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**Republic of Moldova
Cahul Tier II Local Public Administration Authority
(Cahul Rayon)**

**2022 PUBLIC EXPENDITURE AND FINANCIAL
ACCOUNTABILITY (PEFA) ASSESSMENT REPORT**

January 2023

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Public Expenditure and Financial Accountability (PEFA)
Assessment of Cahul Tier II Local Public Administration Authority
Cahul Rayon (Moldova)

December 2022

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat
December 22, 2022

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The World Bank assessment team was led by Ms. Oxana Druta (Senior Financial Management Specialist, Task Team Leader) and consisted of Ms. Julia Dhimitri (Financial Management Specialist, PEFA Secretariat), Ms. Iryna Shcherbyna (Senior Public Sector Specialist), Mr. Tural Jamalov (Senior Financial Management Specialist), Ms. Elena Corman (Senior Procurement Specialist), Ms. Ana Maria Luchian (Procurement Consultant), Mr. John Short (International PFM Expert), and Ms. Eugenia Veverita (Local PFM Expert). Mr. William Gallagher (Consultant) provided professional editorial review and quality assurance. Ms. Iuliana Stratan (Program Assistant, World Bank) provided logistics and administrative support.

The report benefitted from the comments and observations provided by the peer reviewers: PEFA Secretariat, Ms. Valentina Smesnoi (deputy head of general department, head of budget development and administration division, Cahul rayon council), Mr. Ion Iaconi (Head of Local Budget Division, Ministry of Finance), Mr. Josip Juric (Programme Manager, Delegation of the European Union to the Republic of Moldova), Ms. Marina Marinkov (Senior Economist in the European Department, International Monetary Fund), and Ms. Lucretia Ciurea (Monitoring and Reporting Analyst, UN Women).

The PEFA assessment brings its gratitude to the PEFA Oversight Team for their valuable guidance provided during the assessment process – Ms. Natalia Scleruc (Head of Budgetary Policy and Synthesis Division, Ministry of Finance), Mr. Gintautas Baranauskas (Deputy Head of Operations, Delegation of the European Union to the Republic of Moldova), Mr. Luca Oriani-Vieyra (Economic Governance, Public Finance and Macroeconomic Policy, DG-NEAR), Mr. Boris Filipov (Programme officer, Economic Development and Market Opportunities, European Union), Mr. Josip Juric (Programme Manager, Delegation of the European Union to the Republic of Moldova), Ms. Lucretia Ciurea (Monitoring and Reporting Analyst, UN Women), Ms. Maia Savva (Court of Accounts of the Republic of Moldova), and Ms. Marianna Spialo (Principal Consultant, Parliamentary Committee for Control of Public Finance).

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ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

The PEFA assessment was initiated at the request of the Ministry of Finance (MoF). The Delegation of the European Union to the Republic of Moldova commissioned the World Bank (WB) to undertake and lead the assessment under EC financing.

The MoF coordinated the PEFA assessment for the government. It nominated a team which acted as a focal point for the assessment which was led by the State Secretary and facilitated the organization of the PEFA methodology training and preparatory work. A focal point was also appointed in the Cahul rayon who helped the assessment team with data collection before and after the virtual mission, advised on key counterparts for individual indicators, and helped to arrange the meetings between the PEFA assessment team and subnational government counterparts. The MoF coordinated the government's review of the concept note. A MoF representative was a member of the PEFA Oversight Team. All findings and ratings of the PEFA assessment were discussed with the representatives of Cahul rayon and MoF in order to confirm joint understanding of the performance of the public financial management (PFM) system. The Court of Accounts (CoA) provided valuable insights over various elements of the public financial management through its contribution to the majority of the assessed indicators. The Financial Inspection agency under the MoF presented to the assessment team the findings on their inspections with respect to payroll, procurement, and asset management.

The quality assurance process, in addition to the regular internal review procedures within the World Bank, included a formal review of the concept note and the final draft report through a peer review which involved experts from several PFM institutions: the Government of the Republic of Moldova (Ministry of Finance), the PEFA Secretariat, the World Bank, European Union, UN Women, and the International Monetary Fund (IMF).

PEFA Assessment Management Arrangements

- Oversight Team Chair & Members: Ms. Natalia Scleruc, Head of Budgetary Policy and Synthesis Division, Ministry of Finance – Oversight Team Chair; Mr. Gintautas Baranauskas, Deputy Head of Operations, Delegation of the European Union to the Republic of Moldova; Mr. Luca Oriani-Vieyra, Economic Governance, Public Finance and Macroeconomic Policy, DG-NEAR; Mr. Josip Juric, Programme Manager, Delegation of the European Union to the Republic of Moldova; Ms. Lucretia Ciurea, Monitoring and Reporting Analyst, UN Women; Ms. Maia Savva, Court of Accounts of the Republic of Moldova; and Ms. Marianna Spoialo, Principal Consultant, Parliamentary Committee for Control of Public Finance. Mr. Daniel Boyce, Practice Manager, World Bank, provided overall oversight of the assessment.

- Assessment team: Oxana Druta (Team Leader), Iryna Shcherbyna, Tural Jamalov, Elena Corman, Ana Maria Luchian, John Short, Eugenia Veverita, and Iuliana Stratan (logistics and administrative support).

Review of Concept Note

- The concept note was circulated to peer reviewers on December 14, 2020.
- Invited Reviewers: PEFA Secretariat, Patrick Piker Umah Tete (Senior Public Sector Specialist, Governance Practice, World Bank), Natalia Scleruc (Head of Policies and Budget Synthesis Division, Ministry of Finance), Boris Filipov (Programme Officer, Economic Development and Market Opportunities, EU Delegation), Amgad Hegazy, Economist, and Arturo Navarro, Senior Economist (both from the IMF), Lucretia Ciurea (Monitoring and Reporting Analyst, UN Women) and Oversight team.

- Reviewers who provided comments: Guillaume Brule, PEFA Secretariat (December 19, 2020), Boris Filipov (December 23, 2020), Natalia Scleruc (December 23, 2020), Arturo Navarro and Amgad Hegazy, IMF (December 23, 2020), Lucretia Ciurea (December 23, 2020), Patrick Umah Tete (December 25, 2020), Tatiana Ivanicichina, MoF (January 15, 2021).
- Date of final concept note sent to PEFA Secretariat: February 18, 2021.

Review of the Assessment Report

- Draft circulated on October 4, 2022.
- Invited reviewers: PEFA Secretariat; Ion Iaconi (Head of Local Budget Division, Ministry of Finance, Republic of Moldova), representative from the local public authorities of Cahul, Josip Juric (Programme Manager, EU Delegation); Marina Marinkov (Senior Economist in European Department, International Monetary Fund), and Lucretia Ciurea (Monitoring and Reporting Analyst, UN Women). Comments were received from Josip Juric (October 24, 2022), PEFA Secretariat (October 27, 2022), Lucretia Ciurea (November 3, 2022), and Marina Marinkov (November 8, 2022). The Ministry of Finance and the subnational authorities did not have any comments.

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ABBREVIATIONS AND ACRONYMS

ANSC	National Agency for Solving Complaints
ATU	Administrative Territorial Unit
BI	Business Intelligence
CA	Contracting Authority
CG	Central Government
CoA	Court of Accounts of the Republic of Moldova
COFOG	Classifications of Functions of Government
COSO	Committee of the Sponsoring Organizations of the Treadway
CPI	Consumer Price Index
CITF	Centre for Information Technology in Finance
DMS	Debt Management Strategy
EBU	Extrabudgetary unit
EC	European Commission
EU	European Union
FMIS	Financial Management Information System
FY	Fiscal Year
GFS	Government Finance Statistics
GDP	Gross Domestic Product
HLG	Higher-level government
IA	Internal audit
IAS	Internal Audit Standards
IAU	Internal Audit Unit
IMF	International Monetary Fund
KPI	Key Performance Indicator
LPA	Local public authority
M1(WL)	PEFA Weakest Link Scoring Methodology
M2(AV)	PEFA Average of Dimensions Scoring Methodology
MDL	Moldovan lei
MFO	Ministry of Finance Order
MoF	Ministry of Finance
NA	Not applicable
N/A	Not available
NBM	National Bank of Moldova
NPB	National Public Budget
NISC	National Standards for Internal Control
PAR	Public Administration Reform
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance indicator
PIFC	Public Internal Financial Control
PIM	Public Investment Management
PPA	Public Procurement Agency
PPL	Public Procurement law
PPP	Public Private Partnership
SNG	Subnational Government
SAI	Supreme Audit Institution
STS	State Tax Service
TSA	Treasury Single Account

METHODOLOGY

Type of assessment. The main purpose of the 2022 PEFA assessment is to provide the government and local public administration with an objective, up-to-date diagnostic of the public financial management performance at the rayon level of the subnational government (tier II budget), based on the internationally recognized 2016 PEFA methodology. A central government (CG) assessment and a subnational government (SNG) assessment at the Cahul municipality level have also been performed. The overall 2022 PEFA report is an assessment of the quality of the Moldovan public financial management (PFM) system; it is a baseline assessment at the subnational level. The PEFA assessment measures which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The PEFA findings will inform a new PFM strategy to be developed by the MoF.

Number of indicators used. All mandatory performance indicators came from the 2016 PEFA Framework and 2022 guidance for subnational government. For those indicators which were not applicable, a justification is provided.

Timeline/ Dates of mission. The assessment was conducted from January 2022 to July 2022. Before the mission, a training on PEFA methodology was organized for subnational and relevant central government authorities. The COVID-19 pandemic-imposed limitations on the assessment timeline and procedures. Since physical meetings could not be held, the data collection was performed remotely, and interviews were conducted virtually.

Years covered. The assessment team defined fiscal years 2018 to 2020 as the time period covered by this assessment; this period is the same as the CG assessment. Fiscal year 2019 was audited by the Court of Accounts (CoA).

Cut-off date. The cut-off date was June 30, 2022.

Coverage. The assessment covers the rayon administration, which comprises 81 budgetary institutions and authorities: 40 educational facilities with legal status, 3 divisions with separate legal status (general finance division, general education division, and social assistance and family protection general division), a military territorial unit, and 37 tier 1 local public authorities. It also covers the public corporations where the Cahul rayon council is a shareholder. There are extra-budgetary units (EBUs) at the Cahul rayon level.

Sources of information. The primary sources of data for the assessment were: (i) interviews with relevant subnational government officials, and (ii) review and analysis of relevant documentation, such as subnational government reports and publications, analytical data and any other documents which are relevant to assessing PEFA indicators. The assessment team corroborated the evidence provided by the government units with relevant diagnostic and analytical reports produced by non-government stakeholders, including international organizations, development partners, civil society organizations. The full list of institutions and people met, as well as documents, materials and reports used, is presented in Annex 3.

Country fiscal year. The country fiscal year coincides with the calendar year, i.e., January 1 to December 31.

Exchange rate. The local currency unit is the Moldovan Lei (MDL). The official exchange rates of the National Bank of Moldova (NBM) as of January 1, 2022, were:

1 US\$ = 17.7452 MDL

1 EUR = 20.0938 MDL

Other methodological issues for preparation of the report. Each dimension of the indicators measures performance against a four-point ordinal scale from A (the highest) to D (the lowest), according to precise criteria established for each dimension. In order to justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met the criteria are not satisfied, and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator and dimension, consistent with good international practices. A score of D means that the feature being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension (D*). Two scoring methods are used: (i) Method M1 “weakest link among the dimensions” (WL), and (ii) Method M2 “average of dimensions” (AV).

EXECUTIVE SUMMARY

Rationale and purpose

The main purpose of the 2022 PEFA assessment is to provide the Government of Moldova with an objective, up-to-date diagnostic of the subnational-level public financial management performance based on the latest internationally recognized PEFA methodology. More specifically, the assessment measures which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

Under the MoF's coordination, the 2022 PEFA assessment was led by the World Bank with financing provided by the European Union. The assessment covers the last three completed government fiscal years 2018, 2019 and 2020, and was performed from January 2022 – July 2022. Because of the COVID-19 pandemic and the associated restrictions, the assessment was conducted virtually with online rather than in-person collection of the evidence; this fact affected the timeline and progress of the assessment.

The Ministry of Finance is leading implementation of PFM reforms based on the PFM Strategy. The current government's Strategy for Development of Public Finance Management 2013-2022 has formalized its commitment to sustainably improve the accountability and performance of public financial management systems in all levels of the government. The adoption and enforcement of the law on Public Finance and Budgetary-Fiscal Accountability, no. 181 of July 25, 2014, marked an important milestone in the promotion, modernization, and consolidation of the national public finance management system. The 2022 PEFA findings are expected to complement the conclusions of the PEFA assessment for the central government that would inform the preparation of the new strategy and identify further reform areas. This PEFA assessment is also important in the context of the local technical assistance projects implemented by the development partners that use the country's own systems to channel their resources; the partners would like to be appraised of the PFM performance at the subnational level.

Since its independence Moldova has made a significant effort in the area of decentralization. Among those efforts stand the full ratification of the European Charter of Local Self-Government of July 16, 1997, a comprehensive change of the domestic legal order aimed at the inception of an autonomous local level of government, territorial reforms at different stages, devolution of competencies to local authorities, and a degree of mild fiscal decentralization. The concept and policies of the decentralization policy meet the experiences of the European countries and comply with the aspiration for European integration and the bilateral agreements between Moldova and the European Union, but the implementation does not really meet expectations because public administration reform has only been partially implemented so far.

Although there is legal support for the decentralization reform, it remains a highly political and sensitive topic with many controversies. The challenges facing the decentralization reform in Moldova currently include financial decentralization, patrimonial decentralization, and local administration capacity. Local budgets highly depend on state budget transfers. In the past few years, the transfers from the government have been steadily increasing and this increase is linked to the Consumer Price Index adjustment and to the payroll policies. From the analysis of the budget data, it can be observed that the actual execution figures are higher for the transfers which implies that during the year the local authorities must adjust the initially approved amounts of transfers. The reason is that throughout the year the local authorities have additional allocations approved for their projects from the centralized funds administered by some line

ministries (such as National Ecologic Fund, Energy Efficiency Fund, National Regional Development Fund, etc.) as well as other allocations approved by the Government for specific objectives (for instance, provision of one-off compensation for health workers infected with COVID-19, roll-out of activities related to the country reintegration, etc.) . At the same time, it should be noted that the value of transfers is not directly proportional to the number of competencies assigned to the local authority by the administrative decentralization law. This could mean that more expenses are necessary to fulfill the competencies assigned for the local authority level II, and that the revenues received in the local budget from their own fees and taxes are not sufficient.

Main strengths and weaknesses of the PFM systems

Strengths. Most of information regarding the finances of Cahul rayon is available to the public. The medium-term budget is prepared. The government wide Chart of Accounts, which underpins budget preparation, execution, and reporting, is comprehensive and consistent with Government Finance Statistics (GFS) standards. Citizens are able to access the rayon council web page where the rayon general finance division publishes PowerPoint presentations with summarized and accessible explanations of the key elements of the budget. In 2020 all rayon council meetings were available to the public, including the budget hearings. Information on performance plans in service delivery outputs and outcomes across the rayon sectors is very good reflecting a program budget system in place. All revenues are paid into the Treasury account and allocated to the rayon’s sub-account. A revenue report is prepared for management purposes. Monthly cash forecasts are prepared with daily cash flow updates and consolidated on a monthly basis. Spending units can commit funds up to the value of their annual budget allocations in line with their expenditure plans during the year. There are good internal controls on salary and non-salary expenditure with effective commitment controls and compliance with payment rules and procedures. Monitoring of financial and non-financial assets is effective.

Weaknesses. Although the budget is presented in the medium-term perspective, the focus of the legislative scrutiny is on the up-coming year only. The public consultations, although performed, are not sufficiently institutionalized, and there are no records available to the public. The rayon lacks a basic debt management strategy. The internal audit function in the rayon is staffed with only one internal auditor, but the regulatory framework envisages at least two staff units. The effective coverage of internal audit is low. Internal audit activities are primarily focused on compliance. Financial statements of the public corporations and of lower-tier authorities are not audited annually. In-year budget reports are prepared quarterly (excluding first quarter) and are issued within 8 weeks. The standards used in preparing annual financial reports are not disclosed. There is no mandatory submission of accounts for external audit at the rayon level so financial statements are not routinely presented to the Court of Accounts.

Impact of PFM performance on budgetary and fiscal outcomes

Aggregate Fiscal Discipline. Both revenue and expenditure exceeded the original budgets by significant margins during 2018-2020. The factor that caused such deviations was additional unpredictable allocations provided by the central government throughout the year which led to frequent adjustments in the budget. Transfers from the central government cover almost all rayon expenditure and the assured predictability of the transfers is essential in maintaining fiscal discipline. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective

and has removed expenditure arrears. Limited internal audits undermine the fiscal discipline, but this is counterbalanced by the controls performed by financial inspection. The budget classification is good and provides transparency. The existence and adherence to the rules for in-year budget amendments positively contributes to the fiscal discipline. Annual audits of the subnational governments are not mandatory under existing legislation and lack of external audits in the last several years is negatively affecting the fiscal discipline.

Strategic Allocation of Resources. The significant level of budget reallocations negatively impacts strategic allocation of resources. The volumes of transfers from the rayon budget to lower-level authorities are determined during the year after the SNG budget is approved. Frequent budget reallocations override the original policy intentions pursued by the municipality, leading to poor resource allocation which affects efficient service delivery, going forward. The continuous budget reallocations also raise questions about budget credibility and the delivery of public services based on its original policy intent.

Expenditure budgets are developed for the medium-term, but the scope for the budget scrutiny by the rayon council is directed to the coming year only. A clear budget calendar exists but the rayon spending units have three weeks to complete their budget estimates. Budget submission to the rayon council is delayed.

Public investment management does not sufficiently reflect generally accepted good practice in project management. Selection of major investment projects is not based on predetermined economic selection criteria, leading to inefficient allocation of scarce resources.

Efficient Use of Resources for Service Delivery. The rayon scores well on the indicators of performance in the delivery of public services, however the reporting on actual delivery is the area of weakness. The information on resources received by frontline service delivery units is collected and recorded for all spending units. However, the independent evaluation of the efficiency and effectiveness of those services is not performed regularly.

The procurement process is not efficient. Although high level of contracts is based on competitive bidding, inconsistencies in procurement information indicates that the information might not be sufficiently accurate. The strength of payroll systems, particularly with the integration of payroll and personnel systems, means that staff are effectively used. Commitment controls and compliances with rules are good but segregation of duties requires some improvement. Limited internal audit means that in-year system assessments do not contribute as much as they could. Financial data integrity demonstrates good accounting controls as the three dimensions performed well on bank reconciliations, and advance accounts.

Performance changes since the previous assessment

This is the baseline assessment for the Cahul tier II territorial administrative unit.

TABLE 1: OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

PFM PERFORMANCE INDICATOR		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
SNG Pillar: Intergovernmental fiscal relations							
HLG-1	Transfers from Higher Levels of Government	M2	A	B	A	A	A
HLG-2	Fiscal rules and monitoring of fiscal position	M1	A	A	A		A
Pillar One: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	A				A
PI-2	Expenditure composition outturn	M1	B	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar Two: Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	B				B
PI-6	Subnational government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	A	C	A	C	B
PI-9	Public access to fiscal information	M1	D				D
PI-9 bis	Public consultation	M2	B	D	NA		C
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	C	NA	NA		C
PI-11	Public investment management	M2	D	C	D	D*	D
PI-12	Public asset management	M2	A	A	A		A
PI-13	Debt management	M2	B	A	D		B
Pillar Four: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	A	B	A	D	B
PI-17	Budget preparation process	M2	C	C	D		C+
PI-18	Legislative scrutiny of budgets	M1	B	B	A	A	B+
Pillar Five: Predictability and control in budget execution							
PI-19	Tax administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenue	M1	A	A	NA		A
PI-21	Predictability of in-year resource allocation	M2	A	A	A	C	B+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	A	A	A	B	B+
PI-24	Procurement management	M2	D*	D*	D	NA	D
PI-25	Internal controls on non-salary expenditure	M2	B	A	A		A
PI-26	Internal audit	M1	D*	C	D*	D*	D+
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	A	NA	A	A	A
PI-28	In-year budget reports	M1	A	C	A		C+
PI-29	Annual financial reports	M1	A	D	D		D+
Pillar Seven: External scrutiny and audit							
PI-30	External audit	M1	D	D	D	NA	D
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	D

1. COUNTRY AND SNG BACKGROUND INFORMATION

1.1 Economic situation

1.1.1. Country economic snapshot

1. Despite a solid economic performance in the past two decades, Moldova has fallen short of its aspiration to achieve faster convergence with EU income levels. With a population of 2.7 million, Moldova continues to rely on remittances-induced consumption, with an associated low productivity growth from the persistence of deep structural and governance weaknesses, a significant state enterprises footprint, low competition, an uneven playing field, and tax distortions.

2. Persistent inequality of opportunity continues to limit the ability of low-income households to access public services, reducing their resilience to shocks and cementing low intergenerational mobility. The contraction in 2020 resulted in an increase in poverty from 25.2% in 2019 to 26.8% in 2020 (based on the national poverty line). Though poverty rates increased more in urban than in rural areas, rural areas remain much poorer with a poverty rate of 35.3% in 2020 (versus 14% in urban areas).

3. After experiencing a deep contraction in the wake of the banking fraud,¹ (2014-2015), growth was strong before the COVID-19 pandemic downturn. The economy increased by 4.3 percent in 2018 and 3.7 percent in 2019. In 2020, Moldova was impacted by the global coronavirus pandemic and also experienced one of the most severe droughts in the past two decades, both of which exacerbated the economic downturn. The main drivers of Gross Domestic Product (GDP) decline were household consumption, which fell by 7 percent, followed by investment and inventories. On the supply side, the lockdown measures halted trade and industrial production and the severe drought resulted in a decline in agriculture production of over 27 percent. On the back of falling import prices and domestic demand, inflation decelerated markedly in 2020 (3.8 percent on average), fluctuating below the lower band of the 5 percent target range (+/- 1.5 percent) most of the second half of 2020. In response, the NBM cut the prime rate 5 times to a record low of 2.65 percent. A large import reduction, together with relatively stable remittances, led to an improvement in the current account deficit. In 2020, lower energy prices and weak domestic demand resulted in a contraction in imports of 10.5 percent, which has compensated for the decline in the volume of exports (-11.5 percent) and in remittances (-0.4 percent). The current account deficit registered 6.7 percent of GDP in 2020, compared to 9.3 percent of GDP in 2019 and 10.4 percent in 2018. In 2020, on the back of Covid-19 restrictions, Foreign Direct Investment (FDI) contracted sharply to 0.5 percent of GDP, in contrast to 4.2 percent of GDP in 2019 and 2.5 percent of GDP in 2018. From the pre-COVID-19 level, tax revenue increased by about 0.3 percent of GDP, while spending increased by 4.1 percent of GDP. As a result, the fiscal deficit reached a ten-year record of 5.1 percent of GDP in 2020 (including a 1 percent increase in the cash balance).

4. The economic recovery from the pandemic not only hinges on its containment and on a more favorable external environment, but also on effective fiscal support to the private sector and households. Moldova is confronted with the challenges of shrinking fiscal space, mounting contingent liabilities, and

¹ In late 2014 Moldova was hit by the massive and well-orchestrated fraud in the banking system, stemming from opaque shareholder structures, bank governance failures, and weak supervision. In its aftermath, three banks were liquidated at a public cost of 10 percent of GDP, external concessional financing was largely frozen, international reserves fell by one-third, and monetary conditions had to be tightened significantly. Domestic political turmoil, marked by three changes in government, as well as the sudden resignation of the Governor of the NBM in September 2015, constrained solutions and delayed the dialogue with the international community.

increasing social pressures, while it also seeks the resources necessary to support the recovery and steer the economy toward a different growth path. This will require efforts to boost revenue-generating capacity and re-orient spending, and also a more efficient use of public resources and a reduction in the distortions created by public interventions. The government faces considerable financing needs, which will be difficult to fully achieve through domestic financing and thus will critically depend on the ability to access external public financing.

5. The newly elected government in 2021 announced an ambitious reform program that will have a phased approach. In the first phase, the government will prioritize four directions of activity: (i) Managing the health crisis caused by the COVID-19 pandemic; (ii) Launching the justice reform and anti-corruption package; (iii) Increasing population incomes and social protection of vulnerable groups; and (iv) Restoring external financing. After the first phase, the government will focus its efforts on medium to long term structural issues that cover almost all sectors. These issues are: (i) Low quality of government, corruption, conflicts of interest, rule of law, and the administration of state owned enterprises (SOEs); (ii) Poverty, inequality and socio-economic vulnerability; (iii) The small number of well-paid jobs; (iv) Underdeveloped infrastructure; (v) Vulnerability to climate change; (vi) Environmental degradation, pollution of water resources, and management of the forests; (vii) An educational system insufficiently adapted to the needs of society; (viii) Poor health of the population; (ix) The high rate of accidents and crime; and (x) Vulnerability to state security threats and risks.

Table 2: Selected national economic indicators

Economic indicators	2018	2019	2020
GDP (MDL, billion)	192.5	210.4	206.4
GDP per capita (MDL)	71,083	78,932	78,745
Real GDP growth, at constant market prices (%)	4.3	3.7	-7.0
Unemployment rate (%)	2.9	5.1	3.8
Inflation (consumer price index, %)	3.0	4.7	3.8
Public finance (% of GDP)			
Central government budget			
Revenues	27.9	27.8	28.1
Expenditures	28.8	29.2	33.4
Fiscal balance (official)	-0.9	-1.4	-5.3
Debt (% of GDP)	30.1	27.4	35.2

Data source: Moldovan authorities (Ministry of Finance, National Bureau of Statistics)

1.1.2. Main facts and economic indicators of the SNG

6. Cahul rayon is one of 32 rayons in Moldova. It is situated in the southernmost tip of the country, bordering Romania and Ukraine. Cahul rayon is part of the Lower Danube Euroregion² which contributes to the stimulation of trans-border cooperation in the Black Sea region. The major contributing economic sectors are domestic trade and services (which provide 50% of jobs), agriculture (grain cultivation, viticulture and winemaking), the textile industry, automotive industry, transport and logistics (through

² A cross-border cooperation structure bringing together public administrations from three states: Ukraine - Odessa Regional State Administration, Odessa Regional Council and Reni District Council, Republic of Moldova, represented by the Cahul and Cantemir District Councils and Romania -the County Councils of Galati, Tulcea and Braila.

the only port with access to the sea in Moldova), and spa services. Administratively it is organized into 24 villages, 12 communes, and 1 city (municipality Cahul).

