

ROLE OF THE COURT OF ACCOUNTS IN STRENGTHENING THE FISCAL SUSTAINABILITY OF SOCIAL SECTOR

At present, when governments of a series of eastern European countries are carrying out reforms to ensure publicity, transparency and improvement of financial management, the role of Supreme Audit Institutions (SAIs) becomes more significant. Although there are ongoing changes for better, economic growth, and increase of financial receipts, the process of improving and intensifying financial audit is more and more topical from day to day.

SAIs do not have independent tools to govern. Their power and influence resides in the quality of the work they perform. To consolidate their influence, the SAIs should be subject to ongoing development. Consequently, the quality of audits will improve, allowing thus to estimate not only the legality of budget spending, but also the effectiveness of spending public finances with a view to achieving social and economic goals. For this reason, SAIs' conclusions should not represent a mere enumeration of the revealed deficiencies. The conclusions should present SAIs' point of view, a general assessment of the state of things at the audited entity, as a result of a system analysis of the reasons and conditions that determined appearance of irregularities and deficiencies, evaluation of the internal audit system. This professional obligation should constitute an important reference point for every specialist and SAI.

It is well known that the Lima Declaration of 1977 stipulates that the public finance management should be subject to control by supreme audit institutions. The principles and norms of this declaration regard both public revenues and expenditures.

The mandate of the Court of Accounts of Moldova totally corresponds to the principles and norms set forth in the Lima Declaration, and is stipulated in art.133 of the Constitution of the Republic of Moldova, which reads that the Court of Accounts controls the formation, administration and spending of public finances. The rights and obligations of the Court of Accounts are formulated in detail in the Law on Court of Accounts. In the process of control, the Court of Accounts is called upon to ensure observance of legislation and principles of economy, efficiency, and effectiveness in managing public assets and finances.

In the context of priority strategic programs planned by the Government of Moldova, in particular the Economic Growth and Poverty Reduction Strategy (EGPRS), special attention is paid to expenditures in the social and national education sectors, which directly influence on the process of reducing poverty. Considering the social and political orientation of the country's economy towards the creation of favorable conditions to improve quality of living standard and protection of socially vulnerable classes of population, the basic task of the Court of Accounts, as a SAI, is to

control formation, management and spending of public finances and permanently monitor the achieved results.

The Court of Accounts, being competent in public finance management, controls thus the implementation of the goals set forth in the EGPRS. One way to improve government's accountability is for the Court of Accounts to carry out appropriate audits of how the Government and other public institutions form their budgets and cope with public finances. For these purposes, the Court of Accounts, in accordance with its audit authority, annually carries out the following compulsory audits:

I. Execution of revenues and expenditures of the national public budget, which according to the Law on Budgetary System and Budgetary Process, comprises:

- a) **State budget** (budget means, special funds and means, grants);
- b) **State Social Insurance Budget funds;**
- b) **budgets of territorial-administrative units;**
- r) **compulsory healthcare insurance funds.**

II. Control of public finances use by central and specialized public institutions.

Within the above-mentioned controls, the Court of Accounts puts an emphasis on the effectiveness and economy of formation and use of public finances. Its audit programs comprise items regarding the efficiency of use of social transfers to the population (pensions, allowances, indemnities, material aid, etc.).

Audit of the following is being intensified:

- purposeful use of budget allotments for alimentation in pre-school institutions, schools, as well as boarding houses (including for sight-impaired children, blind, mentally impaired), for retirement and invalids homes, etc.;
- observance of the legislation on scholarship increase for all categories of students as well as terms of its payment;

The Court of Accounts is working to implement new control (audit) standards and methods based on international standards. In its daily activity, the Court of Accounts rests and emphasizes thematic controls (audits) and performance audits, which permits to timely inform the government on the most important matters in the social and education sector requiring immediate solutions such as:

- use of budget means as well as grants and project financial means for the implementation of national programs on prevention and fight against socially-conditioned diseases;

- implementation of new compulsory medical insurance services on the account of increasing the cost of medical service pack provided to the population and expand the category of state-insured persons;
- efficient use of funds provided by international organizations for solving social problems;
- implementation of investment projects with foreign financing with a view to improve population's social security;
- use of budget means by education institutions.

