizontally as well as vertically, according to written policies and procedures. Managers of public entity communicate control tasks and responsibilities to employees. The public entity has procedures and communications of irregularities, fraud or corruption. Public entity monitors the flow of information from other bodies / external parties.</td>
</tr>
</tbody>
</table>
### Monitoring

<table>
<thead>
<tr>
<th>Continuous monitoring</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studying public entity external and internal environment to identify changes. The public entity has the necessary information to assess its system of financial management and control, and it monitors and continuously improves. Public entity monitors control activities. Complaints of citizens are used to identify and correct control weaknesses. Recommendations of the external auditors (internal) are fully implemented.</td>
<td></td>
</tr>
</tbody>
</table>

### Accounts and transactions and information technologies

<table>
<thead>
<tr>
<th>Cash</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash receipts are numbered / registered independent before being sent to the cashier and checked with collection by an independent person. Persons authorized payment orders signed by the manager public entity and the function signature is independent of the acquisition function, counting cash and making provisions for the payment. Provisions for collection and payment arrangements are made promptly and in detail in a separate register. Cashier records extracts from bank accounts / treasury is restricted. Bank Accounts / Treasury are reconciled monthly by a person independent of the cash related functions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed assets</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method of calculating the depreciation of fixed assets is clearly defined and approved by the manager of the public entity. Fixed assets are recorded in detail, and their changes are documented and approved by the manager of the public entity. The fixed assets are physically examined periodically (at least annually) with instructions and written procedures ensuring that the current state of fixed assets is recorded and updated. The public entity has written procedures for ensuring that the output of fixed assets disposal / sale thereof is recorded. Disposal / sale of fixed assets shall be approved by the manager of the public entity.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public procurement</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>The procurement process specified description of the quantity, price, terms and delivery dates. The public entity has and uses procedures for the procurement of each type of supplier selection, evaluation and technical issues for</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Rating</td>
</tr>
<tr>
<td>----------</td>
<td>--------</td>
</tr>
<tr>
<td>Liability</td>
<td>B</td>
</tr>
<tr>
<td>Salaries</td>
<td>A</td>
</tr>
<tr>
<td>IT</td>
<td>A</td>
</tr>
</tbody>
</table>
Annex B – Details on the Court of Accounts audits of other World Bank financed projects

Court of Account’s audits of World Bank’s financed operations - The CoA completed operational reviews for two World Bank financed projects: Health Services and Social Assistance Additional Financing (P125719) in March 2011, and Strengthening the Effectiveness of the Social Safety Net Results-Based Financing Specific Investment Loan (P120913) in May 2013. These operational reviews have been agreed at the negotiations of the projects, and focus on the efficiency and effectiveness of the projects expenses and complement the annual projects financial audits. The CoA has just started the second operational review of the Health Services and Social Assistance Additional Financing Project, and it is expected that the report would be ready in early spring 2014, as planned.

The Court of Accounts has issued a clean audit opinion on the Health Services and Social Assistance Additional Financing (P125719), for the period June 2007 - 2010. The key findings resulting from the audit on Health Services and Social Assistance Additional Financing (P125719) in March 2011, as reflected in the audit report performed in the Ministry of Health (MoH) relate mainly to:

- lack of strategies and tools for managing and coordinating the activities of project management influenced the capacity of MoH to monitor and supervise these activities at the level of budget holders with different subordination (MoH, CNAM, hospitals, offices and health centers, family doctors, different healthcare providers);
- low disbursement rate and the use of funds under the planned project are motivated by the fact that MoH officials and staff had no management practices in externally financed projects without implementation unit.

The CoA has also performed an operation review of the 2012 financial statements of another World Bank financed project - Strengthening the Effectiveness of the Social Safety Net Results-Based Financing Loan (P120913), within the Ministry of Labour, Social Protection and Family (MoLSPF). The CoA issued a clean audit opinion and the key findings resulting from the audit, some of which are considered relevant also to the MoH, since they relate to some generic issues affecting most line ministries, are as follows:

- the data is entered manually, with a high level of human involvement, which determines the probability of error; the local contracting consulting services are not provided comprehensive provisions relating to situations of low quality services by local consultants;
- the following recommendations have been made for the MLSPF management: to improve the information system in order to provide automation procedures to exclude any risk of error, respectively revise contract terms regarding the responsibility of local consultants.

CoA Health Sector Audits - The Court of Accounts audits the budget execution for the health sector on an annual basis, covering MoH, CNAM, and subordinated units. The CoA issued a clean audit opinion and the main recommendations resulting from the audit on enforcement of Mandatory Health Insurance Funds for the year 2012 include the following areas, none considered to suggest serious internal control issues:

- For the Ministry of Health:
  - reiterates previous requirement for the revision of the legal framework governing purchases of fund development, especially those related to specialized medical transportation, submit proposals for amending Government Decision 594 of 14.05.2002 "On approval of the Regulation on the way establishment and administration of compulsory health insurance funds ";
  - requires to review cases on unreasonable requests for purchase of medicines without the need and authorization, as well as available funding sources;
requests to review procedures centralized public auctions in association with examining their relevance to purchase goods and services that would ensure the efficiency and quality of the necessary medical facilities.

- For the Ministry of Health together with the National Health Insurance Company:
  - to provide an evaluation and planning of revenues and expenditures of the Mandatory Health Insurance Funds sufficiently substantiated;
  - to ensure, through concrete measures, a rigorous and consistent monitoring the use of the Mandatory Health Insurance Funds, particularly related to core funding, development and prevention;
  - to establish criteria and measurable indicators for the allocation of funds within Mandatory Health Insurance Funds.

- For the National Health Insurance Company:
  - to initiate without delay the procedures for the conduct rigorous tender for holding current accounts and placing, through diversification, the available balances in commercial banks in order to ensure the integrity of financial resources, cost effectiveness deposits and avoid risks prejudicing public interests.

- CoA has submitted to the General Prosecutor's Office the materials related to the implementation of the audit by public medical institution "Strășeni District Hospital" project "Renovation of the heating system, changing doors and windows PVC" for consideration by competence, the failure to conduct the legal framework of the procurement procedure, resulting in the inefficient use of public funds.

- the National Anticorruption Center of Moldova filed a criminal case on the illegal actions of decision makers on the purchase the necessary equipment to produce medical oxygen.