7. Main facts and selected economic indicators for the SNG are summarized in Tables 3 and 4 below.

Table 3: Summary of main facts of the SNG

SNG	Detail
Tier of government	Tier II public administration authority
Population	124,000
Main characteristics	Proximity with Romania and, consequently, with the European Union, with the most accessibility to the pan-european transport infrastructure (auto, railway, and sea transport routes). The rayon has good infrastructure to support business: 2 free economic sub-zones, an industrial park, and a business incubator. The rayon has the Giurgiulesti port and access to the Black Sea.
Economy	Agriculture and trade, transport, and logistics
Services provided by the SNG	Social protection of the population, public health, public order, coordination and supervision of administrative military activities, institutions and activities linked to secondary vocational education, boarding schools, schools for children with special needs, and protection of natural resources

Data source: https://eu4cahul.md/wp-content/uploads/2021/03/Cahul_LCED_RoadMap_final-converted.pdf

1.2 Fiscal and budgetary trends in the SNG

8. Transfers from the state budget dominate the revenues of the Cahul tier II rayon budget. Own revenues accounted for around 6.7% in 2020. 66% of transfers go to education, followed by road infrastructure (7%) and social protection of population (3%). Almost 20% of transfers are for general purposes. Key sources of own revenues are paid services, rent, water fees, and fees for extraction of useful materials. The Cahul tier II authority does not collect and administer the budget revenues on its own. That function is performed by the State Tax Service. As shown in Table 4 there was a budget surplus in 2019, and a deficit in 2018 and 2020. The financing sources to cover the negative budget balance in 2020 were financial assets and modifications in the budget balance.

Table 4. Actual aggregate fiscal data of the subnational government (MDL, thousand)

	2018	2019	2020
Total revenue	250,556.2	298,729.6	330,469.8
Own revenue	27,881.7	29,709.1	22,157.4
Transfers from the state budget	222,674.5	269,020.5	308,312.4
Total expenditure	252,339.3	297,103.4	332,182.9

Aggregate deficit (-) / surplus (+) (including grants)	-1,783.1	+1,626.2	-1,713.1
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Data source: Cahul rayon budget execution reports for 2018-2020

9. The majority of the rayon budget (around 65%) is spent for compensation of the employees, followed by the expenditures for procurement of goods and services (10.8%), procurement and repairing of fixed assets (15.5%), social benefits (3.5%), subsidies (1.5%), and other current expenditures (0.7%). Non-financial assets account for 15.5%. The functional structure of the rayon budget expenditures reflects the budgetary-fiscal policy with the following shares in 2020: education – 67.2%, social protection – 11.8%, economic affairs – 8.6%, general state services – 5.2%, culture, sport, youth, and recreation – 3.8%, and healthcare 1.5% (see Annex 4).

10. The year-end rayon budget balance is normally used for providing additional allocations to the lower tier authorities, or subordinated spending units based on their requests which are scrutinized and approved by the rayon council. Such allocations are not included in the initial budget³ but are reported in the annual budget execution report.

11. Surpluses created from differences between special-purpose transfers for education and allocated amounts, after revising the budgets of the educational facilities, are included in the budget of the tier II local authority (called the rayon component). This component can be spent only for educational purposes in accordance with government decision no. 868 of October 8, 2014.⁴ In 2020 the rayon component was directed to cover the deficit of the educational institutions, to compensate transportation costs of the teachers, to supplement the Inclusive Education Fund, to fund the capital repairs of buildings and special construction, and to procure fixed assets in the educational facilities. The value of rayon component amounts to around 3% of total rayon expenditures.

1.3 Intergovernmental fiscal arrangements

1.3.1. Assignment of expenditure responsibility

12. Article 3 of the law no.397/2003 on local public finances provides guarantees of financial autonomy stating that local budgets constitute independent elements which are developed, approved, and executed in conditions of financial autonomy in compliance with the provisions of the law no.181/2014 on budgetary and fiscal responsibility. The local authority bears full responsibility for the execution of its budget in accordance with the established legal framework.

1.3.2. Tax revenue sharing

13. Tax revenue sharing arrangements are provided in the law on local public finances. The rayon budget receives 25% of total personal income tax (PIT) collected on the territory of the cities which are headquarters for the rayon and on the territory of the municipality which is headquarters of the respective rayon.

³ The local authorities prefer to distribute the account balance during the year according to the urgent requests or needs, with caution and not entirely, for the reserves for the unforeseen circumstances.

⁴ https://www.legis.md/cautare/getResults?doc_id=118772&lang=ro#

1.3.3. Intergovernmental transfer

14. The relationship between state and local budgets is established through law no.181/2014 on public finances and budgetary-fiscal accountability. The mechanism of intergovernmental transfers is regulated by law no.397/2003 on local public finances. It distinguishes two types of transfers, general purpose transfers and special purpose transfers which are described in detail under indicator HLG-1. Special-purpose transfers must be refunded to the state budget if not used for the purposes intended as assessed by the public control bodies.

1.3.4 Subnational borrowing

15. Local public authorities have recourse to borrow from private or public banking institutions. Law no.397/2003 on local public finances allows local authorities to borrow capital both domestically and abroad, as well as to provide guarantees on loans to municipal companies. However, according to law no.419/2006 on Public-Sector Debt and Government Guarantees, local authorities are required to obtain the prior approval of the MoF before borrowing (for loans over one year).

16. If an LPA has payments overdue on existing debt, it may not acquire any new debt, except for the purpose of restructuring the unpaid obligations. There is also a cap on credit operations for LPAs such as debt service, including repayment of principal and interest for existing debts.

17. According to provisions of law no.419, the MoF monitors the status of public-sector debt. All public-sector entities (including LPAs) must send the MoF, on a quarterly basis, the information necessary to monitor the contracting, disbursement, and repayment of public-sector debt. The MoF then presents the government and Parliament a quarterly and an annual report on the status of public-sector debt. Reports are published on the MoF's website.

18. Per article 55 of law no.181/2014 on public finances and budgetary-fiscal accountability and article 24 of the law on local public finances, the local budget must be correlated with the state budget law within 30 days after its publication. Otherwise, general-purpose transfers are suspended.

1.4 Institutional arrangements for PFM

1.4.1 Overall institutional arrangements for PFM

19. The Republic of Moldova is a parliamentary republic with a President as head of state and a Prime Minister as head of the government. The Parliament is the supreme representative institution of the people and the sole legislative authority of the state. The Parliament is unicameral and has 101 seats (the simple majority, according to the Constitutional Court, being 52 votes), and its members are elected by popular vote every 4 years. The president is elected through a universal, equal, direct, secret, and freely expressed vote by the citizens to a 4-year term.

20. The President nominates the Prime Minister and the government after consultation with the parliamentary majority. The nomination of the government requires the Parliament's approval. The government ensures the accomplishment of the internal and foreign policy of the state and exercises the

general management of the public administration. The Prime Minister, the Deputy Prime Ministers and the ministers (currently there are 16 members of government), form the government.

21. The government adopts decisions, ordinances and dispositions. Decisions are adopted to organize the execution of laws. The ordinances are issued under the conditions of legislative delegation. Government decisions and ordinances adopted by the government are signed by the Prime Minister and countersigned by the ministers who have the obligation to implement them. These are published in the Official Gazette of the Republic of Moldova. Non-publication entails the non-existence of the decision of ordinance. The Prime Minister makes the dispositions for the organization of the internal activity of the government.

22. The judicial system includes district courts, regional Courts of Appeal and a Supreme Court of Justice. There is a Constitutional Court that enjoys sole authority over constitutional issues, including referendums and the legitimacy of laws and secondary legislation. Administrative courts decide issues of human rights.

23. The Court of Accounts is the Supreme Audit Institution (SAI) of the state, which contributes to good governance by conducting independent, credible, transparent and high-quality audit missions. Article 133 of the Constitution substantiates the CoA in its capacity as an audit institution with a sufficiently broad mandate, which exercises control over the formation, administration, and use of public financial resources, the results of the activity being reported annually to Parliament. Its mandate, organizational aspects, independence guarantees, and activity are regulated by the law no.260 dated December 7, 2017.

24. The law on local public finances and budget-fiscal accountability with its subsequent amendments is a fundamental law that states budgetary and fiscal principles and rules, determines the components of the National Public Budget (NPB) and regulates inter-budgetary relationships, regulates the budgetary calendar and general budgetary procedures, delimits competencies and responsibilities in the area of public finance. Chapter VI specifies the key principles and processes of public internal financial control and external public audit. The law on public internal financial control establishes general principles and rules on organizing the public internal financial control, defines managerial internal control and internal audit, responsibilities of the public authorities, and coordination of public internal financial control.

25. The Tax Code no.1163 dated April 24, 1997, with its subsequent amendments establishes general tax principles and regulates execution of tax obligations.

26. The budget process in Moldova is distributed between the executive and legislative powers. The executive prepares and executes the state budget, state social insurance budget, and compulsory health insurance funds budget, while SNGs prepare and execute local budgets. The legislative branch is responsible for budget adoption and its amendments, while control over execution is carried out by the CoA.

27. The MoF is the central public authority in the field of public finance. It has overall competencies and responsibilities related to the budget calendar, implementation of the budgetary-fiscal policy, preparation of the medium-term budgetary framework, drafting annual budget documentation, and execution of the national public budget. It elaborates and approves the methodological framework necessary for the implementation of the PFM law, as well as provides methodological assistance to the central and local public authorities in the budgetary process.

28. The MoF is a participant in real time Automated Interbank Payment System operated by the NBM for executing domestic payments. All budgets, including SNGs budgets, are executed through the Treasury Single Account (TSA) held by NBM. All SNGs have their accounts opened in the MoF Treasury. The Treasury has regional units through which it provides treasury services. Cahul rayon is served by the Cahul regional treasury.

1.4.2 Subnational institutional arrangements for PFM

29. The structure of Moldova's local public administration was elaborated upon by the law no.436-XVI on local public administration of December 28, 2006, which states that the local government operates at two tiers (or levels) of administration. The first level of local public administration consists of 896 authorities: communities, villages and towns; the second level consists of administrative territorial units (ATUs). There are thirty- five territorial units that correspond to the second level of local government authority: thirty-two districts (or rayons), two municipalities – Chisinau and Balti -- and one autonomous territorial unit (Gagauzia). There is also one territorial unit (Transnistria), which does not consider itself under the jurisdiction of Moldova but is internationally considered as part of Moldova.

30. A tier II territorial administrative unit is a legal person in public law and has property that is separate from that of the state and other units. The rayon budget includes all revenues and expenditures necessary to exercise the functions of the rayon administration. The rayon budget consists of general revenues (own revenues, shared tax revenues, transfers from the state budget, and grants for the budget support), collected revenues, and grants for the externally financed projects. In the process of budget execution, the head of the rayon fulfills the function of the rayon budget administrator.

31. The organization, competencies, finances, and operational aspects of local authorities are regulated by a comprehensive set of laws and regulations. Law no. 436-XVI / 2006 on local public administration, acts as a code for the local administration system and regulates the organization of the local authorities, their competencies, their internal administration, the forms of control over their activities, and their property and financial resources. Other important pieces of legislation that describes legal, organizational, and financial aspects of budget development and implementation are the laws on the following topics:

- Local elected officials, no.768-XIV of February 2, 2000;
- Administrative decentralization, no.435-XVI of December 28, 2006;
- Regional development in the Republic of Moldova no. 438-XVI of December 28, 2006;
- Local public finance law no.397-XV of October 16, 2003;
- Public finances and budgetary-fiscal responsibility no.181 of July 25, 2014;
- Administrative and territorial organization of the Republic of Moldova no.764-XV of December 27, 2001;
- Framework status of the villages (communes) and towns (municipality) no.436-XV of November 6, 2003.

32. Articles 10 and 11 of the law on administrative decentralization define the competencies between tiers I and II of local public administration authorities. Article 11 clearly stipulates the principle that the competence recognized in law cannot be imposed or limited by any public authority, except under the law. The decentralized competencies of tier II are:

- Socio-economic development, territorial planning, and urban development;
- Construction, administration, and repair of district roads;
- Construction of sanitary institutions and schools; social assistance; maintenance of sanitary and social facilities;
- Oversight and management of education institutions;
- Coordination and development of sporting and other activities for youth;
- Public transportation;
- Environmental protection, managing public property, construction of interurban pipelines, land relations under the law; and
- Maintenance of exhibitions, theatres, public television and other institutions that serve the population, as well as financing of cultural activities organized and carried out by level II local public administration, fire protection, other duties under the law.

33. Delegated competencies are services transferred to local government by the central authorities, with the latter retaining various management and control instruments to oversee the quality and use of the delivered services. However, competencies and public services can be delegated to the local governments only if funds are budgeted. Otherwise, local authorities are entitled to refuse to comply with these directives, legally challenge them, or request specific instructions from CG.

34. Tier II local authorities have the following delegated functions: social protection of the population, institutions and activities linked to primary and secondary vocational education, boarding schools, schools for children with special needs, road infrastructure, protection of natural resources, and consumer and civil protection.

35. Each rayon elects a council, which coordinates the activities of the local councils in order to provide public services at the regional level. The rayon representative and deliberative authority is the rayon council composed of 35 councilors in Cahul. The Cahul rayon executive authority is exercised by the head of the rayon, and it includes the following sub-divisions with the status of a public institution:

- Office of the Rayon Council Head;
- General Education Division;
- General Finance Division;
- General Social Assistance and Family Protection Division.

36. These sub-divisions have various subordinate institutions. Each division has its own accounting unit, but all accounting and financial information is consolidated at the level of the general finance division.

37. There are also 49 self-managed educational facilities which may have their own accounting unit, or this function is performed in their name by the general education division.

38. The rayon budget finances the budgets of the rayon sub-divisions and educational facilities. The Cahul council acts as founder in three public corporations and 12 health facilities. Municipal enterprises fit into the definition of a public corporation. The health facilities have the status of public institution,

and their financing is provided from the mandatory insurance funds for medical assistance which are managed by the central government. For this purpose, the facilities have to enter into contract with the National Health Insurance Company that manages the insurance funds. These facilities are considered extrabudgetary units per IMF's GFS.⁵ In addition, the Cahul rayon tier II administrative territorial unit has 37 tier I local public authorities (villages, communes, and cities) that receive transfers directly from the state budget, but report regularly to the rayon finance division for preparation of synthesis of draft budgets/execution of local budgets of tier I and tier II. The rayon council may allocate additional transfers to such authorities only from its available end-year balance. There is no direct financial relationship between the rayon and its tier I authorities. Per article 81 of local public administration law no.436 / 2006, the budgeting process and budgets of tier II and tier I authorities are independent from each other. Tier I public authorities receive transfers directly from the state budget. The transfers provided by the tier II authority to tier I authority only partially cover the budget of the lower tier administrations (Annex 5). Hence, the tier I authorities are considered EBUs per PEFA Framework.

Table 6. Units of the SNG – Number of entities, 2020

	Budgetary units	Extrabudgetary units	Public corporations
Number of entities	81	49	3
Expenditure, actual in 2020 (MDL thousand)	332,183	Not available	

Data source: Finance Division

39. The local public finance law no. 397/2003 is the primary law governing the public financial management in the local authorities. It provides the structure of the local revenues, local budget preparation, approval and execution. It also states the competencies and responsibilities in the area of local public finances. The law has special provisions regarding the control on budget preparation and execution, external auditing and oversight over the submission of requested documentation. In addition, MoF issues regulations and instructions which are common for all budgetary sector with special provisions related to the local authorities.

40. Entities and office holders responsible for the elaboration, approval, and execution of the Cahul rayon budget and for the management of the public patrimony are:

- The rayon council approves the organizational chart and the staff statements of its subordinate subdivisions, the annual budget decision, and the amendment of the rayon budget. It decides on the establishment of the reserve fund and approves the regulations on how to use it, on committing or granting loans to / from the rayon budget (and on the application of other financial instruments according to the legal framework), and on the administration of the rayon assets. It decides, in accordance with the law, on the legal acts of administration regarding public goods and services in the rayon's domain, approves programs for the development of social services, identifies the necessary financial resources, and hears the report on the execution of the rayon budget.

⁵ <https://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm>

- The head of the rayon ensures the execution of the decisions of the local council and exercises the function of administrator of the rayon budget. The head of the rayon is responsible for the management of budgetary resources, administration of public patrimony in accordance with the principles of good governance and of public expenditure according to the approved budget allocations.

41. The key state bodies for the supervision of local authorities are the State Chancellery and the MoF. The State Chancellery is the body that holds the most important powers in the field of local government and decentralization. It co-ordinates all issues dealing with local governments. The State Chancellery has the power to validate the legality of the acts and decisions of the local authorities through its regional offices.

42. The MoF also plays an important role in administrative supervision, but it is limited to financial and fiscal issues. While the local authorities are free to approve their own annual budgets, and CG institutions cannot interfere in the budgetary autonomy of local authorities, they are required to send a copy of those budgets to the MoF. The MoF has the right to carry out thematic controls to assess the accuracy of local budget preparation and execution.

43. The financial inspection agency of the MoF may conduct inspections in any local authority in the country. This financial inspection agency may decide to audit any local authority according to its own discretion, plans, and strategies. As a result of those inspections, the financial inspectorate may impose fines on a local authority.

44. Outside the executive branch, the CoA plays a fundamental role in the administrative oversight of local authorities. The CoA performs an important role in the control of local accounting and public expenditure. There is a special division in the CoA to handle local governments. In carrying out its functions, the CoA performs financial, compliance, and performance audits and issues recommendations.

2 ASSESSMENT OF PFM PERFORMANCE

SNG PILLAR: Intergovernmental fiscal relations

HLG-1. Transfers from an HLG

45. This indicator assesses the extent to which transfers to the subnational government from higher-level government (HLG) are consistent with original approved budget of HLG and are provided according to the agreed time frames. This indicator contains four dimensions and uses the M2(AV) method for aggregating dimension scores. The period of assessment of this indicator is the last three completed fiscal years (2018-2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
HLG-1. Transfers from a higher-level of government (M2)	A	
HLG-1.1: Outturn of transfers from higher-levels of government	A	Outturn of transfers from the state budget was between 97% and 106% of the estimate in two of the last three years.
HLG-1.2: Transfers composition outturn	B	Transfer composition outturn was less than 10% in all three years.
HLG-1.3: Timeliness of transfers from higher-levels of government	A	The timetable for transfers from the state budget to SNG budget is prescribed in Ministry of Finance Order (MFO) no.3/2017 which was respected in all of the last three years.
HLG-1.4: Predictability of transfers	A	The budget circular issued by MoF to SNGs contains information on transfers for the fiscal year and the two following years with detailed explanations of any changes incurred and respective calculations.

46. Articles 4, 10, 11 and 12 of the law on local public finances no.397/2003 establish the type of transfers from the state budget to tier II subnational government: (i) general-purpose transfers, and (ii) special-purpose transfers (earmarked transfers). The general-purpose transfers represent allocations for financing of the activities of the local public administration (LPA) authority. These transfers are carried out from the Financial Support Fund for ATUs, and they are formed from the personal income tax revenues not shared in local budgets. The ATU's Financial Support Fund is divided into: (i) a Budget Equalization Fund for tier I ATUs (45%) – distribution is formula based in terms of fiscal capacity per capita,⁶ population size, and the area of the ATU, and (ii) a Budget Equalization Fund for tier II ATUs (55%) – distribution is a formula based calculated as a direct proportion of the population size and area.

47. Special purpose transfers are funds allocated in absolute amounts from the state budget to the budgets of the LPAs to finance preschool, primary, secondary, special and extracurricular education, local road infrastructure, LPA' competencies delegated by the Parliament at the government's proposal, capital investments, and other special measures. Special purpose transfers for local road infrastructure are

⁶ Ratio of the revenues collected from PIT and number of residents in a given territory.

calculated and distributed by the number of administered kilometers. The special purpose transfers can be used only for the purpose intended, otherwise they must be refunded to the MoF.

48. Shared revenues in the form of the PIT are collected by the central government and then transferred to the local budget.

49. There are no transfers related to international development funding that is pooled by the central government and transferred to the rayon. The funds for externally funded projects are received directly.

50. The calculations for this indicator are provided in Annex 4.

Dimension HLG-1.1 Outturn of transfers from the HLG

51. The total amount of transfers from the state budget to the Cahul rayon and its subordinated spending units from 2018 – 2020 is shown in Table HLG 1.

Table HLG.1: Outturn of transfers from the HLG (MDL thousand)

Aggregate expenditure	2018	2019	2020
Approved budget	239,371.6	268,565.5	316,035.6
Outturn	244,201.5	291,108.4	324,476.9
Outturn as percentage of budget (%)	102.0	108.4	102.7
Composition variance of earmarked grants, (%)	4.0	5.4	7.0

Data source: Budget execution reports prepared and consolidated by the Cahul general finance division

52. Actual transfers were between 97% and 106% of the original budget estimate in two of the last three years.

53. **The score for this dimension is A.**

Dimension HLG-1.2 Earmarked grants outturn

54. Variance in transfer composition was less than 10% in all three years. The largest variance (7.3%) occurred in 2020 for transfers received from the state budget institutions that almost doubled. Most of these transfers were of a capital investment nature.

55. **The score for this dimension is B.**

Dimension HLG-1.3 Timeliness of transfers from the HLG

56. Ministry of Finance Order (MFO) no.3/2017 regulates the transfers to the LPAs. General purpose transfers are made monthly normally in the proportion of 1/10 of the total allocated amount in the first six months of the year and in proportion of 1/15 for the next six months. General purpose transfers are executed twice a month, at the beginning and at the mid of the month. Special-purpose transfers are made instantly upon the payment orders submitted by the Cahul rayon subdivisions and subordinated authorities / spending units up to the remaining balance of the approved transfers. Upon request of the local authorities, in order to cover a temporary cash deficit, a general transfer could be made in advance from the TSA up to the threshold of the annual allocations per restrictions stated in art. 14 of local public finance law. Shared revenues are channeled daily upon collection of the PIT. The timetable described above was respected in all three years.

57. **The score for this dimension is A.**

Dimension HLG-1.4 Predictability of transfers

58. The budget circular submitted by the MoF provides estimated general purpose and special purpose transfers for the next and two following years, including any changes in the formula and the detailed calculations. The budget circulars are published on the MoF website.⁷ The FY2020-2022 budget circular was distributed to all SNGs on November 4, 2019, and included:

- Annex 3: Information on general purpose transfers;
- Annexes 5 – 8: Information on special-purpose transfers for education;
- Annex 11: Limits of special-purpose transfers from the state budget to local budget for financing of sport schools;
- Annex 12: Limits of special-purpose transfers from the state budget to local budget for financing of social payments;
- Annex 15: Limits of special-purpose transfers for roads infrastructure.

59. **The score for this dimension is A.**

HLG-2. Fiscal rules and monitoring of fiscal position

60. HLG–2 assesses the extent to which the CG sets fiscal rules framing the budget and granting SNGs the right to borrow. It also assesses the extent to which the CG monitors the financial position of subnational governments. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores. The coverage is the last completed fiscal year (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
HLG-2. Fiscal rules and monitoring of fiscal position (M1)	A	
HLG–2.1: Fiscal rules for subnational governments	A	The fiscal rules are clearly laid down in the law on local public finances.
HLG–2.2: Debt rules for subnational governments	A	The rules on ceilings for SNG debt are provided in the law. The MoF monitors the subnational debt both at approval and at execution.
HLG–2.3: Monitoring of subnational governments	A	All SNGs provide their annual financial statements to MoF. The annual NPB Execution Report produced by MoF includes consolidated report on execution of local budgets.

Dimension HLG–2.1 Fiscal rules for subnational governments

61. Per article 13 of the law on local public finances no.397/2003 as applicable for the last completed year of 2020, the local budgets could not be approved and executed with a fiscal deficit. This provision was not applicable if the local authority takes loans for capital expenditures or finances its expenditures from the receipts of the sale and privatization of its assets, and from fiscal surpluses resulting from the

⁷ <https://mf.gov.md/ro/buget/circulara-bugetar%C4%83>

last year. This exemption was abolished with the amendment of December 16, 2020, which became effective after January 1, 2021. In addition, the following modifications were made: (i) every local budget approved, amended, or executed must be balanced, (ii) the budgeted expenditures must be equal to revenues plus financing sources, and (iii) every modification of the budget balance is approved only through the decision regarding the modification of the local budget.

62. The LPAs are entitled to form reserves up to 2% of the total budgeted expenditures to finance emergency expenditures throughout the year that could not be predicted and budgeted.

63. Per article 30 of the law on local public finance no. 397/2003 in the process of budget execution, the head of the rayon is authorized to block temporarily the budget allocations, except for debt payments, if the analysis of budget execution shows a deterioration of fiscal balances approved through the annual budget decision. The freeze cannot exceed 60 days, and in this period, the budgetary authorities and institutions cannot enter into new commitments. If the actions related to the freeze of the allocations do not ensure the maintenance of the fiscal balance within the approved ceiling, 20 days before this period expires the budget administrator submits to the council the draft decision on the local budget amendment.

64. All SNGs, including the Cahul rayon, respect the fiscal rules.

65. **The score for this dimension is A.**

Dimension HLG–2.2 Debt rules for subnational governments

66. LPAs have limited ability to borrow. Article 14 of the law on local public finances no.397/2003 allows the LPAs to take loans for managing a temporary cash deficit from financial institutions or budgets administered through the TSA. Such loans are to be repaid within the same budget year. The amount of total loans to cover the temporary deficits may not exceed 5% of total revenues approved (or amended) of the local budget, excluding special-purpose transfers.

67. According to article 15 of the law on local public finances no.397/2003, for capital expenditures the LPAs have the right to take long-term internal loans from domestic financial institutions and other creditors within the country, and long-term external loans from international financial organizations. In addition, the LPAs can provide from their own revenues, guarantees for internal loans from financial institutions and other creditors within the country and guarantees for external loans from international financial organizations, to municipal enterprises and to commercial enterprises that have whole or partial municipal capital. The LPAs may also take loans for refinancing of previous long-term loans. Long-term loans for capital expenditures could be financed by issuing bonds by decision of the local council.