IMPLEMENTATION OF SAI AUDIT-BASED PROPOSALS AND RECOMMENDATIONS: A FACTOR IMPROVING EFFICIENCY OF BUDGET MEANS USE

We consider that in our work conclusions and recommendations regarding the elimination of revealed deficiencies and improvement of public finance management efficiency per se represent the key result of control activity. They should be accurate, clear, substantiated with specific evidence, and at the same time simple and easy to be implemented in practice, so that the audited entity be interested in carrying them out, in changing the existent management mechanisms, internal provisions and regulations, enhance their activity in order to ensure legality and efficiency of public finance use.

Such an approach is also important in that during monitoring implementation of set out tasks special attention has to be paid to whether progress was achieved by the audited entity compared to the previous audits rather than to how SAI recommendations were implemented. In other words, it is important for the audited entity not only to accept the recommendations but also to recognize the violations it committed and its deficiencies with their further elimination.

These requirements derive from the INTOSAI and EUROSAI standards. To carry them out, every audit activity undertaken, the Court of Accounts of Moldova provides obligatorily for a follow-up of the previous proposals and recommendations made by the Court of Accounts. Thus, these audits have substantially penetrated into our control activity and managed to show themselves.

A very topical matter regards ensuring completeness and integrity when implementing SAI proposals and recommendation. One can judge about the efficiency, objectiveness and impartiality of ISA based on how the executive and legislative powers react to these proposals.

At this stage, the relations established between the Court of Accounts of Moldova, Parliament and Government are acceptable and tend to permanently improve. To substantiate this statement, it should be noted that in July 2006, the Parliament, having heard in a special plenary sitting the report delivered by the Court's President "On the order of public finance management in fiscal year 2005", for the first time in 12 years of Court's existence, forced the Government to ensure that ministries and other administrative bodies implement the Court decisions on public finance management and

use, and to take measures to improve public finance management as well as report to the Parliament within six months on the elimination of deficiencies revealed by the Court of Accounts.

Also, the Parliament asked the Government to ensure conformity of its normative base with the legislative acts, and the local public government to ensure implementation of Court's decisions and a high level of transparency in the formation and use of local public finances.

Such a serious approach by Parliament to the results of Court's activity had a positive impact on its activity oriented to the implementation of the requirements, recommendations and proposals based on carried out audits. Thus, the Government, based on the analysis of audit results and with a view to enhance public finance management, drew the attention of ministry heads and other central administration bodies to the deficiencies and violation of legislation in what regards public finance management and forced the to ensure:

- * elimination of deficiencies and violations of the legislation in force, revealed during the audits carried out by the Court of Accounts;

- * enhanced accountability of budget executors with a view to a more efficient use of public financial resources;

- * strengthened strategic planning opportunities and comprehensive implementation of elements of budget substantiation based on programs and results.

The Government considered advisable to periodically hear in its sittings the heads of ministries and other central administrative bodies with reports on the work achieved with a view to implement completely the requirements and recommendations of the Court of Accounts.

One of the most important factors in enhancing the efficiency of the SAI is the observance of the principle of publicity, especially given that it is provided for in the legislation regarding the Court of Accounts. The Court of Accounts of Moldova regularly publishes the results of its activity (Decisions and Annual Reports of the Court of Accounts) in *Monitorul Oficial* of Moldova (Official Gazette, which publishes the enforced laws and normative acts of ministries and departments) as well as on its official webpage. We believe that it is important to know not only the opinion of the audited entities, but also that of simple citizens-taxpayers, who must be confident that their money is used efficiently.

Publicity in work represents a guarantee that our proposals and recommendations will be implemented, for they are made public and are controlled by us and general public. In this context, it is necessary to point out the resonance and high appreciation of general public based on the results of thematic audits regarding the effectiveness of the pension system and order of allowing pensions to various categories of pensioners, as well a efficiency of financial means use for the implementation of the compulsory health insurance system.