68. However, according to law no. 419/2006 on public-sector debt and government guarantees, local authorities are required to obtain the prior approval of the MoF before borrowing (loans for one year and more). If a local authority has payments overdue on existing debt, it may not acquire any new debt, except for the purpose of restructuring the unpaid obligations.

69. The total amount of annual payments (repayment of principal, interest, and other payments) related to servicing local budget debt on loans contracted or guaranteed should not exceed 20% of total annual budget revenues, except for special purpose transfers.

70. The MoF monitors the level of debt at the subnational level and produces quarterly reports on the status of public sector debt that are made public.⁸

71. Cahul rayon followed the debt rules.

72. **The score for this dimension is A.**

Dimension HLG–2.3 Monitoring of subnational governments

73. All SNGs must submit annual financial statements to the MoF. The finance divisions of tier II subnational governments consolidate financial information for execution of all local budgets of tier II and tier I and submit it to the MoF within three months after the year end according to the timetable prepared by the MoF.⁹ This information is incorporated in the annual NPB execution report that includes a consolidated report on execution of local budgets. It is published on the website of the MoF.¹⁰ For FY2020, only one SNG submitted their statements with the delay, but it was not significant.

74. **The score for this dimension is A.**

⁸ <https://mf.gov.md/ro/datoria-sectorului-public/rapoarte/datoria>

⁹ The MFO no 168 of December 23, 2020

¹⁰ <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale>

PILLAR 1: Budget reliability

75. Pillar One measures whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

PI-1. Aggregate expenditure outturn

76. This performance indicator (PI) measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the government budget documentation and fiscal reports. There is one dimension to this indicator. The assessment covers the SNG budgetary units and looks at the budgeted and actual expenditure for FYs 2018, 2019 and 2020. The calculations for this indicator are included in Annex 4.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-1: Aggregate expenditure outturn (M1)	A	
PI 1.1 Aggregate expenditure outturn	A	Aggregate expenditure outturn was between 95% and 105% in two of the last three years.

77. Expenditure outturn of the Cahul rayon budget is characterized by the overperformance of the planned targets in all three assessed years. The largest variance was in 2019 caused by the increase in the staff compensation costs as a result of the introduction of the new payroll law no.270 in the budgetary sector dated November 23, 2018.

Table 1.1: Aggregate expenditure outturn

Aggregate expenditure	2018	2019	2020
Approved budget (MDL thousand)	243,883.6	273,717.8	322,546.4
Outturn (MDL thousand)	252,339.3	297,103.4	332,183.0
Outturn as a percentage of budget (%)	103.5	108.5	103.0

Data source: Budget execution reports prepared by the Cahul rayon finance division.

78. The expenditure outturn was between 95% and 105% in two of the last three years.

79. **The score for this dimension is A.**

PI-2. Expenditure composition outturn

80. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. This indicator has three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment covers budgetary units over the last three completed FYs (2018-2020). The calculations for this indicator are included in Annex 4.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-2. Expenditure composition outturn (M1)	D+	
2.1 Expenditure composition outturn by function	B	Expenditure composition outturn by function was less than 10% in all three years.
2.2 Expenditure composition outturn by economic type	D	Expenditure composition outturn by economic classification was more than 15% in two of three last years.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the reserve fund of the Cahul rayon was on average 0.3% of the original budget.

Dimension PI 2.1 Expenditure composition outturn by function

81. Variance in expenditure composition by COFOG functional classification was less than 10% in the last three years. The largest variances were in 2019 and 2020 within environmental protection group due to the participation of the rayon council in the integrated waste management project and the respective allocations expected from the Ministry of Agriculture, Regional Development and Environment.

Table 2.1: Aggregate composition expenditure outturn by functional classification

Variance	2018	2019	2020
Functional classification, %	7.5	7.2	4.4

Data source: Cahul rayon budget execution reports for 2018-2020, assessment team calculation.

82. **The score for this dimension is B.**

Dimension PI-2.2 Expenditure composition outturn by economic type

83. Variance in expenditure composition by economic classification was more than 15% in two of three last years. The largest outturn was in 2019 mainly because of the large value of subsidies as compared to the original estimates, which were allocated to the subordinated spending units, in particular health facilities. The subsidies were provided mainly for repairs works. Significantly more subsidies than those planned continued to be granted in the following year.

Table 2.2: Aggregate composition expenditure outturn by economic classification

Variance	2018	2019	2020
Economic classification, %	15.0	20.9	18.0

Data source: Cahul rayon budget execution report, assessment team calculation

84. **The score for this dimension is D.**

Dimension PI 2.3 Expenditure from contingency reserves

85. The average contingency expenditure share was 0.3% of the original budget in 2018 – 2020. Article 19 of the law on local public finances no.397/2013 states that the local council may decide to set up a reserve fund of not more than 2% of the local budget expenditures.

Table 2.2: Expenditure from contingency reserves

Variance	2018	2019	2020
Contingency expenditure share of budget, %	0	0.8	0

Data source: Cahul rayon budget execution reports for 2018-2020. Assessment team calculation.

86. **The score for this dimension is A.**

PI-3. Revenue outturn

87. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the SNG budget over the last three completed FYs (2018-2020). The calculations for this indicator are included in Annex 4.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-3. Revenue outturn (M2)	D	
3.1 Aggregate revenue outturn	D	Actual revenue exceeded 116% of budgeted revenue in two of the last three years.
3.2 Revenue composition outturn	D	Variance in revenue composition was more than 15% during the last three years.

88. Article 6, paragraph 6, of the Tax Code no. 1163-XIII of April 24, 1997, defines the system of local taxes and fees. The main own revenues collected by the Cahul rayon include: (i) tax on natural resources which consist of water fee, fee for the timber released on foot, and fee for the extraction of useful minerals; (ii) tax on the purchase of foreign currency by individuals in foreign exchange offices; (iii) rent of public property; and (iv) fee for services.

Dimension PI-3.1 Aggregate revenue outturn

89. In two of the last three years the Cahul rayon tier II authority received more revenues than estimated originally. In 2018 and 2019 it was due to the increase in receipts from individual income taxes and fees for natural resources and cash inflows from the fee-based services.

Table 3.1: Aggregate revenue outturn

Total revenue	2018	2019	2020
Approved budget (MDL thousand)	4,512.0	5,152.3	6,510.8
Outturn (MDL thousand)	6,354.7	7,621.2	5,993.0

Variance (as a % of original budget)	140.8	147.9	92.0
Composition variance (%)	24.1	29.3	34.3

Data source: Cahul rayon budget execution reports for 2018-2020. Assessment team calculations.

90. **The score for this dimension is D.**

Dimension PI-3.2 Revenue composition outturn

91. Variance in revenue composition was more than 24% during the last three years. The largest impact on the revenue composition outturn in 2020 included the increased receipts from extraction of useful minerals, and from fines and sanctions. Also, the rayon council received less than payments due from fee-based services.

92. **The score for this dimension is D.**

PILLAR 2: Transparency of public finances

93. Pillar Two assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure, including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

PI-4. Budget classification

94. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator. The assessment covers the SNG budgetary units in FY 2020.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-4. Budget classification	A	
4.1 Budget classification	A	Budget formulation, execution, and reporting are based on reliable and detailed administrative, economic, functional, and program classifications, using GFS/ COFOG standards that can produce consistent documentation comparable with named standards.

Dimension PI-4.1 Budget classification

95. The legal and regulatory framework for budget classification used at the SNG level is the same as for general government sectors. Approved classifications are mandatory for the sub-national level. The SNG has no direct control of this framework, it is obliged to adhere to it, and it cannot modify it. The chart of accounts is aligned to the economic budget classification.¹¹

96. Budget formulation, execution, and reporting is based on consistent administrative (“organizational”), economic, functional, and program classifications. The breakdown of revenue is consistent with GFS, while expenditure is summarized by functions, and the expenditures of each organization is divided into sub-programs analyzed by economic nature. The budget explanatory note presented to the rayon council has a summary table of revenue and expenditure by economic classification.

97. The rayon budget uses 9 out of 10 main functions (all except justice) from the functional classification that are in line with COFOG and is the same for the budget formulation, execution, and reporting.

98. The annual budget report contains data showing both original budget estimates and the actual executed budget by function and program.

¹¹ Link for the budget classification used for the last completed fiscal year (2020):

https://www.legis.md/cautare/getResults?doc_id=129234&lang=ro#

Link for the chart of accounts used for the last completed fiscal year (2020):

https://www.legis.md/cautare/getResults?doc_id=125434&lang=ro#

99. The program classification consists of three levels: “Programs” (P1) and “Sub-programs” (P2), which are hierarchically subordinated, and a third level, Activities (P3), which is independent from P1 and P2. Thus, the sub-program code can only be used together with the higher-level program code; a list of activities can be established under any program–sub-program combination.

100. The financial management information system (FMIS) is used for all budget process stages. There is a sufficient level of interconnection between budget planning, budget execution, and payment operations using accounting and reporting modules of FMIS. Recurrent and capital investments’ budget preparation, execution, and reporting procedures are fully integrated and covered by the budget classification structure.

101. **The score for the dimension is A.**

PI-5. Budget documentation

102. This indicator assesses the comprehensiveness of information provided in the annual budget documentation as measured against a specified list of four basic and eight additional elements. The assessment covers the SNG budgetary units and looks at the most recent budget submitted to legislature (FY 2021).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-5. Budget documentation	B	
5.1 Budget documentation	B	Annual budget documentation fulfills 6 elements, including 4 basic elements and 2 additional elements. 2 other elements are not applicable at the subnational level.

Dimension PI-5.1 Budget documentation

103. Annual budget documentation is regulated by article 20 of the law on local public finances no. 397 of October 16, 2003.¹² Moreover, additional documents (Excel data) and data visualization tools have been developed (PowerPoint presentations) and made available to the citizens in order to improve transparency and understanding of the budget figures.

Table 5.1: Budget documentation for FY2021

Item	Included (Y – yes/N – no /NA – not applicable)	Source of evidence and comments
Basic elements		
1	Y	Forecasts for the main budget indicators for the Cahul rayon (deficit/surplus, debt level and “expenditure rule”) are approved in Annex 1 of the published rayon council decision on budget approval.

¹² https://www.legis.md/cautare/getResults?doc_id=121302&lang=ro#

Item		Included (Y – yes/N – no /NA – not applicable)	Source of evidence and comments
			Link for the rayon council decision on 2021 rayon budget approval no.05/02-V of December 17, 2020: http://cahul.md/wp-content/uploads/2021/01/2.pdf
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Y	2021 budget proposal Explanatory Note includes the tables with budget data outturn for 2019, revised budget for 2020 and estimations for 2021-2023 years: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/
3	Current FY's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	In Tables 1-5 to the Explanatory Note on 2021 budget proposal: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	In Tables 1-5 to the Explanatory Note on 2021 budget proposal: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/
Additional elements			
5	Deficit financing, describing its anticipated composition.	NA	Article 13 of the law on local public finances no.397 of October 16, 2003, foresees that local budgets cannot be approved and executed with a budget deficit.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	Macro-economic assumptions are performed by the central government and are included in the state budget documentation.
7	Debt stock, including details at least for the beginning of the current FY presented in accordance with government financial statistics (GFS) or other comparable standard.	N	A debt stock forecast description is not available (N/A) in the budget documentation.
8	Financial assets, including details at least for the beginning of the current FY presented in accordance with the GFS or other comparable standard.	N	Expenditure and revenue estimates regarding financial assets are included in Group 4 of the economic classification. However, the detailed information regarding the stock of financial assets is not available in the annual budget documentation. The current legislation on financial reporting does not envisage the provision of detailed information about the stock of financial assets.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing	N	Information about the fiscal risks, contingent liabilities and contingent obligations is not included in the annual budget documentation. However, internally major fiscal risks and contingent liabilities are identified, and some basic cost analysis is performed.

Item	Included (Y – yes/N – no /NA – not applicable)	Source of evidence and comments
		instruments such as public private partnerships (PPP) contracts, and so on.
10	Y	Explanation of budget implications of new policy initiatives and major public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs. Information about the budgetary impact of new policy initiatives is quantified for the budget year, while tax revenue measures are formally identified and quantified (part I of the Explanatory Note). Key spending measures are explained and quantified along the Explanatory Note. Spending measures are also shown in the budget presentation.
11	Y	Documentation on the medium-term fiscal forecasts. Medium-term fiscal forecasts are covered in the program budget estimates including performance indicators for the three year-period. Information used to produce such forecasts is disclosed in Explanatory Note, part II.
12	N	Quantification of tax expenditures. Some partial information is included about the taxation of property, but tax expenditure is not reported.

Source: Cahul rayon draft budget proposal web link <http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/> and Decision on rayon budget approval web link <http://cahul.md/wp-content/uploads/2021/01/2.pdf>

104. Budget documentation fulfills 6 elements, including 4 basic elements and 2 additional elements. Of the additional elements, 2 elements are not applicable at the subnational level.

105. **The score for this dimension is B.**

PI-6. Subnational operations outside financial reports

106. This indicator measures the extent to which government revenue and expenditure are reported outside financial reports. It contains three dimensions and uses the M2 (AV) method for aggregating scores. The assessment of this indicator is based on the information and reports available for FY 2020. It covers the SNG.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-6. Subnational operations outside financial reports (M2)	A	
6.1 Expenditure outside financial reports	A	All expenditures are reported.
6.2 Revenue outside financial reports	A	All revenues are reported.
6.3 Financial Reports of Extrabudgetary Units	A	The extrabudgetary units in the rayon receive financing from the central government and submit annual financial statements within three months of the year-end.

107. The major EBUs that are to be found in most countries cover social security and health care. The funds in Moldova that are responsible for these activities are State Social Insurance Fund and Mandatory Health Insurance Fund as part of the CG.

108. The rayon council acts as founder of 12 health facilities and has tier I local public authorities. According to the IMF's GFS Manual 2014 these entities are qualified as extrabudgetary units. The budget of the health facilities is financed from the mandatory health insurance funds which are managed by the central government. For this purpose, they sign annually a contract for the provision of health services with the National Health Insurance Company. Contracts are publicly available.¹³ The health facilities also provide certain fee-based services and may receive additional resources (subsidies) from the founder (the rayon council).

109. In 2020 allocations to the health facilities from the rayon budget constituted only 1.5% of the total rayon budget expenditures. Based on the decision of the Cahul rayon council it was directed for financing the repairs works, procurement of equipment, rent for young specialist, etc.

110. Tier I local public authorities receive direct transfers from the central government. These transfers are determined by transparent and rule-based system. Throughout the year they may receive additional transfers from the rayon budget. The rayon council allocates such transfers based on received requests and taking into account the availability of budget resources. The procedure is not clearly established but there is a working group that scrutinizes any allocations from the rayon budget. Normally, lower tier governments submit their requests to the rayon along with a relevant local council's decision. The rayon council's sectoral departments analyze those requests and submit their opinions to the General Finance Division. The division consolidates the received opinions, drafts the decisions and submits them to the working group. The rayon council makes decision on the allocation of transfers within the available funds which is then reflected in the FMIS.

111. In 2020 the rayon council amended its budget three times to allocate transfers to its tier 1 entities. The total value of such transfers was MDL 9,289.70 thousand which is 6.9% of the total tier 1 transfers received from CG (see Annex 5). Transfers were provided to support villages in co-financing of externally financed projects in the field of construction of water and gas pipelines, and to support projects in infrastructure development (such as renovation of kindergartens, schools, etc.).

Dimension PI-6.1 Expenditure outside financial reports

112. All expenditures incurred by the EBUs and SNG spending units are reported in the financial reports, including externally funded projects.

113. **The score for this dimension is A.**

Dimension PI-6.2 Revenue outside financial reports

114. All revenues generated and collected by the EBUs at the Cahul rayon level are reported, including externally funded projects.

115. **The score for this dimension is A.**

¹³ <http://map.cnam.md/contracte-cu-institutiile-medico-sanitare/>

Dimension PI-6.3 Financial Reports of EBUs

116. The health facilities prepare and provide their annual financial reports to the economy division of the rayon within three months after the year end. Tier I local public authorities submit to the rayon their annual financial reports within three months of the end of the calendar year. The reports comprise full information on revenue, expenditure, assets, and liabilities. The rayon's finance division consolidate this information and produces comprehensive financial report covering all budgetary entities located in the rayon. This report is presented to the MoF.

117. **The score for this dimension is A.**

PI-7. Transfers to SNGs

118. This indicator assesses transparency and timeliness of transfers to lower levels of SNG with direct financial relationships to the SNG. It considers the basis for allocating transfers and whether lower-level SNGs receive information on their allocations in time to facilitate budget planning. It contains two dimensions. The period assessed is the last completed FY (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-7. Transfers to SNGs	NA	
7.1 System for allocating transfers	NA	There are no SNGs under the rayon as per definition of the PEFA Framework.
7.2. Timeliness of information on transfers	NA	There are no SNGs under the rayon as per definition of the PEFA Framework.

Dimension PI-7.1 System for allocating transfers

119. According to the law on local public finances no. 397/2003, the state budget has direct inter-budgetary relationships with each subnational administrative unit (regardless of the tier), except the first-tier administrative territorial unit of the autonomous territorial unit, Gagauzia.

120. The transfers to the first level, lower tiers of Cahul rayon are calculated based on the formula and rules established by the central government and are made directly from the state budget. Therefore, the lower tier governments of Cahul rayon are considered EBUs and not SNGs per PEFA Framework and are assessed under PI-6.

121. **The score for this dimension is NA.**

Dimension PI-7.2 Timeliness of information on transfers

122. There are no SNGs under the rayon as per definition of the PEFA Framework.

123. **The score for this dimension is NA.**

PI-8. Performance information for service delivery

124. This indicator examines the service delivery performance information in the executive's budget proposal and its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

125. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. Under dimension PI-8.1, the planned outputs and outcomes for the next FY (2021) are assessed; and under dimension PI-8.2, outputs and outcomes of the last completed FY (2020) are assessed. Under dimensions PI-8.3 and PI-8.4, the last three completed FYs (2018-2020) are examined.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-8. Performance information for service delivery (M2)	B	
8.1. Performance plans for service delivery	A	The draft budget documentation provides information on outputs and objectives for the rayon programs and subprograms at entity level.
8.2. Performance achieved for service delivery	C	The budget execution reports provide information on the activities performed under the rayon sub-programs, but more detailed information of the outputs produced and outcomes achieved is not published.
8.3. Resources received by service delivery units	A	Amounts allocated to individual service delivery units are recorded at the level of the unit in the accounting software system. The FMIS allows to issue the report compiling the resources received by each service delivery unit. The reports are compulsory issued monthly, but it could be generated at the requested date.
8.4. Performance evaluation for service delivery	C	There have been two external performance reviews in health and education nationally in the past 3 years that is relevant for the rayon.

126. The main service delivery units are: general education division, and general social assistance and family protection division. These units are the most representative in the delivery of services to the citizens and they account 93.6% of total rayon expenditures in 2020. Each department comprises administrative units and subordinate budgetary units. For instance, the General Education Department includes an art centre, kids camps, and public schools. Other sub-divisions of the Cahul rayon council also provides reports on performance. In addition, the health facilities where the rayon council is a founder provide healthcare services to the population living within the rayon area.

Dimension PI-8.1 Performance plans for service delivery

127. The MoF instructions and guidelines approved by MFO no. 209 of December 24, 2015, regarding budget preparation, approval, and modification is applicable for local budgets and it is followed with respect to setting up goals, objectives, and key performance indicators (KPIs) under the programs and subprograms at the level of the Cahul rayon level II authority. The budget proposal for 2021 and the estimates for the years 2022-2023 on programs and sub-programs were prepared and were published for

each subdivision of the rayon.¹⁴ They are attached as Table no.4 to the Informative Note to the Decision of the Cahul rayon council no. 05/02-V of December 17, 2020: Synthesis of the expenditure programs of the Cahul rayon budget. This lists programs and subprograms, their narrative description of goals, objectives and how they are to be achieved and the performance indicators (outputs and outcomes) with unit of measurement against the previous 2020 approved base year and projections for 2021, 2022 and 2023.

Table 8.1: Performance plans of the main service delivery agencies, FY 2021 (MDL, thousand)

Name of service delivery agency	Expenditure of the SD agency	% of SD agencies in total SD expenditure	Program objectives (Y/N)	Activities (Y/N)	Key Performance Indicators (Y/N)	Planned outputs (Y/N)	Planned outcomes (Y/N)
Total, of which:	328,128.0	100.0					
Education Division (including all educational facilities)	226,593.6	69.1	Y	Y	Y	Y	Y
Social Assistance and Family Protection Division	46,205.0	14.1	Y	Y	Y	Y	Y
Healthcare services	5,175.5	1.6	Y	Y	Y	Y	Y
Other services,	50,153.9	15.2	Y	Y	Y	Y	Y

Data source: <http://cahul.md/wp-content/uploads/2021/01/Bugetul-raional-pe-anul-2021.pdf>

128. Performance plans and results related to the programs and services delivered directly by the Cahul rayon departments and subordinated institutions are specified in the planned outputs and outcomes of programs and services. The programs and subprograms include all source of financing, including CG transfers and own revenues. The identified and approved KPIs are measured.

129. For example, the general education department has developed centrally a set of indicators applicable for its subordinate entities. The educational facilities submit the reports to the education division which analyzes them and then prepares a consolidated report for the rayon council.

130. **The score for this dimension is A.**

Dimension PI-8.2 Performance achieved for service delivery

131. Each spending division and subdivision of the Cahul rayon prepares and submits the performance results for output and outcome indicators to the general finance division. The performance targets for

¹⁴ Table 4 to the Explanatory Note to the FY2021 draft budget proposal: <http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/>

outputs and outcomes are presented in a separate table 4 to the Explanatory Note that accompanies the annual executive's budget proposals.

132. The performance results in a format and at a level (program and responsible unit) that is comparable to the plans previously adopted within the annual or medium-term budget are included in the annual financial report as a separate report FD 053. The activities performed under each program are described in the narrative of the Explanatory Note to the annual financial report. The source of financing and spending status is included as well. However, the report on the quantity of outputs produced and outcomes achieved is not published on the rayon council web page as it is envisaged in the legal framework.

133. **The score for this dimension is C.**

Dimension PI-8.3 Resources received by service delivery units

134. For schools, educational centres, social assistance units and other service delivery units at a local level (youth centers, libraries, communal services, etc.), the transfers from the state to the local government covers block transfers, which are then distributed and accounted for at the unit level by the rayon through the Treasury system based on the approved budget. The healthcare units receive financing from the National Health Insurance House based on a health care provision contract from the Single Unified Program for Mandatory Health Insurance. Discussions at the rayon level confirmed that amounts allocated to individual service delivery units are recorded at the level of the unit in the accounting software system. The system captures all revenues from the units' own sources as well. The Chart of Accounts applicable at the national level allows to identify all resources used by the service delivery units of the rayon. The territorial treasury has opened accounts (IBAN) for each type of revenue of the service delivery unit. The general finance division prepares budget execution report detailing the resources actually received by the service delivery units. In addition, the annual budget execution reports disclose the revenues collected by the service delivery units.¹⁵

135. **The score for this dimension is A.**

Dimension PI-8.4 Performance evaluation for service delivery

136. There is a dedicated specialist staff member in the Cahul rayon general finance division checking accuracy of the output and outcome indicators at budget execution using the data supplied by the other rayon council divisions and spending units from the Cahul rayon. Performance evaluations of the KPIs and related expenditure have not been carried out. The MoF does conduct some evaluation of the reports it receives but that action does not result in a consolidated and formal report. However, the internal audit unit of Cahul rayon performed an evaluation in 2020 for one of the health centres in which one of the tasks was to evaluate the processes related to the quality of services about respecting patients' rights. The internal audit (IA) came with the set of recommendations to the rayon council.

137. There are some external reviews which are relevant for the rayon. UNICEF produced a report called Review of the Evaluation and Assessment in Education in July 2019. The Cahul rayon was part of this evaluation too. The review is a thematic policy assessment accompanying the national education sector analysis. The purpose of the review is to analyze the educational policies and approaches to assessment and evaluation in the general school system of Moldova, assess the strengths and areas for improvement

¹⁵ Annex 2 to the FY2020 budget execution report: <http://cahul.md/12616-2/>

of existing arrangements, and provide concrete policy recommendations. The review is designed to inform the strategies for improvement of the assessment and evaluation system in the forthcoming national education sector plan. The report addresses the use of outputs and objective KPIs.

138. In 2019 an independent, non-profit organization, Center for Health Policies and Studies conducted a study called Health Barometer of the Population of the Republic of Moldova to find out the perception of the population using health services about the state of the health system and their experience regarding the use of medical services in primary and hospital healthcare. The results of the research helped the Ministry of Health, Labor, and Social Protection in the development of public policies to improve the quality of primary and hospital healthcare, by providing complete, relevant and valid information about the performance of the medical services from the users' perspective. Evaluation has been designed to inform policy at the national level which in turn will affect the responsibility of the rayon on the provision of education and health services.

139. **The score for this dimension is C.**

PI-9. Public access to fiscal information

140. This indicator assesses the comprehensiveness of fiscal information available to the public based on nine specified elements (five basic and four additional elements) of information to which public access is considered critical. The assessment covers the last completed FY (2020), and the budgetary units of the SNG. It consists of a single dimension.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-9. Public access to fiscal information	D	
9.1 Public access to fiscal information	D	Cahul rayon discloses 3 basic elements out of 5, and 1 out of 3 additional relevant elements. Element 7 is not applicable.

Table 9.1: Public access to fiscal information, FY 2020

Item	Criteria met (Y/N/NA)	Explanation	Source of evidence
Basic elements			
1	Y	All documentation of the draft budget is published one week (December 12, 2019) before the submission to the rayon council	Rayon council decision on the 2020 rayon budget approval no.04/01 from December 27, 2019: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-20-12-2019/
2	Y	The enacted annual budget approval decision is published in three days (December 30, 2019) after the Cahul rayon council approved the budget.	http://cahul.md/wp-content/uploads/2019/12/1-1.pdf
3	N	6-month budget execution data and reports are available within the next month; 9-month report is not published; 12-month budget execution report is available to the public in 2 and half month after the end of the fiscal year.	6-month report for FY2020 published on August 03, 2020: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-14-august-2020/ 12-month report for FY2020 published for discussion and approval by Cahul Rayon Council on March 19 th , 2021: http://cahul.md/12616-2/
4	Y	2020 Cahul rayon budget execution report	Cahul rayon council Decision no/02/02-V of April 01,

Item	Criteria met (Y/N/NA)	Explanation	Source of evidence
		approved by decision no.02/02-V of April 01, 2021, published in 4 days after approval on April 05, 2021.	2021, on annual 2020 budget execution report approval http://cahul.md/wp-content/uploads/2021/04/2-1.pdf
5	N	There was no audit conducted for FY2020. Based on law on organizing and functioning of the CoA no.260 of December 07. 2017 art. 32 par. (3) ¹⁶ , the annual financial audit is not mandatory for the local public administration authorities.	
Additional elements			
6	N	No pre-budget document is elaborated	
7	NA	No external reports were produced for the assessment period	
8	Y	For the budget hearings the interested citizens could access the rayon council web page where the rayon general finance division publishes PowerPoint presentations with summarized and accessible explanation of the key elements of the budget along with draft budget proposal to the members of the rayon council 1-2 weeks before hearings.	https://cahul.md/anunt-privind-organizarea-audierilor-publice-la-proiectul-de-decizie-cu-privire-la-aprobarea-bugetului-raional-cahul-pentru-anul-2020/

¹⁶ Link for the law no.260 from December 07, 2017: https://www.legis.md/cautare/getResults?doc_id=123538&lang=ro#

Item	Criteria met (Y/N/NA)	Explanation	Source of evidence
		In 2020 all rayon council meetings were accessible to the public including for the budget hearing.	

141. The requirements are met for 3 basic elements out of 5, and 1 additional element out of three, with element 7 is not applicable.

142. **The score for this dimension is D.**

PI-9bis. Public consultation

143. This indicator assesses the extent to which the subnational government conducts public consultation in preparing the budget, designing service delivery programs, and planning investments. It contains three dimensions and uses the M2(AV) method for aggregating dimension scores. For PI-9bis the coverage is the last budget submitted to the rayon council (2021), for PI-9bis.2 – the last three completed fiscal years (2018-2020), and for PI-9bis.3 – the last completed fiscal year (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-9bis. Public consultation (M2)	C	
9bis.1 Public consultation in budget preparation	B	The Cahul rayon council conducts public consultations for budget preparation prior to approval of the budget. Public consultation is facilitated by the provision of accessible reader-friendly and understandable information on the budget proposal. For the 2021 draft budget, 2 weeks were provided for public consultations. The inputs from the consultations are not published.
9bis.2 Public consultation in the design of SD programs	D	Public participation processes are carried out only for some local government programs, strategies, and services. Reports regarding the opinions, observations, and proposals made by citizens, and its feedback and conclusions, are not published for each participatory process.
9bis.3 Public consultation in investment planning	NA	There were no investment projects managed and decided by the Cahul rayon council in 2020.

144. The basic norms that regulate transparency in the decision-making process are: (i) law no.239-XVI of November 13, 2008, on transparency in the decision-making process, (ii) government decision no.967 of August 9, 2016, on the mechanism of public consultation with civil society in the decision-making process. The process is facilitated by the established and approved internal rules regarding the procedures of information, consultation, and participation in the process of elaboration and adoption of decisions.

Dimension PI-9bis.1 Public consultation in budget preparation

145. At the level of the Cahul rayon council the budget development process is accompanied by formal public consultation/ participatory processes. The consultations include the participation of civil society organizations and other non-state actors and citizens who are invited to the thematic meetings led by public authorities. During the pandemic year the meetings were held virtually. However, a summary of the inputs received and an explanation of how those inputs were considered have not been published.

146. For the budget hearings, interested citizens can access the rayon council website where the rayon finance division publishes the draft budget and an explanatory note to it, as well as Power Point presentations with summarized and accessible explanations of the key elements. These documents are published 10 days prior to the Cahul rayon council meeting in the public notification of the meeting.

147. The feedback and conclusions for the 2021 draft budget proposal are not published.

148. **The score for this dimension is B.**

Dimension PI-9bis.2 Public consultation in the design of service delivery programs

149. During the last three completed fiscal years, 2018, 2019 and 2020, the public consultations were conducted only partially. Not all stages of the public consultation were in place. Inputs from public consultations were not published. The feedback and conclusions were also not published.

150. Normally, the public consultations take place physically and virtually. The formulated proposals/suggestions and feedback for each participatory process are included in the final decision. Normally, the consultation events are organized with a social partners support (donors through non-governmental organizations). Most consultations held were for creation of new social services.

151. **The score for this dimension is D.**

Dimension PI-9bis.3 Public consultation in investment planning

152. During the completed fiscal year 2020 no investment projects managed and decided by the Cahul rayon were initiated. The project assessed in PI-11 was initiated in 2018.

153. In 2020, the rayon council organized online surveys for identifying the options for renovation of the street lighting and swimming pool.

154. **The score for this dimension is NA.**

PILLAR 3: Management of assets and liabilities

155. Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized, and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

PI-10. Fiscal risk reporting

156. This indicator measures the extent to which fiscal risks to the subnational government are reported for 2020 year. It contains three dimensions, and uses the M2 (AV) method for aggregating dimension scores.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-10: Fiscal risk reporting (M2)	C	
10.1. Monitoring of public corporations	C	The financial reports of the three public corporations are received within 3 months of the end of the fiscal year. The annual financial statements have not been audited.
10.2. Monitoring of subnational governments	NA	There are no SNGs under the rayon as per definition of the PEFA Framework.
10.3. Contingent liabilities and other fiscal risks	NA	The rayon has no public-private partnership agreements and has no extra-budgetary units under its ambit.

Dimension PI-10.1 Monitoring of public corporations

157. The Cahul Rayon council has two public corporations with 100% ownership: Cahul Rayon Dental Center, and Architectural and Design Office. Both of them fall under the statute of a municipal enterprise. The rayon also owns 82.5% in another public corporation, a Joint Stock Company (JSC) Cheese Factory of Cahul,¹⁷ and 60% - in JSC Centre for Continuing Training Cahul.

158. Government decision no.568/2008¹⁸ on organization of public property bookkeeping states that the public corporations must submit to the territorial local public administration a statement on the value and circulation of the property according to the prescribed format. The statement also includes the explanations regarding the reasons for increase / decrease of revenues, expenditures and net profit / loss. The timing of this submission is aligned with the terms of the financial statements to the statistics office. The general finance division of the rayon council receives reports from all public corporations operating on its territory regardless of if it acts as their founder.

¹⁷ In 2021 it was decided to sell the stock owned by the rayon due to difficult situation of the JSC.

¹⁸ https://www.legis.md/cautare/getResults?doc_id=103501&lang=ro#

159. The financial reports of the rayon-owned enterprises are to be submitted to the rayon council by March 21 but due to COVID-19 pandemic this term was temporarily extended to June 1.

Table 10.1: Financial reports of public corporations owned by Cahul rayon council as of January 1, 2021

Municipal enterprises	Equity (MDL)	SNG-held assets	Percent -age	Date of audit of the financial report	Date of presentation of FY2020 financial statements	Date of submitting financial report to govt.	Consolidated report (Y/N)
1. Cahul Rayon Dental Center	1,828,160	1,269,200	100%	N/A	N/A	N/A	N
2. Cheese factory of Cahul	5,719,060	4,728,960	82.7%	N/A	N/A	N/A	N
3. Architectural and design office	949,223	949,223	100%	N/A	N/A	N/A	N
4. JSC Centre for Continuing Training Cahul	281,956	169,174	60%	N/A	N/A	N/A	N

Data source: Public Property Agency: <https://app.gov.md/registru-patrimoniului-public-3-384>, copies of PCs' financial statements

160. The annual financial statements of the enterprises together with the business plan for the next year are presented and discussed at the rayon council meeting. The council does not prepare a consolidated report on the financial performance of the municipal enterprises owned by them.

161. The annual financial reports of the public corporations presented to the assessment team were not complete and did not have explanations regarding the changes in their performance indicators during the year. The financial statements of the public corporations are not regularly published or audited. In fact, the national legislation does not require annual financial audits of municipal enterprises unless they fit into category of public interest entity, medium entity, or large entity¹⁹ according to the criteria established in law no.287/2017²⁰ on accounting and financial reporting (with respect to the thresholds for assets, turnover, and average number of employees).

162. **The score for this dimension is C.**

Dimension PI-10.2 Monitoring of SNGs

163. There are no SNGs under the Cahul rayon as per definition of the PEFA Framework.

¹⁹ Article 11 of the law on state enterprise and municipal enterprise: https://www.legis.md/cautare/getResults?doc_id=120887&lang=ro#

²⁰ Article 4 of the law on accounting and financial reporting: https://www.legis.md/cautare/getResults?lang=ro&doc_id=120938

164. The score for this dimension is NA.

Dimension PI-10.3 Contingent liabilities and other fiscal risks

165. The Cahul rayon does not have any public-private partnership arrangements and has no extra-budgetary units.

166. The score for this dimension is NA.

PI-11. Public investment management

167. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government. It also assesses the extent to which the government publishes information on the progress of the projects, with an emphasis on the largest and most significant projects. It contains four dimensions and uses the M2(AV) method. The assessed period is the last completed FY2020.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-11 Public investment management (M2)	D	
11.1 Economic analysis of investment proposals	D	Economic analysis was not conducted for major investment projects. Applicants prepare design and estimate documentation without a feasibility study.
11.2 Investment project selection	C	Major investment projects are prioritized based on the Socio-Economic Development (SED) Program; selection criteria were not established.
11.3 Investment project costing	D	The capital expenditures for the forthcoming budget year and two following years were included in the budget documents for fixed assets as aggregate amount only, without disaggregation by projects.
11.4 Investment project monitoring	D*	Monitoring reports present deviations from plans for both, the total cost and physical progress. Quarterly monitoring reports for major investment projects should be submitted to the rayon council but not published. However, there is no evidence the reports were prepared.

168. In 2020, the rayon budget co-financed investment projects selected at the central government level and financed own investment projects. Co-financed projects followed the government's Regulation on National Regional Development Fund²¹ (one project with an estimated project cost of MDL 14,266,600) and on the European Bank for Reconstruction and Development rules (one project with an estimated project cost 21,960,500). These regulations established procedures for project preparation, economic analysis, selection, and monitoring, however externally financed projects do not affect the scores of this indicator. In addition to co-financing of externally financed projects, the rayon council financed some investment projects from own budget sources. The list of own major investment projects (the total investment cost of the project amounts to almost 1% and more of total annual budget expenditure) is presented in Table 11.1.

²¹ Approved by the Government's Decree "On Measures to Implement the law no. 438-XVI of December 28, 2006, on Regional Development in the Republic of Moldova" no. 127 dated February 8, 2008. It was replaced by new regulation on National Fund of Regional and Local Development approved by Government Decision on 9 March 2022.

Table 11.1: Rayon’s own major investment projects financed in 2020

Name of project	Total investment cost of project, MDL thousand	Share of major investment projects, %	Share of total budget expenditures, own contribution %
Construction of the administrative building with locker rooms at the “Atlant” rayon stadium, Crihana Veche village	11,117.4	53.4	3.4
Construction of the aqueduct system in the village	2,966.4	14.2	0.9
Renovation of the local agri-food market	2,555.1	12.3	0.8
Total	20,824.3	100.0	5.1

Data source: information received from the Cahul General Finance Department

Dimension PI-11.1 Economic analysis of investment proposals

169. For the project co-financed within the National Regional Development Fund (NRDF), economic analysis was conducted, as established in NRDF guidelines, and reviewed by an entity other than the sponsoring entity. All procedures are established by the Instructions for users on submitting project proposals for funding from the NRDF (approved by the decision of the National Council for the Coordination of Regional Development no. 4/16 dated March 10, 2016). Project conceptual notes were prepared in the first round based on a template in annex no. 1 of the instructions and included project outputs, results, and multiple effects. The administrative commission created by the representatives of the Ministry of Agriculture, Regional Development and Environment (MARDE), South Regional Development Agency (SRDA), and Regional Development Council (RDC) reviews all conceptual notes before the RDC approves the list of projects which are allowed to participate in the second round. Project proposals for the second round must include a feasibility study for projects with capital costs greater than MDL 25 million. A feasibility study is prepared based on a template in annex no. 3 to the instructions mentioned above and includes economic, social, and commercial efficiency of operation.

170. Economic analysis was not conducted for the rayon’s own major investment projects. Investment projects financed from the rayon’s own sources followed only regular budget procedures and construction rules. A feasibility study was not required for such projects.

171. **The score for this dimension is D.**

Dimension PI-11.2 Investment project selection

172. The CG selected rayon investment projects financed within the NRDF based on established and published standard criteria. The criteria are approved by the annex 7 to the Decision of the National Council for the Coordination of Regional Development no. 4/16 dated March 10, 2016. The main criteria include: contribution to the achievement of the goals of sectoral strategies, project implementation methodology, contribution in the development of disadvantaged areas, sustainability of results after project completion, co-financing from other sources, and degree of preparation/completeness of the project proposal. The Interagency Commission created by MARDE selects the projects. Government approved the list of projects to be financed from the fund following its approval by the National Council for the Coordination of Regional Development and MARDE.

173. A special committee of the rayon council reviews and pre-approves investment projects with a value of MDL 10-20 million. The committee includes specialists of the rayon departments and mayors, and the rayon head. One of the major investment projects with a total cost of MDL 11.1 million was analyzed for its benefit (social and economic) by the committee. The special committee sent its decision to the council committee. No selection criteria are established within that procedure.

174. Own major investment projects were prioritized based on the rayon's Socio-Economic Development (SED) Program, but with no selection procedure. Applicants submit their requests within the regular budget process. A division of constructions and roads analyses compliance of those requests with the SED Program. The rayon council decided about the list of projects to be financed based on the availability of financial resources. Some new projects were approved during the budget year, mostly for urgent cases, but the projects were not major ones.

175. **The score for this dimension is C.**

Dimension PI-11.3 Investment project costing

176. The capital expenditures for the forthcoming budget year and two following years were included in the budget documents for fixed assets but as a total amount only. Capital expenditures were not disaggregated by projects in the budget documentation. There is no established template or rules for project initiation, including requests for capital investments. Each applicant presents a project proposal in a self-defined format, and such proposals present only estimates of the construction cost. The Cahul General Finance Department did not consolidate all proposals into unified database or registry. Maintenance cost is included into the budget after the project completion only.

177. **The score for this dimension is D.**

Recent and ongoing reforms

178. Starting in 2021, externally financed projects were presented in the annual budget's annex. Total capital costs of projects, projections of their total life-cycle cost, or relevant information about own major investment projects are still not reflected in that annex or other budget documentation.

Dimension PI-11.4 Investment project monitoring

179. The total cost and physical implementation progress are monitored. Monthly reports, which present deviations from plans, are to be prepared for NRDF projects and quarterly reports – for all investment projects, however monitoring reports have not been published. The rayon department of constructions and roads, with involvement of some other specialists (representatives of economy department, finance departments, etc.), is in charge of monitoring of project implementation. That department prepares quarterly monitoring reports for all investment projects and submits them to the rayon council. However, the copies of monitoring reports of two largest projects were not shared with the assessment team, thus there is no evidence that reports were prepared. The finance department developed quarterly budget execution reports focusing mostly on financial aspects and submitted them to the rayon council.

180. There were several inspections and audits performed by financial inspection and the CoA but they focused on certain aspects only (roads infrastructure, for example). No specific audits were conducted.

181. **The score for this dimension is D*.**

PI-12. Public asset management

182. This indicator assesses the management and monitoring of the budgetary units of the subnational government assets and the transparency of asset disposal in place in 2020 FY, the last completed year. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-12. Public asset management (M2)	A	
12.1. Financial asset monitoring	A	The Cahul rayon maintains a record of its holdings in all categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
12.2. Nonfinancial asset monitoring	A	The Cahul rayon maintains a register of its holdings of fixed assets including information on their usage and age, which is published at least annually.
12.3. Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the rayon council for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.

Dimension PI-12.1 Financial asset monitoring

183. The balance sheet attached to the FY2020 budget execution report specifies the value of the financial assets at the beginning and end of the financial year. The major categories of the financial assets held by the Cahul rayon as stated in the balance sheet prepared by the general finance division (as part of tier II LPA's financial statements for the MoF, following template FD-041) are cash, loans, receivables, equities, and other forms of participation in the capital of the public corporations. The national accounting standards for accounting methods and asset valuation IAS38 "Intangible assets" and IAS16 "Tangible assets" are developed based on the Directive 2013/34/EU. The shares are held at nominal value. Other financial assets are listed at market value. The MoF consolidates this information in the annual budget execution report for all SNGs and publishes it.

Table 12.1: Record of financial assets, FY 2020

Asset type	Asset value, end FY2020, MDL
Shares and other forms of equity participation within the country	9,271,051
Other receivables from budgetary institutions	5,828,061
Current accounts in the treasury system	14,263,237
Other cash and cash equivalents	449
Total financial assets	29,362,798

Data source: FD-041 report attached to annual financial statements prepared by Cahul rayon

184. The report on the value of public shares (shares) in companies owned by the rayon as of January 1, 2021, lists inter alia the date the ownership was recorded, the number of shares held and their value,

the net profit/loss, and the amount of land owned. This report is sent to the Public Property Agency which includes this information in the public property registry which is published annually.²²

185. The rayon maintains records of its loans. The annual loan program is part of the rayon budget documentation, and it is reported through regular budget execution reports.

The score for this dimension is A.

Dimension PI-12.2 Nonfinancial asset monitoring

186. The Cahul rayon maintains records of the nonfinancial assets in accordance with the Chart of Accounts at balance sheet value (purchase price less amortization). Analytical accounting of the assets through inventory sheets filled in for each item is also maintained using a separate module in the accounting software program.

187. The individual institutions' reports also provide a breakdown of assets by each subordinated entity that includes land, garages, constructions, roads, deposits, installations, electricity transmission lines, and buildings. The information includes:

- Address where the item is located,
- Number and date of registration in the Immovable Asset Registry,
- Number of floors where appropriate,
- Book value,
- Area at the ground,
- Total area,
- Area in use by administrator,
- Area given in use to somebody else,
- Unused area,
- Area transmitted and date of transmission,
- Reference to legal acts, and
- Name of the legal administrator.

188. The spending unit that holds other moveable assets such as vehicles and office equipment is responsible for their records.

189. The value of the assets is reported in the balance sheet (form FD-041) and report on circulation of fixed assets (form FD-045) according to the prescribed template as part of the annual financial reports of the SNG which are sent via FMIS to MoF. This information is then captured in the NPB executions reports. The FD-045 report includes information on initial value of assets, total increase in value (by procurement, capital investments, capital repairs, free-of-charge transfer, donation, re-evaluation), total decrease in value by the same means, and final balance for the reporting period. A separate form (FD-045A) is prepared for capturing the information on depreciation of fixed assets and amortization of intangible assets.

²² file:///C:/Users/wb354640/Downloads/Date_SA_APL_RPP_2021.pdf

190. In addition, according to the Government's decision no.675/2008²³ on Public Property Register the SNG must report by April 15 each year regarding the public property that it administers. The reports are presented according to the prescribed template: (i) assets held by public institutions (most of them are health care facilities), (ii) value of public patrimony in state / municipal enterprises, and (iii) value of shares held by SNG in the commercial entities. This data is included into the consolidated Public Property Registry kept by the Public Property Agency, and it is published on its website. A separate sub-register is kept for the property held by subnational public institutions at each level of local government and spending units which includes the value of fixed assets, value of stationary items, total area of immovable (in square meters), area given in lease / rent (square meters), and total area of land in use.

191. The Public Property Registry and its sub-registers are kept manually. However, in 2021 the PPA contracted a software company to work on the development of an electronic register that would allow online submission of data by public institutions and interconnection with other governmental agencies such as the Public Services Agency for verification of cadastral data.

Table 12.2: Categories of non-financial assets

Asset category	Asset value as of the end of 2020, MDL
Buildings	169,291,126
Special constructions	123,436,442
Transmission installations	52,495,741
Machines and equipment	34,053,597
Means of transport	15,577,950
Tools and utensils, production and household inventory	23,488,600
Intangible assets	334,917
Other fixed assets	25,260,536
Capital investments in assets under construction	60,602,616
Total fixed assets	504,541,525
Depreciation of fixed assets	215,584,362
Amortization of intangible assets	126,394
Total	215,710,756
The balance sheet value of fixed assets	288,830,769
Total stocks of materials	13,285,630
Land	822,329
Total	302,938,728

Data source: FD-045 report attached to annual financial statements prepared by Cahul rayon

192. The 2020 rayon budget execution report has two attachments that lists various categories of fixed assets and their value and includes depreciation and wear and tear. The assets and the correctness of their records is verified by financial inspection. The latest inspection conducted for 01.01.2016 – 30.06.2021 did not revealed major issues. ²⁴

193. **The score for this dimension is A.**

²³ https://www.legis.md/cautare/getResults?doc_id=103503&lang=ro#

²⁴ <https://cahul.md/wp-content/uploads/2021/12/33..pdf>

Dimension PI-12.3 Transparency of asset disposal

Table 12.3: Transparency of asset disposal

Procedures for non-financial asset disposal established (Y/N)	Procedures for financial asset disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial specify)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset disposal submitted to rayon council (Y/N)
Y	Y	Y	N/A	Y

Data source: various regulations, documentation provided by the Cahul rayon general finance department

194. The law on the public property administration no.121-XVI / 2007 establishes general rules for the transfer, disposal, and privatization of public property. There are also several by-laws regulating specific methods of disposal like regulations on sale of state shares on regulated market (government decision no.145/2008), regulations on public property privatization by commercial or investment contest (government decision no.919/2008), regulation on open bidding auction (government decision no.136/2009), and the law on local public administration no.436, dated December 28, 2006.

195. These laws and regulations are applied at the central and subnational levels of government.

196. The regulations on asset write off approved by the government decision no.500/1998 establishes procedures for removing fixed assets (immovable assets, machinery, equipment, vehicles and other obsolete goods classified as fixed assets), except for the assets of special purpose, for all budgetary institutions, municipal enterprises and commercial entities with the whole or majority municipal shareholding. Disposal of moveable assets (sale or write-off) are conducted by the rayon in accordance with these regulations that prescribes the establishment of internal write-off committee through the council's order that determines the status of fixed assets subject to disposal and prepares all necessary documentation. The proceeds from disposal are reported as income to the rayon budget. The decisions regarding the write off of the obsolete assets for the council's own subdivisions and for its subordinated units are approved through rayon council decisions which are published.²⁵

197. Regulation on open bidding auction approved through government decision no.136/2009 establishes clear rules and procedures of sale through auction. In such cases, the value of the asset subject to sale is evaluated according to the market price by an independent evaluator and the composition of the auction commission is set up by the decision of the rayon council.

198. The procedures for disposal through sale are established in the regulations on modality of determination and commercialization of unused assets by the enterprises approved through the government decision no.480 dated March 28, 2003. This regulation governs state and municipal enterprises, budgetary authorities, autonomous budgetary institutions, and commercial enterprises with the whole or majority state shareholding. The following categories of assets are covered by the regulation: buildings, transmission lines, plant and equipment, IT equipment, vehicles, unfinished constructions, work and productive livestock. It sets up criteria to determine if the assets can no longer be used, the

²⁵ Example of the decision: <http://cahul.md/wp-content/uploads/2020/01/5.pdf>; <http://cahul.md/wp-content/uploads/2020/01/14.pdf>;

procedures for obtaining authorization for commercialization from relevant public authority and for organizing the auction. An independent licensed valuator establishes the value of the assets for selling.

199. The procedures for disposal of financial and non-financial assets are established in law and information on original cost, disposal value, date of acquisition, and date of disposal is submitted to the rayon council and contained under revenue from the sale of goods and services in the annual budget execution report in the income and expenditure report table.

200. **The score for this dimension is A.**

PI-13. Debt management

201. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. All budgetary units of the SNG were included in the assessment of this indicator. The indicator contains three dimensions and uses the M2(AV) method for aggregating the scores. The time period assessed was at the time of assessment for PI-13.1, the last completed FY (2020) for PI-13.2, and at the time of assessment with reference to the last three completed FY for PI-13.3.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-13. Debt management (M2)	B	
13.1. Recording and reporting of debt and guarantees	B	The general finance division of the Cahul rayon council keeps domestic debt records complete, accurate, and updates them quarterly. Most information is reconciled quarterly with the creditors. MoF consolidates all reports received from SNGs together within the annual budget report and produces comprehensive management and statistical reports covering debt service, debt stock, and debt operations annually.
13.2. Approval of debt and guarantees	A	The rayon general finance division based on the provisions of the law no.419/2006 manages the rayon debt. The public debt and state guarantees are endorsed by the Minister of Finance. The rayon council, as a deliberative authority of the local public administration, approves the issue of new debt.
13.3. Debt management strategy (DMS)	D	A medium-term debt management strategy covering existing and projected subnational government debt is not developed. The explanatory note to the budget documentation does not provide data about the annual debt program.

202. The law no. 419 of 22 December 22, 2006 on public sector debt, state guarantees, and state re-credit defines the recording and reporting of debt and guarantees procedures. The law has been amended eight times in order to introduce modifications on local borrowing policy, improvement of recording and reporting of on-lent loans, and to generally align the law to international best practice (based on a debt management performance assessment tool). The administrative-territorial units are responsible for managing the debt contracted in their own name and for the guarantees granted. The decision regarding the debt contracting and granting of the guarantee for a loan by the local council.

203. The debt of the administrative-territorial units, as well as the guarantees granted by them, are fully administered by the executive authority of the respective contracting administrative-territorial unit.

204. Debt management, the choice of debt instruments of different maturities, the issue of guarantees, and relations with investors, reporting and projections of debt service costs are the responsibility of the general finance division of the Cahul rayon council. The accounting office of the general finance division manages all operations and relations with the Treasury through which debt service payments are made and reconciles the payments and outstanding amounts. Debt is denominated in MDL.