Audit of effectiveness of the pension system and order of allowing pensions to various categories of pensioners aimed at assessing not only the economic efficiency of the given system, but also at observing social equity at the same time. This is very important for Moldova, because the pension system covers a significant part of the country's population, and the sources for pensions are both the budget of state social insurance, and state budget. The audit revealed the lack of normative base, which allows social bodies to control the correctness of conferring invalidity groups to different categories of citizens, which implies a high risk of subjectivity in conferring pensions. The comparative analysis method used during the audit showed a significant difference in the size of pensions of different categories of pensioners and missing assessment criteria from the social equity viewpoint. For this reason, the Court of Accounts recommended to the Government to consider the matter regarding establishment of a common centralized system of conferring and paying pensions to all categories of pensioners, to review the legislative acts regulating the pension system in terms of unifying approaches and mechanisms of conferring pensions.

The main task of auditing the efficiency of using financial means for the implementation of the Compulsory Healthcare Insurance (CHI) system consisted in determining a socially significant result of using money for the implementation and operation of the new compulsory healthcare insurance system with a view to improve population's living standard and health condition. The audit reported that the achieved results over the period of working under new conditions influenced on a significant improvement of the financial and economic situation in all 98 medical institutions, which managed for the first time in the recent years to cover 70% of the total amount of credit arrears. The activity of medical institutions, under the conditions of the new system, contributed to a positive change of the structure and amount of expenditures: expenditures for employee remunerations increased by 42.8% compared to the previous periods, expenditures for alimentation and medications increased by 48.2% and 135.5% respectively. Also, healthcare services for certain needy classes of the population became more available, and are currently insured by the state (pensioners, children, etc.).

Nevertheless, the audit stated a number of deficiencies and violations both in the activity of the healthcare institutions, as for instance provision of healthcare services that are of a lower quality than the set out level, illegal taxation of insured persons etc, and in the activity of all the structures involved in the new healthcare insurance system.

In the process of controlling the observance of the terms of implementing the compulsory healthcare insurance and efficient use of finances provided for these purposes, we checked the correspondence between the activity of executors of the legislative-normative framework, which regulates the stages of implementation and use of finances. It was revealed that the terms of stage-

by-stage implementation of the compulsory healthcare insurance were violated, excess expenditure of budget means for the office management, failure to execute the revenue part etc. The lowest incoming revenues, namely 7.7% of the expected level, were reported under “Due by other categories of individuals”. Responsibility for the levying these inpayments is pinned on the territorial agencies of the National Health Insurance Company (NHIC). This category of individuals received healthcare services worth 10 times more than their dues to the revenue part of the funds.

Checking the effectiveness of the management and operation of the CHI system, it was revealed that the internal documentation organizational-distributional system that determines the participation of every CHI system participant lacks transparency and contravenes to a great extent to the legislative and normative framework. Thus, instead of a decentralized system with clear distribution of powers between the central office and territorial agencies, the NHIC established a centralized system through which it manages the process and provides centralized financing to all healthcare institutions, avoiding territorial agencies. Despite the fact that 55% of healthcare institutions have not been accredited, the NHIC concluded contracts on purchase of healthcare services with all 98 healthcare institutions. Some of them procured medications in drug stores that had not been accredited and operated without a license.

We revealed that a system for recording expenditures and monitoring the volume of carried out services in terms of cost is not in place for the first and ambulatory healthcare services; also criteria for the contracted volumes of healthcare services were missing. The volume of carried out services recorded in the invoices of the healthcare institutions does not correspond to the actually carried out volume, as the NHIC recognizes only the volumes within the limits of the contract (plan). In practice, healthcare institutions provided services to a greater number of insured persons, who are entitled to this according to the law. It should be noted that neither NHIC, nor the Ministry of Healthcare have synthesized information on real volumes of provided healthcare services. The NHIC reports comprise information on the contracted and provided services within the limits of the concluded agreements. It is still a problem to cover the expenditures of the healthcare institutions for rendering services to uninsured persons.