205. At the beginning of 2021, the Cahul rayon council registered the debt in amount of EUR 580.8 thousand. As of June 30, 2021, the debt was EUR 564.2 thousand. There were no guaranties issued at the moment of evaluation.

Dimension PI-13.1 Recording and reporting of debt and guarantees

206. The local authority follows the provisions on debt recording and reporting of chapter VII from law no. 419²⁶ of December 22, 2006, on public sector debt, state guarantees, and state re-credit. The composition and timing of the reports are described in the government decision no.1136²⁷ of October 18, 2007, regarding some measures for the execution of law no.419 of December 22, 2006. Cahul rayon general finance department prepare and submit quarterly reports to the MoF covering all aspects of debt management, with full monthly update of interest payments and amounts outstanding. The reports cover debt service, debt stock, and operations without explanations or rationale for operations. All debts are denominated in MDL at the exchange rate of the reporting date if the debt is foreign. The Cahul rayon uses the accounting program 1C to record and monitor the debts, make payments, and prepare the report on the debt portfolio. The disbursement transaction is recorded in the accounting system once it is created. The records related to all debts are reconciled with the creditor institution quarterly. In the case of Cahul rayon council the creditor is Ministry of Finance for a loan for social apartments construction. No guarantees issued.

207. The status of the debts is reported quarterly to Cahul rayon council. The separate narrative about the debt management and statistical reports for Cahul rayon only are not publicly available. The comprehensive information about the debt service, stock, and operation for all public sector is available through the consolidated semiannual reports prepared by the MoF which are public.²⁸

Table 13.1. Recording and reporting of debt and guarantees

Domestic and foreign debt records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most: Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) (Y/N)
Y	M	Y	Q	Semiannual	N

Data source: Cahul rayon reports and Ministry of Finance reports: <https://mf.gov.md/ro/datoria-sectorului-public>

208. The score for this dimension is B.

²⁶ Link for the Law no.419/2006 https://www.legis.md/cautare/getResults?doc_id=116876&lang=ro#

²⁷ Link for the GD no.1136/2007 https://www.legis.md/cautare/getResults?doc_id=121747&lang=ro#

²⁸ <https://mf.gov.md/ro/datoria-sectorului-public/rapoarte/datoria>

Dimension PI-13.2 Approval of debt and guarantees

209. The decision regarding the contracting of the debt/ granting of the loan guarantee is taken by the rayon council based on the proof of the conformity of the contracting of the debt/granting of the loan guarantee with the ceiling established in Article 15 paragraphs (4) of law no.397-XV of October 16, 2003, on local public finances. The calculations are based on expenditure estimations for the period of the loan. The debt could be incurred by the ATU only if the total amount of annual payments (repayment of principal, payment of interest, and other related payments) related to servicing local budget debt on loans contracted or guaranteed and / or to be contracted or guaranteed will not exceed 20% of the total annual revenue of the rayon budget, excluding special purpose transfers.

210. The decision regarding the contracting of the debt and / or the granting of guarantees for loans is coordinated in advance with the MoF. The opinion of the MoF is binding.

Table 13.2: Approval of debt and guarantees

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity	
Y	Y	Y	Y	Y	Y
The law no.419 of December 22, 2006, on public sector debt, state guarantees and state re-credit	1. Articles 13-19 of law no.397 of October 16, 2003, on local public finance; 2. Government resolution (decision) no.1136 of October 18, 2007, regarding some measures for the execution of law no.419 of December 22, 2006, on public sector debt, state guarantees and state re-credit.		Article 47 of law no.419/2006 says that public debt and state guarantees are fully administered by the executive authority of the respective administrative-territorial contracting unit (general finance division of the local council)	Article 12 and Article 49 of law no.419/2006 says that NBM, Ministry of Economy, other state public authorities as well as local public authorities must report to the MoF	The annual borrowing is approved by the local council decision within the annual budget. Last approved in 2021. No guarantees issued.

Data Source: country's legal framework

211. The score for this dimension is A.

Dimension PI-13.3 Debt management strategy

212. The Cahul rayon public authority has not prepared DMS. The long-term objective of acquiring debt is described only for current borrowing in a separate note to the acceptance request which is presented to the MoF.²⁹ A separate explanatory note for the rayon council is not prepared. The note presented to the MoF covers the medium term (three years) period and includes a description of the existing debt portfolio's composition. It also reflects the current budget and debt situation and is reviewed periodically when the annual budget is reviewed as part of the budget preparation process.

213. The note mentioned above to the acceptance request for MoF and all its annexes is not publicly available.

214. **The score for this dimension is D.**

²⁹ Link to the government decision no.1136 of October 18, 2007, on some measures for implementing the law no.419 of December 22, 2006, on public sector debt, state guaranties and state re-credit, annex 7, part III of the regulation on state debt contracting procedures: https://www.legis.md/cautare/getResults?doc_id=121747&lang=ro#

PILLAR 4: Policy-based fiscal strategy and budgeting

215. This pillar assesses whether the government’s fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

PI-14. Medium-term budget strategy

216. This indicator measures the ability of a subnational government to develop robust macroeconomic and fiscal forecasts, which are crucial for developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances. The assessment of this indicator covered the budgetary units and the last budget (2021 draft budget) submitted to the elected local legislature. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-14. Medium-term budget strategy (M2)	B	
14.1. Underlying forecasts for medium-term budget	A	Estimates of revenue and expenditure for the budget year and two following fiscal years are based on a subnational fiscal strategy called Cahul Rayon Socio-Economic Development Plan 2017-2020. ³⁰ The estimates are also based on sectoral strategies, and information on transfers, revenue, and expenditure assignments as well as on key demographic and macroeconomic indicators. Estimates of revenue and expenditures and sectoral and fiscal strategies are submitted to the subnational council.
14.2. Fiscal impact of policy proposals	B	Cahul rayon prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year which are submitted to the subnational council. The fiscal impact is not done for the following two fiscal years, although the estimates for the following two years are included.
14.3. Medium-term expenditure and revenue estimates	A	The rayon budget is presented to and approved by the council for the forthcoming year with estimates for the following two years.
14.4. Consistency of budget with previous year estimates	D	The changes to expenditure estimates between the last medium-term budget and the current medium-term budget are not explained.

Dimension PI-14.1 Underlying forecast for medium-term budget

217. The 2021 budget proposals are accompanied by annexes to the draft decision which provide a summary of general indicators:³¹

- Annex 1: Synthesis of the general indicators and financing sources of the Cahul rayon budget;
- Annex 2: The composition of the revenues of the Cahul rayon budget;
- Annex 3: Resources and expenditures of the Cahul rayon budget according to the functional classification and by programs;

³⁰ Link for the rayon development plan <https://cahul.md/programul-de-dezvoltare-a-raionului/>

³¹ <http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-17-decembrie-2020/>

- Annex 4: The staff thresholds in the authorities / institutions financed from the Cahul rayon budget;
- Annex 5: Summary of the revenues collected by the budgetary authorities / institutions, financed from the Cahul rayon budget;
- Annex 6: Regulation on administration of collected revenues by public institutions financed from the Cahul rayon budget.
- Annexes 7 and 8: Details about the reserve fund and the rules governing its use;
- Annex 9: Distribution of budget allocations from the rayon component and the inclusive education fund per general education facilities under subordination of the rayon council; and
- Annex 10: List of the projects financed from external resources of the Cahul rayon budget.

218. The Informative Note to the draft decision also includes the details of the expenditure and revenue structure of the Cahul rayon budget according to economic classification for the years 2019-2023 as well as details about the estimated expenditures according to the functional classification for the next two years. Program budget proposals for 2021 and estimates for 2022-2023 with expenditure limits, program elements, objectives, and performance indicators are also presented.

219. The draft budget of the Cahul rayon for 2021 is based on the socio-economic development program of the rayon from 2017-2020. It is based on the numerical objectives of the state policy in the field of budget revenues and expenditures for 2021-2023, the forecast of the main macroeconomic indicators (prepared by the Ministry of Economy and Infrastructure), targets and policy parameters such as the increase of salaries by maintaining the moratorium on the number for budget employees, the implementation of social assistance programs that provide higher social benefits to support low-income people, as well as the particulars of local public administration authorities about local budget projects for 2021 and estimates for the years 2022-2023.

220. In estimating the expenses related to the draft budget for 2021 and rolling it over into the medium term the informative note to the draft budget prepared by the Cahul rayon specifies normative and legislative acts, the strategies and programs that regulate the activity of local public authorities / institutions and aspects regarding the payroll; the contractual commitments of expenses assumed in previous years with a financial impact on the planned year; the reforms promoted within the different areas of responsibilities (institutional structural changes, etc.) and the regulatory framework governing the provision of paid services, as well as the revenues collected by the budgetary authorities / institutions. The note states that all these underpins the efficient use of the resources of the Cahul rayon budget for public services for programs of major importance, which would allow solving pressing problems without admitting credit debts and financial blockages.

221. Estimates of revenue and expenditure for 2021 budget year and two following fiscal years are based on a subnational fiscal strategy, sectoral strategies, and information on transfers, revenue, and expenditure assignments and on key demographic and macroeconomic indicators. Estimates of revenue and expenditures and sectoral and fiscal strategies are submitted to the subnational council.

222. **Based on the analysis and supporting evidence the score for this dimension is A.**

Dimension PI-14.2 Fiscal impact of policy proposals

223. The informative note regarding the elaboration of the rayon budget for FY 2021 in the budget documentation sets forth:

- Drivers of revenues calculation for 2021: changes in the law regarding application of individual tariffs and taxes, modifications in the taxable base (tax on extraction of useful minerals), changes in transfers by type and their impact on revenues.
- Considerations of expenditure calculations taking into account:
 - ✓ Normative and legislative acts, which regulate the activity of the respective areas;
 - ✓ Legislative and normative acts that regulate the aspects related to the remuneration of work (with subsequent amendments and completions that will be applied in the next budget year);
 - ✓ Commitments of expenditure incurred in the previous years with financial impact on year planned (increasing wages);
 - ✓ Reforms promoted within the rayon structures (institutional changes);
 - ✓ Volume of own source revenues generated by the public institutions.

224. In the draft 2021 budget, special emphasis is placed on the close correlation of the expenditure framework with the available resource framework in order to avoid future commitments without resource coverage. The 2021 budget is rolled over into 2022 and 2023 based on this maxim.

225. Cahul rayon prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year which are submitted to the subnational council. The fiscal impact of changes in revenue and expenditure policy for the following two years is not presented, although the respective estimates are provided in the additional tables.

226. **The score for this dimension is B.**

Dimension PI-14.3 Medium-term expenditure and revenue estimates

227. The estimates of expenditures are provided for the coming budget year and two following years by administrative and program (aggregated codes P1P2) classification. The revenue projections by economic classification detailed at K6 level and the expenditure allocations by economic classification (aggregated code K2) and functional classification for the budget year and two following years are provided in table 1 and table 3 to the Explanatory Note.

Table 14.3. Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following FYs (Y/N)
Administrative	Y	Y
Economic	Y	Y
Program/Function	Y	Y

Data source: FY2021 budget documentation

228. **The score for this dimension is A.**

Dimension PI-14.4 Consistency of budget with previous year's estimates

229. This dimension assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every variation in expenditure between the corresponding years in each medium-term budget can be fully explained and quantified. It covers the "last medium-term budget" relates to the budget approved by the subnational

council for the last completed fiscal year 2020, and “the current medium-term budget” relates to the budget approved by the subnational council for the current fiscal year submitted in 2020 covering 2021. 230. While the previous budgets (2018 executed and 2019 approved) are analyzed and compared with respect to deviations, there is no comparison of the previous year’s forward estimate with the actual that occurred in that year.

231. **The score for this dimension is D.**

PI-17. Budget preparation process

232. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The assessment of this indicator covers the budgetary units of the SNG. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. It comprises the last budget (FY2021) submitted to the elected local legislature for dimensions 17.1 and 17.2, and the last three completed FYs (2018 – 2020) for dimension 17.3.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-17. Budget preparation process (M2)	C+	
17.1 Budget calendar	C	A clear budget instruction and calendar is issued for all public sector authorities and spending units, along with multiple budget request forms to be fulfilled. A deadline for 2021 budget drafting was less than one month. Submissions are made in accordance with the timetable approved for each budget cycle separately.
17.2 Guidance on budget preparation	C	A comprehensive and clear budget circular is issued to budgetary authorities and spending units, covering total budget expenditure for the full fiscal year. The budget reflects sector ceilings per each subnational unit. Yet, the ceilings are not approved by the government before issuing the budget circular.
17.3 Budget submission to the legislature	D	For all three years under the assessment (2018-2020), the executive authority of the Cahul rayon has submitted the annual budget proposal to the rayon council (legislature) less than a month before the start of the fiscal year.

Dimension PI-17.1 Budget calendar

233. Law no.181/2014 on public finances and fiscal budget accountability establishes the overarching calendar for the budget process with sequenced activities and deadlines. The interim activities of the budgetary calendar regarding the elaboration of 2021 Cahul rayon budget were approved by the head of the Cahul rayon. Disposition no.185-n of October 21, 2020 established activities with deadlines for their realization. It also indicated the responsible authorities and beneficiary unit from the rayon council for collecting and putting together the budget information. The established budget calendar is prepared considering the methodology approved by the MoF.

234. The budget circular for the 2021 budget, which also covered budget forecast for 2022-2023, was issued on September 25, 2020, requiring 3 weeks (by October 14, 2020) for submission of the preliminary

estimates by the rayon budgetary units (subdivisions of the rayon council and tier I spending units) to the General Finance Division. Thereafter, further changes could be made following discussions and negotiations with each budget unit. The submissions, which are entered directly into FMIS, cover all medium-term projections. All budgetary units made their submissions in accordance with the timetable set out in the MoF circular and Cahul rayon head's disposition.

Table 17.1: Budget calendar and guidance on budget preparation

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of spending units complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)
Y	September 25, 2020	From October 6, 2020, till October 14, 2020, based on the established schedule	All	100	October 28, 2020	Y

Data Source: Cahul rayon Head's disposition no.108 from September 29, 2020, regarding to organization of the budget process for 2021 and estimates for 2022-2023

235. **The score for this dimension is C.**

Dimension PI-17.2 Guidance on budget preparation

236. The Cahul rayon general finance division issue a budget circular to all subnational budgetary units, including subordinated budget institutions and to tier I local public administration authorities. The circular sets out the budget procedures for the preparation of the subnational budget including any procedures and interactions involving the higher-level government. The processes and guidance on the preparation of budget submissions and ceilings presented in the budget circular are described in detail for each type of revenue and function and economic categories of spending, considering interrelationships between subnational and higher-level governments.

237. Ceilings are treated as maximum budget allocations calculated for the budgetary units and are distributed within the budget circular. The final budget allocations could subsequently be adjusted based on the quality and justification of their detailed proposals.

238. Considering that, the budget is fully program based; standards and definitions for the preparation of programs and performance indicators submissions are included.

239. The entire budget preparation process is carried out within the FMIS in a dedicated module that allows electronic generation of the budget. This module also allows the collection of financial and non-financial information regarding the elaboration of the draft budget, including performance indicators.

240. Although the budget estimates were not formally adopted by the government, a political involvement of the government in establishing and approving the ceilings was ensured. The MoF, after

coordination with the Cabinet, used the agreed ceilings but not yet formally approved through the government Decision regarding 2021-2023 MTBF in the 2021 state budget circular. The ceilings were approved after the budgetary units completed their submissions.

241. **The score for this dimension is C.**

Dimension PI-17.3 Budget submission to the subnational council

242. The executive has submitted the annual budget proposal to the Cahul rayon council (legislature) less than a month before the start of the fiscal year in two of the last three years.

Table 17.2: Budget submission to legislature

FY	Date of submission of budget proposal
2018	December 11, 2017
2019	November 27, 2018
2020	December 12, 2019

Data source: Cahul rayon council draft decisions submission, <https://cahul.md/proiecte-de-decizii/>

243. **The score for this dimension is D.**

PI-18. Legislative scrutiny of budgets

244. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature. The assessment covers the budgetary units of the SNG. The indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for dimensions 18.1, 18.2 and 18.4 is the last completed FY (2020), and for dimension 18.3 are the last three completed FYs (2018-2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-18. Legislative scrutiny of budgets (M1)	B+	
18.1. Scope of budget scrutiny	B	The rayon council review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue. The medium-term fiscal forecasts and medium-term priorities are included in the tables to the explanatory note. However, the review does not cover the extent to which the original estimates of past policies have been fulfilled.
18.2. Legislative procedures for budget scrutiny	B	The procedures to review budget proposals are covered by the national legislation and are adhered to. There are no separate procedures adopted for the Cahul rayon council. The current procedures include internal organizational arrangements such as committees, technical support, and negotiation procedures. There are arrangements for public consultation, but participation rate decreases year by year. The table with proposals and discussion results is not publicly available.
18.3. Timing of budget approval	A	The Cahul rayon council has approved the annual budget before the start of the year in each of the last three fiscal years.

18.4. Rules for budget adjustments by the executive	A	The annual budget documentation provides clear rules for in-year budget adjustments by the subnational authorities and spending units. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances. They are part of the annual budget approval decision.
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Dimension PI-18.1 Scope of budget scrutiny

245. The rayon budget scrutiny, approval, and amendment procedures are set in the Article 21 of law no. 397 of October 16, 2003, on local public finances. The scrutiny performed by the Cahul rayon council is focused on the articles of the proposed budget (estimates of revenue and expenditures), changes in fiscal policies, the aggregates of spending of the different units and subordinated divisions and the detailed expenditures within each sector. The document has the following compulsory annexes:

- Synthesis of general indicators and sources of financing of the local budget;
- Composition of the local budget revenues;
- Resources and expenditures of the local budget according to the functional classification and by programs;
- The nomenclature of tariffs for services provided against payment by the local subordinated budgetary authorities / institutions;
- Transfers from / to other budgets;
- Summary of capital investment projects financed from the local budget, including from transfers from other budgets, as well as the list of projects financed from external sources;
- The number of staff in the budgetary authorities / institutions financed from the local budget;
- The annual loan program;
- The amount of the reserve fund;
- The debt ceiling of the administrative-territorial unit and the ceiling of the guarantees granted by the local public administration authorities;
- Other provisions.

246. Medium-term fiscal forecasts and budget priorities are included in the submitted draft budget documentation. Each subdivision prepares their budgets per programs for 4 years, which included for FY2020 budget: ongoing year (2019), 2020 projections and 2021-2022 forecast. For revenues and expenditures, the budget is presented for 5 years – 2018 outturn, 2019 revised budget, and projection and forecast for 2020-2022. However, the scrutiny does not include the review of estimates of costs of completing past approved policies according to the originally promised timelines and costs.

247. **The score for this dimension is B.**

Table 18.1: Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium-term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Y	Y	Y	Partial	Y	Partial

Data source: Cahul rayon council draft proposal budget³² and approved by decision no.04/01-V of December 27, 2020³³

³² Link for 2020 draft budget proposal <http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-20-12-2019/>

³³ Link for RC Decision no.04/01-V of December 27, 2020, <http://cahul.md/wp-content/uploads/2019/12/1.-1.pdf>

Dimension PI-18.2 Legislative procedures for budget scrutiny

248. General legislative procedures for analyzing, voting, and passing the budget are set in the Article 21 of the law 397 of October 16, 2003, on local public finances. There are no separate detailed procedures adopted by the Cahul rayon council that would include internal organizational arrangements, such as creation of special committee for budget scrutiny. For the purpose of the budget scrutiny each rayon council committee analyzes the draft budget. Separate meetings are organized in the standing committees for agriculture, social affairs and budget of the rayon council.

249. The Cahul rayon general finance division presents the draft budget for the first reading and conducts the negotiation processes within the working group and rayon council committees by analyzing the proposals and presenting the amendments for the corresponding budgetary unit/division.

250. The public consultations are organized before the hearings within the rayon council session. Together with negotiations in the local council committees, it takes in average of 10-15 working days for the budget scrutiny, giving regard to the terms established by the MoF for the presentation of the draft budget. For the FY 2020 budget, the public consultations were organized along with the discussions in the agriculture committee, social affairs committee, and budget commission.

Table 18.2: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements
Y	N	Y	Y

Data source: Cahul rayon council website³⁴

251. The representative and deliberative authority examines the draft local budget in two readings:

a) First reading - the report of the respective executive authority on the draft local budget is heard and the general budget indicators are approved: revenues and expenditures, budget balance, sources of financing, the debt ceiling of the administrative-territorial unit, and the guarantee ceiling granted by local public administration;

b) Second reading - the draft annual budget decision is examined and voted per articles / items or as a whole.

252. Amendments are presented by the representative of each committee and if not initially passed, can also be presented in the final debate. Amendments to articles or expenditures estimates that increase expenditures estimates must be balanced by a reduction of the expenditures estimates under the same heading (divisions and subordinated entities). Both readings take place in the same meeting.

253. The public hearings have been organized during the 2020 budget approval. For citizens and the civil society representatives a separate meeting has not been organized. They had an opportunity to participate in all rayon committee's meetings. The interviewed staff noticed that the interest in public hearings is going down.

³⁴ Link for rayon council decisions: <https://cahul.md/decizii-adoptate/>

254. **The score for this dimension is B.**

Dimension PI-18.3 Timing of budget approval

255. According to Article 21 of the law no.397 from October 16, 2003, on local public finances, the rayon local council should approve the annual local budget by December 10. However, the approval of the annual rayon budget during last 3 years was in line with the requirement of being published before the beginning of the budget year.

Table 18.3: Timing of budget approval

Budget for FY	Date of budget approval
2018	December 21, 2017
2019	December 6, 2018
2020	December 27, 2019

Data source: Cahul rayon council website³⁵

256. **The score for this dimension is A.**

Dimension PI-18.4 Rules for budget adjustments by the executive

257. During the budget year, without affecting the indicators approved by the annual budget decision, the redistribution of budget allocations could be performed³⁶ in the following manner:

- By the budget administrator (head of the rayon council) – between the economic categories of expenditures, without increasing the personnel expenses and without modifying the expenditures for capital investments and inter-budgetary transfers;
- By budgetary authorities – between the subordinated budgetary institutions within a sub-program, respecting the limits established by the budget administrator;
- By budgetary institutions – other redistributions of allocations that do not affect the limits set by the higher budgetary authority.

258. Point 4 of the Cahul rayon council decision for FY2020 budget approval³⁷ authorizes the responsible people to amend the annual budget as is foreseen in the law on local public finances:

- a) The head of Cahul rayon as rayon budget administrator can carry out the following in-year redistribution of allocations in the rayon budget:
- Modify the allocation plans between different levels of the economic classification (K2) within the same function (F1-F3) and between the subordinated institutions without any increase in staff costs and changes in the capital expenses and inter-budgetary transfers;
 - Include in the respective programs of revenues and expenses based on the rayon council decision the allocations from the reserve fund, from special purpose transfers from the state budget to the local budget, distributed in line with laws other than the annual budget law;
 - Modify, in accordance with the legal provisions, the indicators established in the rayon budget for revenues and expenditures depending on the volume of revenue collected by the

³⁵ Link for approved decisions per dates <https://cahul.md/decizii-adoptate/>

³⁶ Provisions are set in the Article 26 of the law no.397 from October 16, 2003, on local public finances

³⁷ Link for Cahul rayon council decision on budget for 2020 year: <http://cahul.md/wp-content/uploads/2019/12/1.-1.pdf>

subordinated authorities/institutions, donations and receipts from sponsorship or additional assets received on a non-reimbursable basis.

- b) The budget administrators of budget authorities (ORG1 – head of rayon, ORG1i – head of general education division, head of general division on social protection and family) can modify the allocation plans of the subordinated institutions between levels (K4) within the same function (F1-F3) and the same subprogram (P1P2) in compliance with the limits established at the level of K2.
- c) The heads of the budgetary institutions can modify the allocation plans between levels K5-K6, considering the limit established at the level of K4 of the economic classification.

259. Other adjustments that could be made by the budgetary units by themselves within the approved annual amount between economic categories of revenues and expenditures are allowed by the 25th of each month. Allocations resulting from special purpose transfers received from other budgets are not allowed to be redeployed for other purposes.

260. The rules described above were adhered to in 2020. The adjustments are strictly monitored and observed through the FMIS, and the system does not allow any amendment that deviates from the approved budget aggregates.

261. **The score for this dimension is A.**

PILLAR 5: Predictability and control in budget execution

262. This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

PI-19. Rights and obligations for revenue measures

263. This indicator focuses on the administration of the subnational government (SNG) core taxes. It assesses the procedures used to collect and monitor the core taxes of the SNG. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment period for dimension 19.1 and 19.2 is at time of assessment, and for dimension 19.3 and 19.4 the last completed fiscal year (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
PI-19. Revenue administration (M2)	NA	
19.1. Rights and obligations for tax measures	NA	Almost all tax revenues and fees are administered and collected by the central authority- State Tax Service on behalf of Cahul Rayon.
19.2. Property tax register and valuation	NA	Cahul Rayon does not levy any property tax or property transfer tax (in case of sale or inheritance).
19.3. Tax risk management, audit, and investigations	NA	Almost all tax revenues and fees are administered and collected by the central authority - STS on behalf of Cahul Rayon.
19.4. Tax arrears monitoring	NA	Almost all tax revenues and fees are administered and collected by the central authority - STS on behalf of Cahul Rayon.

264. According to Article 5 of the law on local public finances,³⁸ the revenues of the rayon consist of the following: (i) General revenues -- a) own revenues consisting of taxes on natural resources, private tax (according to property ownership), and other revenues according to legislation; b) transfers from the income tax of individuals – 50% from the total amount collected from the population living on the territory of the municipality that is HQ in the rayon; c) general designation transfers and special designation transfers; d) grants for budget deficit; (ii) Collected revenues; and (iii) Grants financed from external sources.

265. The table below lists own sources of revenues for the Cahul rayon for the last completed FY2020. As shown in the table, all tax revenues and fees are administered and collected by the central authority - State Tax Service of Moldova on behalf of Cahul Rayon in compliance with the Tax Code of Moldova and the existing legal and regulatory framework. Hence, there are no core taxes.

³⁸ https://www.legis.md/cautare/getResults?doc_id=121302&lang=ro#

Table 19.1. Revenues of Cahul Rayon Council

Description of revenue	Executed in 2020 (MDL, thousand)	Unit responsible for collection and administration
Taxes and fees	22,157.4	
Income tax withheld from salary	16,164.7	STS (Cahul State Tax Service Directorate (DDF), subdivision of the central apparatus, within the limits of its competences)
Personal income tax payable / paid	528.8	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Personal income tax in the field of road passenger transport by taxi	45.7	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Income tax related to the transfer of possession and / or use of real estate	106.9	STS (DDF, subdivision of the central apparatus, within the limits of its competences) and collected by LPA
Water fees	772.2	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Fee for timber	32.4	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Fee for the extraction of useful minerals	240.9	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Grants received		-
Grants received from international organizations for projects funded from external sources for the local level II budget	0	-
Other incomes		-
Tax on the purchase of foreign currency by individuals in foreign exchange offices	217.1	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Receipts from the provision of paid services	3,554.5	Budget administrator (head of the rayon), general education division, and general social assistance and family protection division acting as budgetary authority (articles 33 and 34 of law no. 397/2003. General finance division regularly analyzes the collected revenues.
Payment for the lease of public property	438.8	STS (DDF, subdivision of the central apparatus, within the limits of its competences)
Fines imposed by the Financial Inspection collected in the local budget of level II	5.7	STS (DDF, subdivision of the central apparatus, within the limits of its competences)

Voluntary donations for current expenditure from internal sources for budgetary institutions	50.0	-
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Source: State Tax Service and Cahul rayon authorities.

PI-19.1. Rights and obligations for tax measures

266. Almost all tax revenues and fees are administered and collected by the central authority, STS on behalf of Cahul rayon in compliance with the Tax Code of Moldova and the existing legal and regulatory framework. Hence there are no core taxes.

267. **The score for this dimension is NA.**

PI-19.2. Property tax register and valuation

268. Cahul rayon does not levy any property tax or property transfer tax (in case of sale or inheritance), making this dimension not applicable.

269. **The score for this dimension is NA.**

PI-19.3. Tax risk management, audit and investigations

270. Almost all tax revenues and fees are administered and collected by the central authority- STS on behalf of Cahul rayon in compliance with the Tax Code of Moldova and the existing legal and regulatory framework. Hence, there are no core taxes.

271. **The score for this dimension is NA.**

PI-19.4. Tax arrears monitoring

272. Almost all tax revenues and fees are administered and collected by the central authority- STS on behalf of Cahul Rayon in compliance with the Tax Code of Moldova and the existing legal and regulatory framework. Hence, there are no core taxes.

273. **The score for this dimension is NA.**

PI-20. Accounting for revenue

274. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment of this indicator comprises the SNG budgetary units at time of assessment.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
PI-20. Accounting for revenue (M1)	A	

20.1. Information on revenue collections	A	The Treasury provides to both the STS and the general finance division of Cahul rayon information on collected revenues on a monthly/daily/real-time basis. The information on total revenue collections is broken down by type of revenue and the finance division prepares a consolidated report covering all own source of revenues (both tax and non-tax revenue, broken down by revenue classification codes).
20.2. Transfer of revenue collections	A	All tax revenues and fees are paid directly into the accounts registered in the Treasury – separately for each type of tax revenue. Therefore, all tax and fee revenues are directly transferred to the Treasury within 24 hours.
20.3. Revenue accounts reconciliation	NA	Almost all tax revenues and fees are administered and collected by the central authority- STS- on behalf of Cahul Rayon.

Dimension PI-20.1 Information on revenue collections

275. Almost all tax revenues and fees are administered and collected by the central authority, STS on behalf of Cahul rayon. The Treasury provides to both the STS and the general finance division of Cahul rayon information on collected revenues on a monthly/daily/real-time basis. The information on total revenue collections is broken down by type of revenue and the finance department prepares a consolidated report covering all own source of revenues (both tax and non-tax revenue, broken down by revenue classification codes).

276. **The score for this dimension is A.**

Dimension PI-20.2 Transfer of revenue collections

277. All tax revenues and fees are paid into the accounts of the Treasury according to economic classification and register of IBAN codes³⁹ and the transfer is immediate. The payments are transferred into the TSA and simultaneously reflected by administrative territory and by the code of revenue classification. The Treasury and its regional branches transmit information electronically on the payment (payment document information file) daily.

278. **The score for this dimension is A.**

Dimension PI-20.3 Revenue account reconciliation

279. As indicated under PI-19, almost all tax revenues and fees are administered and collected by the central authority, STS, on behalf of Cahul rayon.

280. **The score for this dimension is NA.**

PI-21. Predictability of in-year resource allocation

281. This indicator assesses the extent to which the MOF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Coverage of the assessment includes the budgetary units of the SNG. The indicator contains four

³⁹ Register is published on MoF website: <https://mf.gov.md/ro/iban>

dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period examined for 21.1, 21.2 and 21.4 is at the time of assessment, and for 21.3, the last completed FY (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-21. Predictability of in-year resource allocation (M2)	B+	
21.1. Consolidation of cash balances	A	Moldova operates a Treasury Single Account within which each budgetary unit, including subnational entities, has its own subaccount. All the accounts are consolidated daily.
21.2. Cash forecasting and monitoring	A	Based on the annual budget, an annual cash flow is prepared. Given that transfers form the greatest part of the rayon revenues, and these are received monthly, a monthly plan is prepared and adjusted based on when revenues are received (including own source revenues). Based on this revenue forecast, procurement is planned accordingly.
21.3. Information on commitment ceilings	A	The rayon plans its budget execution for the whole year based on its cash flow projections so commitments can be planned accordingly.
21.4. Significance of in-year budget adjustments	C	In-year adjustments requiring the approval of the Rayon council are made to spend the balance from the previous year. Adjustments are made three to six times annually.

Dimension PI-21.1 Consolidation of cash balances

282. The TSA is opened in the NBM and has separate bank sub-accounts for the National Public Budget which includes individual subnational government entities. The rayon finance division has real-time access to the consolidated position of its funds in the TSA.

283. The government operates a TSA within which each budgetary unit including subnational entities has its own subaccount. All the accounts are consolidated daily.

284. Cahul rayon also has foreign currency accounts opened in the commercial bank, which are consolidated daily. There is a separate account for petty cash transactions, but the daily end-balance is zero. These transactions are limited to certain payments, and the overall cash flow does not exceed 1% of total rayon expenditures.

Table 21.1: Consolidation of bank and cash balances (summary)

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)
All	D

Data source: discussion with the rayon council and regional treasury department

285. The score for this dimension is A.

Dimension PI-21.2 Cash forecasting and monitoring

286. Based on the annual budget, an annual cash flow forecast is prepared within 30 days after the approval of the annual budget but not later than January 1st of the budget year (para (3), art. 29 of the

law on local public finances no.397/2003). Given that transfers form the greatest part of the Cahul rayon budget revenues these are received monthly. A monthly plan is prepared and adjusted based on actually received own and shared revenues. Cahul rayon general finance division prepares daily operative information on cash flow estimates for its internal use while the Regional Treasury prepares consolidated weekly and monthly cash flow forecasts for the entire budget sector. Based on this revenue forecast, spending and procurement plan are adjusted accordingly.

287. **The score for this dimension is A.**

Dimension PI-21.3 Information on commitment ceilings

288. The information about the amount resources to be received from the central government are available once the state budget is approved. The rayon is also aware of the time when the transfers are released (please refer to HLG-1). There are no cash ceilings established. The rayon plans its budget execution for the whole year based on its cash flow projections so commitments can be planned accordingly. Each spending unit has access to the Treasury system where they can monitor the status of the payment orders and receipts. The statements are issued the next day after the payment is processed.

289. **The score for this dimension is A.**

Dimension PI-21.4 Significance of in-year budget adjustments

290. Budget adjustments within the year are frequent and partially transparent. The adjustments are done in line with Article 28 of the law on local public finances no.397/2003 that foresees that the adjustments to local budget allocations within one budget year could be done normally twice a year, not earlier than July 1 and not later than November 1. Two situations may trigger the budget amendment: (i) the need to revise expenditures, and (ii) the worsening of the budget balance. The terms for processing the second amendment are usually not respected because the government may allocate additional transfers close to the year end. To avoid any divergences the council scrutinizes any budget amendments after they receive them.

291. There were three to six in-year adjustment requiring the approval of the rayon council in each of the assessed three years. Changes to the budget happened due to an increase or decrease of transfers from the state budget.

292. The certainty of monthly transfers, both targeted and general, allows the budget to be executed as planned. However, the Cahul rayon has unspent balances at the end of each year which it is able to spend during the following year on the recommendation of specialized committees which requires approval of the rayon council. This is performed three to four times in a year.

293. **The score for this dimension is C.**

PI-22. Expenditure arrears

294. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 22.1 is the last three completed FYs (2018 – 2020), and for 22.2 is at time of assessment. Coverage comprises the SNG budgetary units.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-22. Expenditure arrears (M1)	A	
22.1. Stock of expenditure arrears	A	There are no expenditures arrears for the Cahul rayon.
22.2. Expenditure arrears monitoring	A	There is a robust system for identifying and recording the arrears.

Dimension PI-22.1 Stock of expenditure arrears

295. The definition of an arrear⁴⁰ is provided in the law on public finances and budgetary-fiscal responsibility no. 181/2014. It is defined as a valid payment obligation of the budgetary authority / institution based on the applicable legal documents (usually a contract), which has become overdue. MFO no. 121 of September 14, 2016, elaborates further on the method of determining and reporting overdue receivables and overdue payables. The MFO clarifies that if a verified invoice which meets the terms and conditions of the contract is unpaid after 30 days, it is classified as an arrear. The order also establishes the conditions when the payables are not considered as arrears. Expenditure arrears cover all items per applicable economic classification, including subsidies.

296. The Cahul rayon budget financial reports (form FD-049) do not show arrears incurred in 2018-2020.

297. **The score for this dimension is A.**

Dimension PI-22.2 Expenditure arrears monitoring

298. The information on the arrears of the state and local budgets is received and consolidated monthly by the MoF, and published on the Ministry's website.⁴¹ The analysis and identification of arrears reduction measures is carried out and the respective information is also transmitted to the financial inspection for verification of the correctness of the arrears and, if necessary, the application of sanctions according to the Contravention Code. The financial inspection carried out in the rayon for 2016 to 2021 did not highlight arrears.

299. Arrears are included as a line item in the budget classification system. The rayon reports monthly data on arrears to the MoF (Form FD-049). This report contains information about the type of debt according to the economic classification (including subsidies), the debt age (less than 3 months, between 3 – 6 months, 6-12 month, and more than 1 year), its amount and the reason of admitting the arrear. Information on the composition of arrears is then generated monthly in the MOF budget execution reports. The annual report of the budget execution (Form FD-044) prepared by the spending units includes

⁴⁰ Referred in the national legislation as an account payable with the expired payment terms

⁴¹ Accessed at the link: <http://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-lunare>

data about the arrears too. Form 9 in the annual state budget execution report reflects all arrears. The Cahul rayon administration complies with all the legal requirements.

300. **The score for this dimension is A.**

PI-23. Payroll controls

301. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 23.1, 23.2 and 23.3 is at the time of assessment, and for 23.4 includes the last three completed FYs (2018-2020). Coverage of the assessment includes the budgetary units and EBUs.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-23. Payroll controls (M1)	B+	
23.1. Integration of payroll and personnel records	A	The payroll and personnel records are integrated in the accounting program and are supported by full documentation for all changes made to personnel records each month. It is checked against the previous month's payroll data. Staff hiring and promotion are controlled by a list of approved staff positions.
23.2. Management of payroll changes	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.
23.3. Internal control of payroll	A	Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons. Changes made to the payroll provide for a clear audit trail.
23.4. Payroll audit	B	A payroll audit covering all SNG entities of Cahul rayon has been conducted by the Financial Inspection agency for the last four completed fiscal years.

302. There are main regulatory documents governing the organization of the budgetary sector personnel payroll, the number of employees and time used. These include:

- (i) Law no.270 dated November 23, 2018, on unified payroll system in the public sector.⁴²
- (ii) Law no.158 dated July 4, 2008, on civil service and status of the civil servant.⁴³
- (iii) Law no.155 dated July 21, 2011, for approving the unified classification of the public functions.⁴⁴
- (iv) Government decision no.1231 dated December 12, 2018, on implementation of law no. 270/2018.⁴⁵
- (v) MFO no.218 dated December 28, 2018, on staffing for public sector.⁴⁶

⁴² https://www.legis.md/cautare/getResults?doc_id=128269&lang=ro#

⁴³ https://www.legis.md/cautare/getResults?doc_id=128500&lang=ro#

⁴⁴ https://www.legis.md/cautare/getResults?doc_id=125244&lang=ro#

⁴⁵ https://www.legis.md/cautare/getResults?doc_id=126510&lang=ro#

⁴⁶ https://www.legis.md/cautare/getResults?doc_id=111381&lang=ro

303. The payroll data for budgetary sector are centralized and computerized. After the new payroll law no.270/2018 came in force, salary data are collected from the authorities, generalized, and centralized in the specialized Q-lick software program. Each month, the real data on the number of employees is reported via the FMIS using the report FD-050 submitted by each public authority. The MoF division for salary policy is responsible for managing the records and database of budgetary sector staff.

Dimension PI-23.1 Integration of payroll and personnel records

304. The staff lists of the rayon sub-divisions are approved through the decision issued by the rayon council.⁴⁷ Individual units are responsible for keeping records of their employees' payroll, for some units this is made by a higher-level unit, and the unit is only responsible for keeping personnel records. Record-keeping for personnel and staffing tables is made in the accounting program. Payroll accounting is done both in the automated system and manually in MS Excel. The HR unit is responsible for employee record-keeping and the accounting department for accounting for all employee payments in accordance with the staffing scheme.

305. Any hiring or promotion of an employee is carried out on competitive base within the staffing scheme the approved by and coordinated with the State Chancellery. Any changes in the personnel database affecting the payroll status of the employee are automatically accompanied by a corresponding change in the payroll module of the accounting software program, without human intervention.

306. Reconciliation of payroll fund with personnel records is carried out monthly before the payment is made. The HR unit (clerk) verifies the time sheet of working hours with the information contained in the personnel file and submits the data sheets to the accounting office. The accounting office verifies and calculates the salaries based on the submitted timesheets using the software accounting program. These calculations are made considering all personnel changes.

Table 23.1: Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and promotion checked against approved staff list	Y	Accounting office and HR	Every time the position is advertised
Reconciliation of payroll and personnel database	Y	Accounting office and HR	Monthly, when monthly salary is calculated
Documentation maintained for payroll changes	Y	Accounting office and HR	Every time changes are approved
Payroll checked and reviewed for variances from last payroll	Y	Accounting office	Monthly, when monthly salary is calculated
Updates to personnel records and payroll	Y	Accounting office	Monthly, when monthly salary is calculated
Updates include validation with approved staff list	Y	Accounting office and HR	Every time changes are approved

⁴⁷ <https://cahul.md/wp-content/uploads/2022/03/2..pdf>

Audit trail of internal controls	Y	Internal audit	According to the annual internal audit plan
Payroll audits in last three years	Y	Internal audit, Financial Inspection, Court of Account	During audits: 2020 and 2021

Data sources: Interview results, audit reports

307. **The score for this dimension is A.**

Dimension PI-23.2 Management of payroll changes

308. Any amendments required to the personnel database are processed in a timely manner through a change report, and this is seen through an audit trail. The legal provisions foresee that any changes of the payroll conditions and staff numbers are coordinated with the MoF.

309. As mentioned in dimension 23.1, the monthly report on staff number and payroll (FD 050) offers support in staff number monitoring, to ensure the correct application of the legal framework. The accounting program has a separate module that allows it to monitor that the staffing and its salary levels are within the approved budget. The access to the program is monitored by the accounting office only and is restricted to other staff.

310. Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons. Changes to staff and payroll data are made at the highest level of management of each budgetary institution. Only authorized staff from accounting offices (or clerk in the absence of HR) may make changes to the information regarding the staff and salary specified in job descriptions.

311. The information about changes is stored both in terms of information recorded in the automated systems and information about payroll accounting, which is recorded in the accounting program. All budgetary institutions store data in an accounting program for budgetary institutions.

312. Retroactive adjustments are very rare, only as a result of errors. Other types of adjustments do not happen because the changes in the payroll following relevant changes in personnel status is done only after such a decision is approved by local council.

313. **The score for this dimension is A.**

Dimension PI-23.3 Internal control of payroll

314. In the accounting unit of the Cahul general finance division there are two persons responsible for salary calculation and associated records. The chief accountant who is responsible for verification, calculations, and correctness of payments performs the internal controls.

315. The accounting system has restricted access. The calculation could be adjusted but the payroll ceiling could not be changed in the system. Such changes are considered violations of the rules. The accounting system produces the reports that show and maintain a permanent history of transactions together with details of the authorizing officers. The existing system ensures adequate controls over the payroll records.

316. **The score for this dimension is A.**

Dimension PI-23.4 Payroll audit

317. Payroll audits are undertaken regularly but not on annual basis. Payroll verifications are included in each internal audit mission carried out by the internal audit unit. During the last three years 3 internal audits were carried out for the rayon subordinated institutions that covered the payroll review.

318. The public sector payroll is verified through external audits performed by the CoA. The financial inspection agency under the MoF also checks the payroll calculations during their inspection missions.

319. The financial inspection agency during its inspection conducted in 2021 (which covered 2016 – 2021 and 6 months) checked the correctness of the calculation and application of the provisions of law no.270/2018 for the salaries calculated to all staff paid from the rayon budget, including the payroll of the rayon council itself and its subordinated public authorities and spending units. The inspection report confirmed that as result of their audits of the Cahul rayon for 2020 the errors or failures in compliance in the public sector payroll were insignificant.

320. **The score for this dimension is B.**

PI-24. Procurement

321. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of this indicator covers every procurement of good, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditures. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores. The coverage is the last completed year (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-24. Procurement (M2)	D	
24.1. Procurement monitoring	D*	The information shared by the Cahul rayon council does not present the whole picture of the procurement situation for all the relevant divisions of the rayon council which procure centralized or individually.
24.2. Procurement methods	D*	In 2020, out of all procurement procedures within the thresholds defined by the public procurement law, 90.23% of the total value of contracts was awarded through competitive methods (open tenders, request for quotations). However, inconsistencies identified in dimension PI-24.1 indicates that the procurement data may not be accurate.
24.3. Public access to procurement information	D	2 out of 6 key procurement information requirements are made available to the public.
24.4. Procurement complaints management	NA	The procurement complaint body is a national entity body is a national entity and as such, this dimension is applicable only once in a set of assessments. The sub-indicator was assessed as part of the Ungheni Rayon Subnational PEFA.

General description of the public procurement system in Moldova

322. The public procurement law⁴⁸ (PPL) provides a basic regulatory framework incorporating the fundamental EU principles governing the award of public contracts. The PPL covers the procurement of goods, works, and services (including non-consulting and consulting services) and applies to all public contracting authorities at central and local level, with several exceptions, to public procurement contracts estimated at a cost equal to or above the following thresholds:⁴⁹ goods and services – MDL 200,000, works – MDL 250,000, and social services and other services defined in the law – MDL 400,000⁵⁰ (all thresholds exclusive of VAT). All contracts estimated to cost less than the above thresholds are required to be procured in accordance with the provisions of the Public Procurement Regulation for small-value public procurement contracts.⁵¹ In addition to the PPL, there are several regulations adopted by Government Decrees or Ministry of Finance Orders that are meant to guide contracting authorities throughout the procurement process

323. The PPL ensures that procurement is performed by open competitive methods except for procurement below set thresholds (i.e., low-value procurements, for which simplified procedures apply).

⁴⁸ Law no. 131/2015 dated July 3, 2015, on public procurement, as subsequently amended

⁴⁹ PPL, Art. 2(1)

⁵⁰ Official exchange rate of Moldovan Leu to 1 US Dollar was 17.3201 in 2020

⁵¹ Government Decision no. 665 dated May 27, 2016, for approving the Regulation on small value public procurement

Public procurement primary and secondary legislation, including the standard bidding documents, are published on the website of the Public Procurement Agency (PPA) and are easily accessible to the public.

324. The main central government level institutions in charge of public procurement are the MoF through its public procurement division, the Treasury in charge of registering public contracts and paying corresponding invoices, the PPA with a number of management and monitoring tasks for ensuring the smooth functioning of the public procurement system, and the National Agency for the Resolution of Complaints (ANSC) in charge of reviewing and ruling on complaints from tenderers and other interested parties.

325. Moldova's e-procurement system, the automated information system "State Register of Public Procurement" (SIA "RSAP" Mtender), is an online electronic system, accessible via the internet at a dedicated address, used for the electronic application of public procurement processes, for posting invitations / notices at the national level, submission and evaluation of tenders, award, and electronic signing of public procurement contracts. Mtender is mandatory for conducting procurement under the PPL. While small-value procurement is regulated, there is no obligation for the contracting authorities to use any feature of Mtender when conducting small value procurements. This leads to an almost complete lack of transparency of such procurement unless Contracting Authorities make this information public.⁵²

Dimension PI-24.1 Procurement monitoring

326. The Cahul rayon council includes the following specialized advisory committees: (i) Economy, Reforms, Budget, Finance and Cross-Border Relations; (ii) Agriculture, Food, Industry and Environmental protection; (iii) Social Assistance, Education, Health; (iv) Public administration, human rights, and inter-ethnic relations protection; (v) Urbanism, constructions, communal household, roads, land relations and cadastre. In addition, there are several divisions with separate duties: (a) Office of the Rayon Head; (b) Education; Social assistance and family protection; (c) Finance; Construction and Roads; (d) Economy and Regional Development; (e) Agriculture, cadastre; and (f) Culture, Youth Department.

327. There are several procurement-related reports available on the website of Cahul rayon council (www.cahul.md) for 2020, as follows: (i) procurement plan; (ii) various procurement notices, including Invitation for Bids and Contract Award Notices, which are published in .pdf file extracted from MTender; (iii) activity reports grouped by departments; and (iv) procurement monitoring reports.

328. To assess the procurement procedures and practices applied, the team evaluated the reports shared by the representatives of the rayon council and an accounting system generated report which is used for budgeting purposes. Since the latter is not meant for procurement monitoring specifically, the report does not provide much information on each tender/contract except for the contract number, description, contract value, and cumulative payments made against each contract throughout the year.

329. Two procurement reports shared by the rayon council cover separately procurement within the PPL threshold and small value procurement for 2020. These have been submitted in excel format which allowed for carrying analysis and assess the consistency in reporting. For procurement within the thresholds defined in PPL and procurement of small value contracts the information was presented in the

⁵² The regulation vaguely describes the principles of conducting small value procurement and they are mostly of the general character like ensuring efficient use of resources, transparency, objectiveness and impartiality of the public procurement procedure and public's trust for it. There are no specific rules as how to carry small value procurement, including the advertising.

same format: (i) contract signing date; (ii) contract description; (iii) contract amount; (iv) awarded company; (v) procurement procedure; and (vi) contract status (under implementation/finalized/paid).

330. Procurement within the PPL threshold is mandatorily conducted through MTender, and data can be extracted from the website (<https://mtender.gov.md/>).

331. The use of MTender is not mandatory for small value procurement. Procurement of this value is conducted outside MTender. However, records on small-value procurement are maintained and the annual report is published on the website. Regular reporting on small-value procurement is submitted to the PPA.

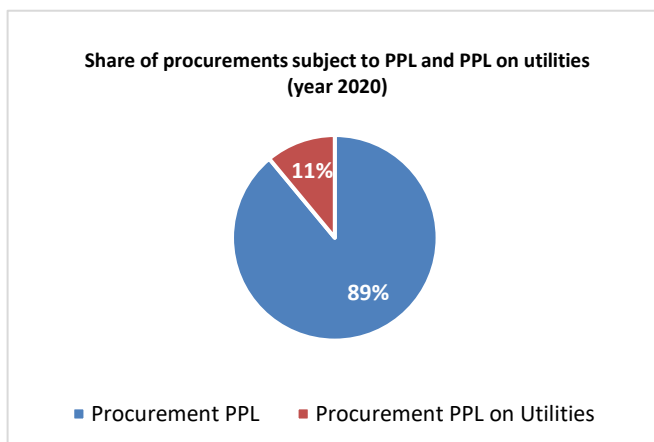
Table 24.1.1. Total procurements for year 2020

Total procurement Cahul rayon		
	PPL threshold	Small value contracts
No. of contracts (units)	6	96
Total contract value (MDL)	24,806,162	4,730,395

Source: Cahul Rayon Council

Table 24.1.2. Total procurements for year 2020 according to Operational Register of Contracts

Total procurement value (MDL)	
Procurement subject to PPL	89,226,415
Procurement subject to PPL on utilities	11,045,706
Total	100,272,122



Source: Cahul Rayon Council

332. Based on the information shared by the Cahul rayon council representative, in 2020, procurement procedures within the thresholds defined by the PPL amounted to MDL 24,806,162 (84%), and the procurement procedures defined in the government regulation on low value public procurement amounted to MDL 4,730,395 (16%) (Table 24.1). According to the Operation Register of Contracts (Table 24.1.1), the total value of contracts concluded by different divisions, departments, and institutions which are part of the Cahul rayon council (operating independently or subordinated to the office of the rayon head), was MDL 100,272,122, of which MDL 11,045,706 were subject to the law on utilities. A major discrepancy is noted between the reports submitted to the assessment team. Inaccurate data recording,

typos and errors in presented data with respect to contract values, suppliers, and number of contracts can explain this in general. Despite the repeated attempts to obtain more accurate information and clarifications, this information was not made available to the assessment team.

333. All sub-divisions which manage procurement individually use MTender for procurement within the PPL threshold. Analysis could not be conducted using only the information available in MTender. The information shared by the Cahul rayon council does not present the whole picture of the procurement situation for all the relevant divisions of the Rayon council which procure centrally or individually. While the information shared on large-value contracts is consistent with the information published on the website, there is a discrepancy in the reports on small-value procurement. In addition, the information published, and the information presented in the Operational Register of Contracts is inconsistent. These inconsistencies are found in the suppliers' name, contract amounts, list of contracts, a fact that inevitably leads to erroneous aggregated values.