The unpreparedness of the staff of accounting-economic departments of the health institutions to move to a new system of keeping accounting records in accordance with the National Accounting Standards (NAS), the special statute of healthcare institutions, which are self-supporting economic units on the one hand, and non-profit companies on the other hand, as well as the specifics of the accounting in the health sector, which is not reflected in the NAS, had a negative impact on the activity of the healthcare institutions and the quality of their reports. In their turn, the Ministries

of Finance and Healthcare did not develop Regulations on book keeping and reporting in healthcare institutions.

Given the absence of a clear definition of the statute of the funds under compulsory healthcare insurance, all goods and service procurement procedures were carried out with violation of the order set out by the legislation.

A number of violations and deficiencies have been revealed in the activity of healthcare institutions, territorial agencies and NHIC.

It should be noted that the Government and the Parliament in their turn acted duly and paid special attention to the proposals and recommendations put forward by the Court of Accounts based on the results of the above audits. As a result of the undertaken measures in the social sector and healthcare insurance as well as provision of pensions, significant results have been achieved by now. Thus, for instance, according to the introduction of amendments to the Law on Budgetary System and Budgetary Process, the statute of the funds under the compulsory healthcare insurance has been defined, and as of 1 January 2005 they are an integral part of the national public budget. In the context of actions regarding consolidation of public finances, the Ministry of Finances in cooperation with the National Social Insurance House and the NHIC, implemented as of 1 January 2006 a accumulation mechanism for the taking from the state social insurance budget and compulsory healthcare insurance funds on the account of the Ministry of Finance opened at the National Bank of Moldova, which allowed to exclude the intermediary stage when levying revenues to the budget and CHI funds. Also, the Reform Strategy of the pension provision in the agricultural sector was developed. At the same time, the electronic processing of statements on compulsory contributions of the state social insurance was developed. With a view to implement the “Social Security Management” Project, an Analytic model of the pension provision system was elaborated, which allows to carry out medium and long term forecasts for further correct decision making and securing of a stable function of this system.

Work was carried out to initiate putting budget classification in line with the international standards, as well as to develop Accounting Methodological Guidelines and Financial Reporting Methodological Guidelines for the budget system.

To enhance efficiency of the public procurement system and ensure publicity, and access to the necessary information, a new draft law on procurement was elaborated in line with the guidelines of the European Union in this regard.

It should be noted that the legislative framework regulating the compulsory healthcare insurance sector was adjusted. Thus, according to the amendments, the competencies of the NHIC, its territorial agencies, and Public Tax Service have been delimited; the categories of state insured

people were clearly defined; the question regarding the expediency of preserving extra-budgetary drug stores within healthcare institutions, whose activity contravenes to the existent legislation and principles of compulsory healthcare insurance, etc.

For a more efficient use of the compulsory healthcare insurance funds, the Government decision approved the Regulations on the order of filling in, issuing and keeping records of compulsory healthcare insurances and Procedure of Healthcare Insurance for foreign citizens and stateless persons, who reside on the territory of Moldova temporarily.

NHIC and Labor Inspection signed a bilateral Cooperation Agreement that will contribute to enhance cooperation between the labor relations and compulsory healthcare insurance sectors.

The joint order of the Ministry of Healthcare and Ministry of Finance approved the norms of the material asset stocks of the budget-financed medical-sanitary and education institutions, which are implemented in the compulsory healthcare insurance system.

Advantageous interest payment conditions for the remainders on the accounts were reached with the bank servicing the funds of compulsory healthcare insurance.

The Ministry of Healthcare and NHIC developed criteria for contracting medical-sanitary services within the compulsory healthcare insurance.

In 2006, changes were introduced in the business plans of healthcare institutions, presented by NHIC, concerning monitoring of all incoming revenues from various sources, including from bank interests.

The Court of Accounts is strongly confident that by its control activities, specific conclusions and recommendations it significantly contributes to improving public finance management.

In conclusion, I would like to note that at present an important achievement is the awareness of audited entities about the necessity to carry out the Court of Accounts' recommendations that eventually lead to positive results both for them and for the society as a whole.