334. **The score for this dimension is D*.**

Dimension PI-24.2 Procurement methods

335. For the purposes of assessing this dimension, the same monitoring reports have been analyzed. The PPL lists several procedures that may be used in public procurement. All methods, except for negotiated procedure, have the potential to ensure competitiveness, fairness, transparency, proportionality, and integrity.

336. Based on the information shared by the rayon council, out of all procurement procedures within the thresholds defined by the PPL, 90.23% of contracts were awarded through competitive methods (open tenders, Request for Quotations) and 9.77% of contracts were awarded through non-competitive method (negotiated procedure without publication) (Table 24.2).

Table 24.2. Procurement methods and corresponding value (MDL)

Total value of procurement within PPL threshold (1)	Total value of contracts procured through non-competitive method (2)	Total value of contracts procured through competitive method (3)	Percentage of competitive method by value (3)/(1)
24,806,162	2,424,696	22,381,466	90.23%

Source: Cahul rayon council

337. Based on the data from the procurement monitoring reports (large and small value contracts), the percentage of competitive method would meet the minimum requirement for Score A. However, the discrepancy identified between the reports shared with the assessment team (as per Tables 24.1 and 24.1.1) and the different totals reported on volume of procurement for 2020 would not justify a score of A, and the accuracy of the data in Table 24.2 above remains questionable.

338. **The score for this dimension is D*.**

Dimension PI-24.3 Public access to procurement information

339. The dimension reviews the level of public access to complete, reliable, and timely procurement information at the subnational level.

340. Limited public procurement information is available on the website of the Cahul rayon council. Moreover, there is a discrepancy between the shared reports and publicly available information on large-value and small-value contracts (on the Rayon council website); this leads to the conclusion that the data published might not be reliable and might not present the full picture.

341. Information on contracts within the PPL threshold can be found in MTender and a business intelligence tool, which extracts data from MTender.

342. The legal and regulatory framework in public procurement is published on the website of the PPA and in various portals of legal acts, which are available without any restrictions.

Table 24.1. Public access to procurement information

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	PPA website (www.tender.gov.md) and Registry of legal acts (www.lex.md). The public procurement legislation is not published on the website of the Cahul rayon council or of any sub-division with a legal entity status.	YES
Procurement plans	The original Procurement Plan (PP) for 2020 is published on the Cahul rayon council website (www.cahul.md). However, comparing the procurement monitoring reports shared with the team and the original PP, several contracts could not be located in the PP which should have been reflected in an updated PP. However, no updates to the PP are published for this year. Procurement Plans of the Cahul rayon council are republished, if modified, starting with 2021 at the following link: https://cahul.md/category/achizitii-publice/plan-achizitii/ Procurement Plans of sub-divisions could not be located. Note: The completeness and reliability of information cannot be assessed given the inconsistency in information between various sources	NO
Bidding opportunities	Bidding opportunities are published in the Public Procurement Bulletin (available on the PPA website) and MTender for all the contracts within the PPL threshold. https://tender.gov.md/ro/bap https://mtender.gov.md/en/tenders http://etender.gov.md/intentii https://achizitii.md Bidding opportunities, announcements are published (as duplicates of notices generated by MTender) on Cahul rayon website: https://cahul.md/category/achizitii-publice/noutati-achizitii/ Note: The completeness and reliability of information cannot be assessed given the inconsistency in information between various sources	NO
Contract award (purpose, contractor, value)	Contract award notices are published in Public Procurement Bulletin (available on the PPA website and MTender) and MTender for all the contracts within the PPL threshold.	NO

Type of procurement information	Findings	Public access
	<p>http://etender.gov.md/contracte</p> <p>https://mtender.gov.md/en/tenders?procedures=commercial</p> <p>https://tender.gov.md/ro/bap</p> <p>https://achizitii.md</p> <p>Contract award notices are published (as duplicates of notices generated by MTender) on Cahul rayon website: https://cahul.md/category/achizitii-publice/noutati-achizitii/</p> <p>Monitoring reports and small-value contracts reports are available on: https://cahul.md/category/achizitii-publice/monitorizarea-contractelor/</p>	
Data on resolution of procurement complaints	<p>National Agency for Solving Complaints website (www.ansc.md)</p> <p>https://www.ansc.md/ro/content/decizii-2021</p>	YES
Annual procurement statistics	<p><u>Generally, procurement statistics reports covering the entire public procurement system are developed by the PPA. The Cahul Rayon Council does not develop any report which would present all the procurement data in one document</u> .The following reports are published:</p> <p>Two contract monitoring reports are published on the website of Cahul Rayon Council for year 2020 (https://cahul.md/category/achizitii-publice/monitorizarea-contractelor/). No such information could be located for Rayon council's sub-divisions or subordinate institutions. Moreover, the data published might not be reliable given the discrepancy identified in the submitted reports.</p>	NO

343. The assessment identified 2 out of 6 key procurement information requirements that are available to the public.

344. **The score for this dimension is D.**

Dimension PI-24.4 Procurement complaints management

345. There is an effective and independent administrative complaint resolution mechanism. The review body is the National Agency for Solving Complaints (ANSC) which is a public authority, autonomous and independent from other public authorities, legal entities, and physical persons, which examines complaints arising from public procurement tenders. Since ANSC is a national entity and there is no separate procurement complaint body at subnational level, this sub-indicator was deemed not applicable for the purposes of this report. However, the team provides below the information on complaints received for year 2020 with respect to procurement conducted by Cahul Rayon Council.

346. In 2020, ANSC registered 2 complaints under the one procedure of procurement of furniture for schools, managed by Cahul rayon council. The overall estimated amount of the challenged procedure was MDL 1,816,666.00. The complaints were approved with remedial measures to be taken. The remedial measures in the ANSC resolution were cancellation of the contract award, reevaluation of the bid

recommended for award with the purpose of confirming its non-compliance, and the sending of a notice to ANSC informing it about the re-evaluation results.

347. **The score for this dimension is NA.**

PI-25. Internal controls on non-salary expenditure

348. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries were discussed under PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period covered by the assessment is at time of assessment, and the coverage is SNG budgetary units and EBU.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-25. Internal controls on non-salary expenditure (M2)	A	
25.1. Segregation of duties	B	Appropriate segregation of duties is prescribed through the entire expenditure process. Responsibilities are clearly laid down for most key steps.
25.2. Effectiveness of expenditure commitment controls	A	Strong controls effectively limit commitments to budgetary allocations and cash availability.
25.3. Compliance with payment rules and procedures	A	High level of compliance with rules and procedures.

349. As part of the Moldova-EU Association Agreement, Moldova has undertaken to implement the system of public internal financial control (PIFC) at the national level. This is based on EU best practices which are in accordance with internationally recognized methodologies and standards. As a result, Moldova has undertaken comprehensive reforms in the field of internal control and audit in the public sector. The PIFC concept was developed by the European Commission to provide a structured and operational model to assist national authorities in reshaping their internal control environment and to update control systems in the public sector.

350. Law no. 229 / 2010⁵³ PIFC sets the requirements for internal management control system at all levels of the government. In particular, the law states that such a system shall ensure the fulfillment of the objectives of the public entity through economy, effectiveness and efficiency of operations, security and optimization of assets and liabilities, and integrity of financial and operational information. Article 11 of the law prescribes that control activities include authorization and approval procedures, segregation of duties, verifications, oversight, reconciliation, and controls regarding the access to resources.

351. The responsibility for the design and modeling of the PIFC in the public sector rests with the MoF, which it exercises through the central harmonization unit.

⁵³ <http://lex.justice.md/md/336794/>

352. Internal controls over non-salary expenditure are exercised both by the Treasury, regional treasuries, and individual spending units.

353. The Treasury has a robust system of controls applied over transactions in both the registration of the expenditure commitment and payment procedures.

354. The MFO no. 216 / 2015⁵⁴ regarding methodological norms for accounting and financial reporting in the public sector prescribes the responsibilities and functions of the budgetary units in internal controls. The principal responsibility rests with the heads of budgetary authorities who are required to organize internal control system in their respective organizations. The accounting units within the budgetary authorities exercise controls over the efficient use of resources for to the intended purpose, within the approved budget allocations, and over the integrity of finances and assets. The chief accountant of the budgetary units defines the duties and responsibilities of accounting staff according to functional characteristics such as finance, assets, payroll, etc.

Dimension PI-25.1 Segregation of duties

Table 25.1: Segregation of duties and commitment controls

Segregation of duties		Commitment controls		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
Y	M	Y	A	A

Data source: discussions with the Cahul rayon authorities

355. According to the provisions of article 14 of law no.229/2010, the internal management control system is organized through, inter alia:

- Delegation of powers and responsibilities without relieving the person who is delegating from responsibility for exercising those powers and responsibilities;
- Division of obligations and responsibilities.

356. The MFO no. 189/2015 approved a set of National Standards for Internal Control (NISC) in the public sector, including “NSIC 12. Division of obligations and responsibilities” and “NSIC 6. Delegated powers.” These standards set out minimum requirements for organization of the management internal control system. The MoF has revised and published an internal management control manual. This manual contains a set of practical instructions and related guidelines.

357. Normally, the CoA under their financial and compliance audits at the level of public authorities mandatorily tests and assesses the existence of internal controls on non-salary expenditure, including the segregation of duties, in compliance with the provisions of auditing standards. In case of any deficiency, they issue recommendations to the management that are meant to improve the internal control system

⁵⁴ https://www.legis.md/cautare/getResults?doc_id=125434&lang=ro

by following their implementation. However, such audits were not conducted for the Cahul rayon in the last three years assessed.

358. The control environment places heavy emphasis on the separation of responsibilities for different stages of a transaction from being initiated, through approval, and authorization to execution. These controls are prescribed by legislation and regulations and built into an automated financial system, which contain a clear audit trail. The integrity of the Treasury system is protected by restricting access to individuals to those authorized for specific purposes and recording in the system records who has entered it and for what purpose.

359. At the Cahul rayon level the MoF regulations are applied. The individual responsibilities prescribed in the job descriptions of the staff in each of the subdivisions of the rayon council, and its subordinate units. The subdivisions of the rayon council organize the segregation of duties at local level. All subordinate budget units of rayon enter payments orders into the system 1C that is linked to TREZ system of the Ministry of Finance. The general finance division of the rayon council has right to prioritize payments and it verifies the availability of the financing. The execution of payment take place only by the authorized staff of the regional treasury unit. For some recurring expenditures, like salaries and utility payments, the execution is done automatically, while for non-recurring expenditures they are verified by the regional treasury before execution. In the FMIS the recording and authorization functions of transactions are separated.

360. Verifications are performed to comply with the provisions of MFO no. 60 / 2012² which requires at least annual inventory of assets and liabilities. This order prescribes the inventory procedure and templates for inventory of various elements of the balance sheet. Annual stock taking is taken place in all entities of Cahul rayon.

361. There is an internal audit unit established at the rayon level which in 2019 carried out a mission focusing on evaluating the compliance of financial management and managerial internal control systems within the office of the rayon head and rayon divisions. The IA findings confirmed that all entities have own policies and procedures in place for each of the processes: accounting, public procurement, property management, and protection of data with personal character. The functions of initiation, verification, endorsement, and approval of transactions are separated and are exercised by different persons. However, the internal auditor noticed that some of staff job descriptions were not updated in line with new legal requirements or not signed by the staff that could indicate that they were not aware of their responsibilities.

362. **The score for this dimension is B.**

Dimension PI-25.2 Effectiveness of expenditure commitment controls

363. The commitment management process is regulated by the law on public finances and budgetary-fiscal responsibility no. 181, art. 66, and methodological norms for cash execution of national public budget, art. 4.2.3 Commitment Management (MFO no. 215/2015).

364. The budgetary authorities / institutions are responsible for initiating, paying, recording, and reporting commitments, in accordance with the legislation governing public procurement and other normative acts. The rayon finance division analyzes and plans the payments in line with priorities and information from monthly liquidity forecast. The commitments of budgetary authorities / institutions are

allowed only for the purposes and within the limits of budgetary allocations, considering the debts recorded at the end of the previous year.

365. The FMIS covers all Treasury operations and is the main tool in ensuring processes of authorization and control of expenditures are fully adequate. This ensures that budgetary authorities / institutions are not able to exceed the approved budgetary limits and their payments are executed within the balance of available funds. Automated controls exist both for checking the balance of budget appropriations and for the balance of funds on a bank account.

366. The law no. 397/2003 establishes the prioritization of payments as follows:

- Debt obligations;
- Staff compensation, including allowances;
- Electricity and energy costs;
- Expenditures from the Reserve Fund.

367. The management of the respective authority or institution may prioritize payments other than those listed above.

368. Commitment management is implemented within FMIS. The mechanism ensures the recording of commitment data of contracts registered with the Treasury:

- Amount of allowance reserved by the contract
- Amount executed on the contract
- Balance of the allowances reserved and available on the contract

369. The control implemented in FMIS and exercised by the Treasury does not allow the execution of contracts whose value exceeds the balance of available commitments or registration of new commitments if it exceeds the budget allocation. For monitoring purposes, real time reporting on commitments under each contract (form FP-006) could be generated from the system for each public authority. Such controls prevent any possible violations of the budget rules.

370. There is limited autonomy in the process of expenditure controls at rayon level. All the rules and procedures are established at central level.

371. **The score for this dimension is A.**

Dimension PI-25.3 Compliance with payment rules and procedures

372. The revenue receipts of the budgetary units of the national public budget and the payments of the state budget and local budgets are made through the Treasury system according to the cash accounting method (art. 63 from the law no.181/2014).

373. The budgetary authorities / institutions make payments within the limits of the approved budgetary allocations in accordance with the budget liquidity forecasts (art. 67 of the law no.181/2014 and art. 29 of law no. 397/2003). The payments are made after settling the arrears.

374. The MoF has developed the regulation on liquidity management of the state budget (order of the Minister of Finance no.03 of January 9, 2017, with subsequent amendments and instructions), which stipulates the rules and procedures aimed at ensuring efficient liquidity management.

375. Local public authorities, including their spending units, are required to submit in the FMIS payment documents electronically signed by the authorized persons. The payment procedures are described under point 2.3 budget liquidity management of the methodological norms on cash execution of the national public budget, MFO no.215/2015. The annual forecasts as well as the monthly forecasts approved by the MoF management serve as the basis for making the decision to initiate the budget payments. When deciding on the distribution of budget balances, the following factors are analyzed:

- Budget liquidity forecasts;
- Payment documents submitted for execution by budgetary institutions (grouped by financing categories);
- Balance of funds on the bank account;
- Sources of financing (including the schedule of servicing the state debt, the result of operations with government securities).

376. The actual financing of payments, following the principle of segregation of duties, is subject to the built-in controls of the FMIS.

377. There are no rules applicable to exceptions. If the payment documents do not meet the requirements or exceed the authorized allocation, they are not executed and returned to the authority explaining the reasons for non-acceptance. As confirmed by the Treasury, there were no exceptions to the payments made by the rayon finance department.

378. **The score for this dimension is A.**

PI-26. Internal audit

379. This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension score. The time period covered for 26.1 and 26.2 was at time of assessment, for 26.3 the last completed FY (2020), and for 26.4, the audit reports of the last three completed FYs were examined (2018 – 2020). All SNG budgetary units were assessed.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-26. Internal audit (M1)	D+	
26.1. Coverage of internal audit	D*	The internal audit is not fully operational. Limited information about annual internal audit activity in the last years is available.
26.2. Nature of audits and standards applied	C	Internal audit activities are less focused on evaluation of the adequacy and effectiveness of managerial internal control systems. A quality assurance process is not adequate.
26.3. Implementation of internal audits and reporting	D*	An annual audit plan does not exist for FY2020. There is no evidence of the programmed audits completed.

26.4. Response to internal audits	D*	There is no evidence that the management of the rayon provided responses to the internal audit recommendation in the last three years.
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Dimension PI-26.1 Coverage of internal audit

380. The internal audit function in the public sector is governed by the following elements of the regulatory framework that are applicable for central and subnational government:

- Law no.229/2010 on public internal financial control.
- Government decision no.556/2019 for the approval of the regulation on the achievement, confirmation, and development of professional qualification in the field of internal audit in the public sector.
- Government decision no.557/2019 on the approval of the code of ethics of the internal auditor and the internal audit charter.
- Government decision no.617/2019 for the approval of the regulation on the evaluation of the quality of the internal audit activity in the public sector.
- MFO no.153/2018 on the National Internal Audit Standards.
- MFO no.159 /2020 on the approval of the regulations on internal audit activity as shared service in public sector.
- MFO no.160/2020 on the approval of the regulations on internal audit activity on contractual basis in public sector.
- MFO no.161/ 2020 on the Internal Audit Standards in the public sector.
- MFO no. 105/2013 on the methodological norms for internal audit in the public sector (only the Supplementary Instructions part is in force).
- MFO no.176/2019 on the approval of the regulation on the reporting of internal audit activity in the public sector.

381. The requirements for the establishment of internal audit units (hereinafter – IAU) are provided in art. 19 of the law on PIFC (no.229 of September 23, 2010). Specifically, it requires at least two staff units in the structure of the tier 2 local public administration authorities. The functioning and duties of IAU are regulated by the internal audit charter (approved by government decision no.557/2019). As an alternative the public entity can also outsource the IAU function or arrange it as a shared service in partnership with other entities to get economy of scale or compensate the lack of skilled personnel in the public sector and reduce staff turnover.

382. The internal audit unit of the Cahul rayon council is staffed with one person who came on board in October 2020. Therefore, the information regarding the internal audit activity during 2018-2020 is limited.

383. There is no information available on how many internal audits were planned for 2018-2020. From the available data, the assessment team concluded that 2 internal audits were conducted in 2018, two in 2019 and one in 2020. Most of audits covered the subordinated units and only one audit carried out in 2019 focused on evaluation of compliance of financial management system and managerial internal control within the office of the rayon head and subordinated divisions. Therefore, it was not possible to calculate the actual coverage of rayon expenditures by the internal audit function.

384. The score for this dimension is D*.

Dimension PI-26.2 Nature of audits and standards applied

385. The PIFC system has been developed in Moldova to provide a structured and operational model to assist central and subnational authorities in redesigning their own management internal control system in line with international standards. The MoF is responsible for designing and modelling the PIFC system. It performs the following activities through Central Harmonized Unit (the PIFC Unit):

- Develops, promotes, and monitors PIFC policies.
- Develops, updates, and harmonizes the PIFC regulatory framework.
- Monitors and evaluates the quality of internal audit activities, as well as managerial internal control systems.
- Prepares and submits to the government by June 1 for approval the annual consolidated report on PIFC for the previous year.
- Coordinates training on managerial internal control, and internal audit, and develops certification mechanisms for internal auditors in the public sector.

386. Article 21 of the internal audit norms in the public sector approved by MFO no.161/2020 defines types of internal audit engagements:

- (i) System audit, which considers internal management control within a system, process, or activity, to assess the effectiveness and efficiency of its functioning.
- (ii) Compliance audit, which checks compliance with the regulatory framework, policies, and applicable procedures and, as appropriate, the need to improve control activities.
- (iii) Financial audit, which evaluates the appropriate and effective functioning of the financial systems control activities.
- (iv) Performance audit, which looks at the use of resources within a single program, function, operation, or system to determine if resources are used in the most economic, efficient, and effective way to accomplish tasks.
- (v) Audit of information technology, considering the effectiveness of internal management control over information systems.

387. The norms clearly define the process of internal audit report preparation and its issuance to relevant parties. The main findings and recommendations are discussed with the auditee, whose view is expressed in the final internal audit report.

388. Internal audit norms comply with the international professional practice framework issued by the Institute of Internal Auditors that ascertains compliance with international standards for internal auditing. The norms envisage a risk-based audit planning that guides the risk assessment and the internal review process to ensure quality control of the process.

389. There is also a code of ethics adopted in accordance with government decision no.557/2019 on the approval of the code of ethics of the internal auditor and the internal audit charter that all internal auditors should comply with.

390. Each IAU must have the quality assurance and improvement program, approved at the level of the local public authority, to assess the performance of the internal audit activity as well as its compliance with national internal audit standards and to evaluate the application of code of ethics by internal auditors.

391. However, since Cahul IAU is staffed with only one person, the quality assurance process within IA function is not provided properly. It has not been yet subject to external evaluation that according to the applicable legal provisions has to be conducted once in five years by a qualified independent assessor or by an assessment team outside the public entity as envisaged by IA regulations. Instead, annually by February 15 the IAUs' chief conducts self-assessment of the quality of internal audit activity for previous year according to the prescribed template. The self-evaluation is part of IAUs' annual reporting to MoF and must be submitted by March 1. No such report was prepared by the Cahul internal auditor.

392. Regarding the types of audit missions, compliance audits covering separate processes (financial management and public property administration) are the only type of audits performed at the rayon level. The evaluation of the adequacy and effectiveness of internal controls was conducted only once in 2019.

393. **The score for this dimension is C.**

Dimension PI-26.3 Implementation of internal audits and reporting

394. In accordance with the requirements of the national standards, all internal audit units in the budgetary institutions where the internal audit function is mandatory, shall prepare strategic and annual plans, based on risk assessment and with consideration of the goals and mission of the institution, and submit them to the head of the authority /institution for approval. These annual audit plans shall also be sent to the PIFC unit at the MOF for monitoring purposes.

395. There is no information whether the audit program for FY2020 was prepared. There is no strategic plan in place as confirmed by the rayon council. No annual report on internal audit activity was prepared for FY2020. Only one internal audit mission was conducted in 2020 (for a subordinated entity, the health centre) but there is no evidence that it was endorsed by the management.

396. **The score for this dimension is D*.**

Dimension PI-26.4 Response to internal audits

397. There is no evidence that the management of the rayon provided responses to the internal audit recommendations in the last three years under assessment.

398. **The score for this dimension is D*.**

PILLAR 6: Accounting and reporting

399. This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

PI-27. Financial data integrity

400. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the budgetary units of the SNG over the last completed FY (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-27. Financial data integrity (M2)	A	
27.1. Bank account reconciliation	A	Cahul regional treasury unit under State Treasury / MoF reconciles daily all balances held by Cahul rayon with the TSA sub-accounts and other bank accounts in the NBM.
27.1. Bank account reconciliation	A	There is no suspense account.
27.2. Suspense accounts	NA	Reconciliation of advances takes place monthly, within a month from the end of period. The balance of receivables at the end of 2020 was 1.8%.
27.3. Advance accounts	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by the Treasury, which reviews financial information from budgetary units and Centre of Information Technology in Finance under MoF monitors unauthorized systems access.

Dimension PI-27.1 Bank account reconciliation

401. All budgets, including SNGs budgets, are executed through the TSA held by NBM. The Cahul rayon has its sub-accounts opened in the TSA, and all its revenues and expenditures are made through the Treasury. The Cahul regional treasury unit of the MoF provides treasury services for the Cahul rayon and performs daily processing of the account statement.

402. The bank accounts managed by the regional treasury are reconciled daily.

403. After processing the bank statements by the regional treasury of the MoF, FMIS ensures that this reflects operations in the accounting statements of the rayon. The finance division of the rayon can view daily account statements in the Treasury's payment system, "edocplata." In turn the chief accountant of the rayon performs daily reconciliation of individual accounts balances he per Treasury accounts with the accounting records at aggregate and detailed level.

404. **The score for this dimension is A.**

Dimension PI-27.2 Suspense accounts

405. There is no suspense account at the Cahul rayon level.

406. **The score for this dimension is NA.**

Dimension PI-27.3 Advance accounts

407. General rules on using advances are applicable for central and subnational governments. In accordance with the article 66(5) of the law on local public finances and budgetary-fiscal responsibility no. 181/2014, it is prohibited to conclude contracts by budgetary bodies/institutions with preliminary (advance) payments for the purchase of goods, services and works, except for:

- Construction and overhaul work at a cost not exceeding 10 percent of the annual limit established for the facility to organize technological processes, purchase materials and equipment, in cases where this is provided for in contract agreements for the performance of work concluded between customers and contractors, with subsequent confirmation of the amounts paid by the amount of work performed during the reporting year.
- Goods, services, and works that are not covered by the PPL.

408. Advance payments for employees' travel are allowed by a separate regulation related to detachment of employees on business trips approved through the government decision no. 10 of January 5, 2012. Such advances are processed by the regional treasury based on the internal order of the respective spending unit. Upon return an employee report on trip-related expenditures is made and any unused advances are refunded within five days.

409. In the financial statements submitted by the Cahul rayon advance payments are reported as assets (accounts receivables) in a special form (FD-044). Most of the receivables reported at the year-end relate to the recurrent costs (prepaid utilities), kids' meals and staff-related costs. The advances are cleared monthly, upon receipt of the delivery note, usually within 5 days.

410. The receivable accounts balance at Cahul rayon level can be seen in Table 27.3.

Table 27.3. Advance account balances by year, MDL thousand

	2018	2019	2020
Advance account balances	2,033.0	2,410.2	5,828.1

Source: report FD-044

411. The highest level of receivables was in 2020 amounting to around 1.8% of total expenditures. There were no overdue receivables registered at the end of the year.

412. **The score for this dimension is A.**

Dimension PI-27.4 Financial data integrity processes

413. Only authorized users have access to FMIS, and other systems operated by the Treasury. The access is managed by the "Centre for Information Technology in Finance" (CITF) under MoF. The head of the rayon identifies the employees for whom access will be requested based on their job duties - access rights (roles) that will be assigned to them in the information and accounting systems. To create User Accounts in FMIS, the paper applications for each employee are filled out and they are presented to CITF's office at the Cahul territorial treasury.

414. Non-registered users cannot access the systems. Records cannot be created or modified without leaving an audit trail. Audit trails enable individual accountability, intrusion detection and problem analysis. Audit trail generated from the systems provides information on who accessed the data, who initiated the transaction, who approved the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated. It also allows analysis of the employee's individual workload. Such a report is generated annually by CITF, and it is used for staff performance appraisal.

415. Financial data integrity is verified by the Treasury, and it reviews the financial data from all budgetary and public administration authorities. The Cahul regional treasury unit reviews financial data integrity daily related to Cahul rayon. CITF monitors unauthorized accounting system access.

416. In Cahul the general rayon finance division has full access to the data of budgetary institutions under its subordination and makes all necessary changes to plans and commitments in the system on their behalf. However, the audit trail is available, and all changes can be traced to individuals and records.

417. **The score for this dimension is A.**

PI-28. In-year budget reports

418. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow for monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator has three dimensions and uses the M1(WL) method for aggregating dimension scores. The assessment of this indicator covers the SNG budget unit and over the last completed FY (2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-28. In-year budget reports (M1)	C+	
28.1. Coverage and comparability of reports	A	Coverage and classification of data in the budget execution reports allows direct comparison to the original budget. Information includes all budget estimates and expenditures from transfers.
28.2. Timing of in-year budget reports	C	Reports are prepared quarterly (except for the first quarter) and issued on average within 8 weeks of the end of the reporting periods.
28.3. Accuracy of in-year budget reports	A	There are no issues with quality. The quarterly reports provide information at the payment and commitment stage.

Dimension PI-28.1 Coverage and comparability of reports

419. Budget execution reporting is regulated by the provisions of law no.181/2014 on local public finances and budgetary-fiscal responsibility and law no.397/2003 on local public finances.

420. The MoF methodological guidelines on cash execution of the budget components of the national public budget provides that the budget execution reports are submitted in a form comparable to the approved budgets.

421. Reports on the execution of the rayon budget are generated from the Treasury system. The MoF publishes monthly budget execution reports according to economic and functional classifications consolidated for all SNGs.⁵⁵

422. Semi-annual, and twelve-month reports are produced by the general finance division for the rayon council for formal approval. They contain comprehensive information and are prepared according to the functional and economic classification in the form comparable to the original budget. Expenditures from the transfers are also reported. According to article 31 of the law on local public finances, semiannual local budget execution reports are subject to hearings in the council. The report for semester II counts as the annual report.

423. The semi-annual report (semester I of 2020) on the execution of the rayon level II budget was published on August 3, 2021,⁵⁶ and was subject to the council's decision on September 17, 2021.⁵⁷

424. The report on the execution of the rayon tier II budget for 2020 was prepared and published on March 19, 2021.⁵⁸ The report was approved by the rayon council on April 1, 2021 and can be accessed at the Cahul rayon council website.⁵⁹

425. Apart from the reports produced for the rayon council, all budgetary authorities / institutions under Cahul rayon, prepare financial statements for the first semester, nine and twelve months according to the established terms and in the composition prescribed in the IV chapter "Financial Reporting" of the MFO no.216/2015 regarding the approval of the Chart of Accounts in the budgetary system and of methodological norms on the accounting and financial reporting in the budgetary system. These reports contain:

- Balance sheet (form FD-041);
- Revenue and expenditure statement (form FD-042);
- Cash flow statement (Form FD-043);
- Budget execution report that includes data about the accrued expenditures, actual expenditures as well as accounts receivable and accounts payable, including those with an expired term (arrears) (Form FD-044);

426. These reports are submitted to the MoF.

427. **The score for this dimension is A.**

Dimension PI-28.2 Timing of in-year budget reports

428. Cahul rayon issues financial reports, including budget execution reports for the first semester, nine and twelve months to the MoF in accordance with MoF order on the terms for submission of financial reports for each reporting period.⁶⁰ The average timeline for submission was 8 weeks.

⁵⁵ <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-lunare>

⁵⁶ <http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-14-august-2020/>

⁵⁷ <http://cahul.md/wp-content/uploads/2020/09/9.pdf>

⁵⁸ <http://cahul.md/12616-2/>

⁵⁹ <http://cahul.md/wp-content/uploads/2021/04/2.-1.pdf>

⁶⁰ MFO for submission of reports for the 1st semester: https://www.legis.md/cautare/getResults?doc_id=122510&lang=ro
MFO for submission of reports for 9 months: https://www.legis.md/cautare/getResults?doc_id=122510&lang=ro

429. **The score for this dimension is C.**

Dimension PI-28.3 Accuracy of in-year budget reports

430. There are no major concerns about the accuracy of the information submitted in the in-year budget reports as discussed with the MoF. According to the rayon finance division, the cases when the revisions or adjustments are needed after the reports have been finalized are extremely rare. All budget transactions (revenues and expenditures) are managed and accounted for in the TSA.

431. To check the accuracy of the balances on budget allocations and evidence of payments according to economic classification the regional treasury unit monthly submits to each spending unit a current account statement for reconciliation purposes. Such mechanisms allow thorough and regular monitoring and verification of financial information and cash flows (in particular, conducting of cross-checks).

432. The Cahul rayon keeps records on an accrual basis in line with the MFO no.216/2015 regarding the approval of the Chart of Accounts in the budgetary sector and methodological norms on the accounting and financial reporting in the budgetary sector. The expenditures and non-financial assets are registered by the budgetary institutions based on supporting primary documentation. The payments are made within the limits of the approved budgetary allocations and contracts registered in the regional treasury units of the MoF.

433. The in-year financial reports issued by the Cahul rayon are accompanied by a comprehensive narrative report prepared in accordance with para 4.2. of MFO no.216/2015. Annex 3 to the report includes the breakdown of accounts receivable and accounts payable per each economic agent, including the date when they were created, reference to economic classification and the amount. MoF verifies the consolidated reports submitted by the SNG public authorities with the budget execution report from the TREZ module of the FMIS. Quarterly budget execution reports contain information on expenditure at both commitment and payment stages.

434. **The score for this dimension is A.**

PI-29. Annual financial reports

435. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment covers the SNG budget units over the last completed FY for dimensions 29.1 and 29.2 (2020), and the last three FYs' financial reports for dimension 29.3 (2018-2020).

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-29. Annual financial reports (M1)	D+	
29.1. Completeness of annual financial reports	A	The report on rayon budget execution is prepared annually and is comparable with the approved budget. It contains information on revenue, expenditure, financial assets, financial liabilities, and long-term obligations. It includes a cash flow statement.
29.2. Submission of reports for external audit	D	By law, the SNGs are not required to send their annual reports to the external auditor. The CoA performed no audits for the last three years.

29.3. Accounting standards	D	The financial statements are prepared in line with accounting standards consistent with the country's legal framework. However, the standards used in preparing annual financial reports are not disclosed.
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Dimension PI-29.1 Completeness of annual financial reports

436. The annual report on the execution of the rayon budget includes indicators on execution, comparable to the approved indicators. This report contains complete information about revenues, expenses, liabilities, financial assets, and non-financial assets. The annual financial report contains the cash flow statement (Form FD-043), approved by MFO order no.216/2015 on the approval of the Chart of Accounts in the budgetary system and of the methodological norms regarding the accounting and financial reporting in the budgetary system. The cash flow statement is reconciled.

437. **The score for this dimension is A.**

Dimension PI-29.2 Submission of reports for external audit

438. According to the law on public finances and budgetary-fiscal accountability, the SNGs are not required to submit their annual reports to the CoA on an annual basis. This is made only upon request when the CoA initiates the financial audit. The CoA initiated no audits in the last three years. Yet, the annual reports are submitted to the rayon council for approval.

439. **The score for this dimension is D.**

Dimension PI-29.3 Accounting standards

440. Beginning January 1, 2016, accounting and financial reporting in all the budgetary institutions is performed in accordance with the new Chart of Accounts for the budgetary system and the methodological norms on accounting and financial reporting in the budget system approved by MFO no. 216 dated December 28, 2015. The new Chart of Accounts is aligned with the new economic classification of the budget and GFS 2001.

441. The methodological norms on accounting and financial reporting in the budgetary system are the standards that serve the basis for the accounting in the budgetary sector, including SNGs, and for preparation of financial statements.

442. Cahul rayon prepares its financial statements according to the norms above. However, the reference standards are not disclosed in the notes to annual financial reports.

443. **The score for this dimension is D.**

PILLAR 7: External scrutiny and audit

444. Pillar Seven assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

PI-30. External audit

445. This indicator examines the characteristics of external audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment covers the budgetary units and EBU's over the last three completed FYs for 30.1, 30.2 and 30.3 (2018-2020), and for 30.4, at time of assessment.

446. The first dimension of this indicator is centered on the operations of the SAI: the coverage of the audits and how the SAI conducts its operations. The second dimension examines the process and procedures once the SAI audits are completed. The third dimension assesses how audited entities respond to recommendations made in the audit reports. The fourth dimension assesses the independence of the SAI.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-30. External audit (M1)	D	
30.1. Audit coverage	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
30.2. Submission of the audit reports to the subnational council	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
30.3. External audit follow-up	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
30.4. Independence of the public audit institution in charge of subnational governments	NA	The CoA is a national authority. This dimension is assessed only once in a set of assessments. It was covered by the Ungheni Rayon PEFA assessment.

Dimension PI-30.1 Audit coverage

447. The CoA is established in the constitution of the Republic of Moldova, with its independence, mandate, and organization provided for under law no.260 of December 2017 on the CoA organization and functioning.

448. The mandate of the CoA provides it with the powers to conduct financial, compliance, and performance audits, and examine the revenue, expenditure, assets, and liabilities across central and local government institutions. This includes state and municipal owned commercial enterprises in which the state or municipality has a majority share.

449. The financial reports of the Cahul rayon administrative-territorial unit (tier II) were not audited by the CoA in the last three years. The only review performed was the follow up audit⁶¹ conducted in 2019 regarding the implementation of recommendations issued in line with the FY2016 compliance audit on the registration and administration of public property as well as taxation of real estate carried out for selected central and local authorities, including Cahul rayon.

450. **The score for this dimension is D.**

Dimension PI-30.2 Submission of audit reports to the legislature

451. No audit was conducted for Cahul rayon in the last three completed fiscal years.

452. **The score for this dimension is D.**

Dimension PI-30.3 External audit follow-up

453. No audit was conducted for Cahul rayon in the last three completed fiscal years.

454. **The score for this dimension is D.**

Dimension PI-30.4 SAI independence

455. The CoA is a national entity, and it is assessed only once in case of a set of assessments. This dimension was assessed under Ungheni rayon.

456. **The score for this dimension is NA.**

PI-31. Legislative scrutiny of audit reports

457. This indicator focuses on legislative scrutiny of the audit reports of the SNG, including its institutional units. It has four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment of this indicator is based on the last three completed FYs and covers the SNG budgetary units and EBUs.

INDICATORS/ DIMENSIONS	SCORE	ASSESSMENT OF PERFORMANCE
PI-31. Legislative scrutiny of audit reports (M2)	D	
31.1. Timing of audit report scrutiny	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
31.2. Hearings on audit findings	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
31.3. Recommendations on audit by the legislature	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
31.4. Transparency of legislative scrutiny of audit reports	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.

⁶¹ https://www.ccrm.md/ro/decision_details/1015/hotararea-nr68-din-26-noiembrie-2019-cu-privire-la-aprobarea

Dimension PI-31.1 Timing of audit report scrutiny

458. The obligation for the rayon council to conduct hearings of the audit reports and their recommendations was introduced on February 12, 2021, through amendment of the law on local public administration. No audit was conducted for Cahul rayon in the last three completed fiscal.

459. **The score for this dimension is D.**

Dimension PI-31.2 Hearings on audit findings

460. No audit was conducted for Cahul rayon in the last three completed fiscal years. However, there is practice of conducting hearings⁶² on audit findings as was done for the FY2016 compliance audit conducted by the CoA on selected authorities, including Cahul rayon, to check the registration and administration of public property as well as taxation of real estate.

461. **The score for this dimension is D.**

Dimension PI-31.3 Recommendations on audit by legislature

462. No audit was conducted for Cahul rayon in the last three completed fiscal years.

463. **The score for this dimension is D.**

Dimension PI-31.4 Transparency of legislative scrutiny of audit reports

464. No audit was conducted for Cahul rayon in the last three completed fiscal years.

465. **The score for this dimension is D.**

⁶² <http://cahul.md/wp-content/uploads/2018/07/5..pdf>

3 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

3.1 . Integrated assessment across the PIs

3.1.1. Intergovernmental fiscal relations

466. The Cahul rayon's expenditure is almost fully financed (93%) by transfers from the central government. Since some transfers may be allocated on an ad hoc basis during the reporting year, this characteristic affected the outturn of transfers and their composition.

3.1.2. Budget reliability

467. As a result of the quite positive transfer system, the aggregate expenditure side of the budget scored A, with the expenditure composition by function scoring B. However economic type composition scored D as there was a significant increase of subsidies allocated to the subordinate entities compared to the initial plan. This overall result also affected the number of supplementary budgets to be approved by the rayon council (Score C). The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting and by budgetary units having certainty in the availability of funds to execute their budgets as planned (Score A). The stock of arrears is zero (Score A) which reflects the strong commitment control (Score A).

3.1.3. Transparency of public finances

468. Most of information related to the budget estimates and rayon finances is published by the Cahul rayon and by the MoF in relation to the consolidated SNG reports. The national Chart of Accounts, which underpins budget preparation, execution, and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget on a timely basis. As a result, the budget documents include 4 of 4 of the basic information, required to support a transparent budget process (Score A).

469. There are extra budgetary units. The transfers to lower-level administrations and health facilities within the rayon are funded from the rayon's unspent balances and are allocated in response to specific requests. Information on performance plans is prepared as part of the annual budgets and it is published (score A), however, the achievements in service delivery outputs and outcomes across the rayon sectors is not publicly available (Score C). Tracking of resources to service delivery units scores A reflecting the strong accounting and reporting system.

470. Public access to fiscal information could be improved (Score D), with the basic elements, except audited financial statements (which are not mandatory), and some of the additional elements made available. Citizens are able to access the rayon council web page where the rayon finance division publishes PowerPoint presentations with summarized and accessible explanation of the key elements of the budget along with draft budget proposals to rayon council members. In 2020 all rayon council meetings were publicly available including for the budget hearing.

3.1.4. Management of assets and liabilities

471. Public investment management needs improvement as there are no guidelines for economic analysis, no selection criteria are established, and no monitoring is performed (score D). Reporting of risks associated with public corporations scores C as their financial statements are not audited. Public assets

management – financial, nonfinancial, and disposal -- scores A. Debt recording and management (Score B) and approval (Score A) are strong, but the rayon lacks a basic debt management strategy (Score D).

3.1.5. Policy-based fiscal strategy and budgeting

472. The budget is presented for the upcoming year and following two years (Score A), but the rayon does not assess the fiscal impact for the following years (Score B). No analysis is performed in relation to the changes in the medium-term estimates (score D). There are hard ceilings for budget preparation included in the guidance circular, but they are not pre-approved by the cabinet (Score C). There is a budget calendar, but only three weeks were provided to the budgetary units to prepare their budgets in 2020 (score C). The rayon legislature was given less than one month to carry out its scrutiny function after the receipt of the budget proposals (Score D), but it approves the budget on time (Score A). The legislature considers fiscal policies and aggregates for the upcoming budget year (Score B). The procedures and timetable for budget scrutiny are established (Score B).

3.1.6. Predictability and control in budget execution

473. The State Tax Service is responsible for revenue collection on behalf of the rayon (score NA). Revenue collected is well-managed in terms of the flow of funds to the Treasury and the recording of transactions. All revenues are paid into the Treasury account (Score A) and allocated to the rayon's sub-account. A revenue report is prepared for management purposes (Score A).

474. The consolidation of cash balances in TSA at the National Bank of Moldova is made on a daily basis (Score A). Monthly cash forecasts are prepared with daily cash flow updates and consolidated on a monthly basis. Spending units can commit funds up to the value of their annual budget allocations in line with their expenditure plans during the year (Score A). Management of budget releases has been successful in controlling arrears (Score A).

475. Overall, the payroll system scores B+. The rayon administration ensures control and data consistency and its reconciliation. Changes to the employee information and on salary are fully regulated and timely. There is a clear audit trail. The payroll is verified during the inspections of the Financial Inspection Agency. But payroll audits are not performed on annual basis.

476. The public procurement system operating in the rayon scores D overall. The procurement monitoring system (which has problems in recording nationally) is also weak in the rayon due to the discrepancies and incompleteness of the procurement information. Competitive tendering is applied to 90 per cent of relevant expenditures above the threshold, but the accuracy of this figure is questionable. Public access to procurement information scores D as there is only partial information about procurement plans. Procurement complaint management scores NA and follows the national system, and has the key independent agency to address complaints. Internal controls on non-salary expenditure scores A with effective commitment controls and compliance with payment rules and procedures. There is good segregation of duties although some responsibilities could be better clarified. This achievement is ensured by the management information system that supports the Treasury Single Account. The internal audit function in the rayon is staffed with only one internal auditor (score D+). The available information about internal audit activity was not enough to deduce the effective coverage of internal audit and the planned audits. Internal audit activities are primarily focused on compliance. Internal audit activities in Moldova are guided by the international methodology of the Institute of Internal Auditors. The information about the implementation of internal audit recommendations is not available (Score D*).

3.1.7. Accounting and reporting

477. Accounts reconciliation and financial data integrity are areas of strength. The bank reconciliation for the Treasury Single Account and for other accounts opened in the commercial bank takes place on a daily basis (Score A). There are no suspense accounts. Advance accounts are limited in use and reconciled quarterly (Score A). Data integrity is good (Score A) as access and changes to records are restricted and recorded, and results in a sufficient audit trail. The Treasury ensures financial data integrity and reviews operations of all budgetary units.

478. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all budget estimates for the budgetary units (Score A). Budget execution reports are produced quarterly (except for the first quarter) and are issued within 8 weeks of the end of month (Score C). There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment and commitment stage (Score C).

479. The situation with respect to the annual financial reports is mixed (overall score of D+). The financial statements include complete information on assets, liabilities (including long-term liabilities), revenue, expenditure, and are supported by a reconciled cash statement (Score A). There is no mandatory submission of accounts for external audit at the rayon level, so financial statements are not routinely submitted to the CoA (Score D). The national public sector accounting regulations (standards) that apply to all financial statements are consistent with Moldova's legal framework which is being linked with, but yet not fully aligned to, international standards. However, the standards used in preparing annual financial reports are not disclosed and this ensures a D score.

3.1.8. External scrutiny and audit

480. External audit in Moldova is an area of significant strength although there are limitations. The financial statements are audited using standards based on International Standards of Supreme Audit Institutions. The financial audits that are carried out provide for the evaluation of the timeliness and completeness of budget revenues and expenditures. Audit depends on selection by the Court of Accounts and no audit was conducted for the rayon in the last three years (Score D). Consequently, the scoring for submission of audit reports to the council, external audit follow up, and legislative scrutiny is D. The Court of Accounts is a national body (Score NA).

3.2 Effectiveness of the internal control framework

481. The internal control environment, as set out in Annex 2, is adequate. The scores in related indicators and dimensions reinforce the assessment that controls associated with the day-to-day transaction of the Cahul rayon are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

482. In 2017 the rayon council approved the code of ethics for Cahul rayon council employees and all of them, including subordinate subdivisions, acknowledged their awareness of the code by counter-signing the document. The regulations regarding the prevention of fraud and corruption were communicated to all employees of Cahul rayon council and subordinate subdivisions. Cahul rayon council and its subordinate subdivisions have organization and operation regulations, approved by the decisions of the rayon council which are published on the intranet page and are accessible to all employees. In 2019

by his disposition, the head of the rayon assigned the subdivision responsible for coordinating the activities of organizing and maintaining managerial internal control, and all subdivisions of Cahul rayon were instructed to review and update the job descriptions of operational managers to include internal managerial control responsibilities in line with existing legal requirements.

483. The current compliance-based approach supports continuous improvement in the control environment given the strengths in commitment controls and associated compliance with rules and procedures.

484. Nevertheless, the internal audit function is underdeveloped since only one person is in charge, therefore the control framework lacks systematic risk assessment and evaluation of control environment. The extent of implementation of national internal control standards of risk management was assessed by the internal auditor as low. The risk register is developed only by the general finance division and division for constructions, roads and territorial development. There is little guarantee of value for money without well established and transparent economic analysis of investment proposals, costing of investment and written procedures for monitoring the performance of public investments. The monitoring of the public corporations is done annually, but their financial statements are not audited. The financial inspection process covers procurement, payroll and asset management. Audits related to payroll, which is a significant expenditure, are carried out regularly by financial inspection to monitor the eligibility, timeliness, and completeness of salary payments.

485. Control activities are strong, in particular regarding reconciliation of accounts. Budget rules for supplementary estimates and virement are met. The unified Treasury system contributes for all expenditure operations to be carried out and controlled through the software. Control of payment rules for all budget performance operations enhances transparency and accountability.

486. Financial information such as approved budgets and the in-year and annual budget execution reports are available to the public. Public consultations are undertaken in relation to the budget formulation, but the evidence is not formalized.

487. Evaluation of information and communication systems is carried out through the processes of internal audit. However, the external audit is not carried out systematically.

488. The information on planned performance relating to service delivery is approved as part of annual budget and it is publicly available. However, the information about actual performance, although prepared, is not published. While internal and external audits are financial and compliance focused, more performance audits are required, which can provide independent evaluation and make recommendations on service delivery performance.

3.3 Strengths and weaknesses of the PFM systems

3.3.1 Fiscal discipline

489. Transfers from the CG finance 93% of the rayon expenditures and although most of transfers are predictable, there are additional allocations made during the year that affected the fiscal discipline and resulted in some deviations in budget estimates and multiple budget amendments. Treasury operations and cash management enables expenditures to be managed within the available resources. Budget

execution reports provides a complete picture of revenue and expenditures across every category, where there is no unreported revenue or expenditure. Control of contractual commitments is effective and has removed expenditure arrears. The recording and reporting of debt is complete, updated, and reconciled on a quarterly basis. Nevertheless, there is no debt management strategy. The internal audit is not fully operational which undermines internal control environment. At the same time, financial inspection and the possibility of external audit, although not undertaken systematically, contribute to maintaining fiscal discipline.

3.3.2 Strategic allocation of resources

490. The strategic allocation of resources is negatively affected by the significant number of budget reallocations at the expenditure level. This raises questions about budget credibility as well as the delivery of public services based on its original policy intent.

491. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. The focus is on a medium-term perspective in expenditure budgeting aligned to the possible programmatic budget process, however the analysis of changes in medium-term forecasts is not performed. While performance indicators are specified, independent assessment and evaluation of performance achievement is generally missing and has relied on the evaluations supported by Moldova's development partners.

492. Selection of major investment projects is not based on predetermined standard criteria and investment lifecycle costs are not included in the budget.

3.3.3 Efficient use of resources for service delivery

493. Public access to fiscal information and transparency of public finances is generally found to be adequate. Most of the fiscal information is made available to the public, however the actual performance information for service delivery is not published.

494. The procurement monitoring process shows some weaknesses as there are inconsistencies in procurement information presented by the rayon divisions. Although most of contracts are based on competitive bidding, there are some concerns about the accuracy of this information. The strength of payroll system particularly with the integration of payroll and personnel systems mean that staff is effectively used. The existing accountability mechanisms make financial compliance inspections and external audits (when undertaken) effective as counter checks on inefficient use of resources including on personnel. However limited internal audit means that in-year system assessments do not contribute as much as they could.

3.4 Performance changes since a previous assessment

495. This is the first assessment of the tier II public authority of Cahul.

4 GOVERNMENT PFM REFORMS

496. PFM reforms in Moldova are anchored in the association agreement between the EU and Moldova which was signed on June 27, 2014, and entered into force on September 1, 2014. In signing this document, Moldova committed itself to develop democratic institutions in line with EU standards and rules. Chapter 7 of the agreement is dedicated in particular to cooperation in the field of management of public finances: budget policy, internal control, financial inspection, and external audit. These elements set the general framework for upgrading and enhancing the executive functions to provide quality services to the Moldovan people, to enhance internal control systems for central and local authorities, and to develop a financial inspection system that promotes cooperation between officials involved in financial management and control, audit, and inspection, and those officials responsible for the budget, Treasury, and accounting. Thus, the reform of public finances is part of a complex process of approximating EU standards in Moldova.

4.1 National approach to PFM reforms

497. PFM related reforms are contained in the Public Administration Reform Strategy (PAR) for 2016 – 2020.⁶³ PAR was derived from the commitments assumed by the Government Activity Program 2016-2018, Moldova – EU Association Agreement, Sustainable Development Goals, National Development Strategy “Moldova 2020”, and National Decentralization Strategy.

498. Public administration reform, based on decentralization of power, must ensure a clear definition and delimitation of the relations within the central public administration, between the central and the local government, and between the public administration and private sector. The principles of the reforms reflect the good governance principles recommended by the Council of Europe at all levels of public administration.

499. In terms of the PFM agenda, the PAR strategy sets forth a general objective of creating a modern financial management system, based on principles and rules which ensure general budgetary and fiscal discipline, as well as transparent procedures regarding budgeting and administration of the national public budget and its components. Further, it formulates specific objectives, associated intended actions, and a timeline for their implementation. The strategy also establishes monitoring indicators and a monitoring and evaluation framework. According to the latter, the government has established a National Public Administration Reform council led by the Prime Minister to ensure high level coordination and evaluation of the strategy. However, the frequent changes in the government disrupted the way this council operated in the last few years. In addition, monitoring of the implementation of the strategy was supposed to be performed, on one hand, by individual authorities / institutions in charge of different components of the strategy, and, on the other hand, by the State Chancellery to ensure overall coordination and regular reporting to the government through its sectorial council for PAR. However, implementation has shown that public administration reform was not a priority for the government considering the absence of the implementation plan adopted for 2019 and 2020, and lack of monitoring and evaluation over the implementation of actions and of the extent to which the established objectives have been met.

⁶³ Chapter 6.4 “Public Finance Management” of the 2016 – 2020 Public Administration Reform Strategy: <https://cancelaria.gov.md/ro/advanced-page-type/modernizarea-serviciilor-publice>

500. Nevertheless, the PFM system in Moldova has been gradually strengthened as a result of the reforms implemented by the government under its current PFM Strategy. Following the PEFA 2011 assessment the government drafted and approved the Strategy for Development of Public Finance Management 2013-2020, extended to 2022, which formalized its commitment to improve accountability and performance of public financial systems in a sustainable way.

501. The objective of the PFM Strategy is to ensure efficient and effective allocation of public funds towards activities that contribute to economic growth and development of Moldova and maintain effective management of the use of public funds in all areas and sectors of public administration. The strategy is divided into seven main components, representing the most important areas of public financial managements, and it identifies the following specific objectives for each of the components:

- (i) Improving the quality of macroeconomic and fiscal forecasts to ensure a budget based on a realistic and predictable macro-budget framework;
- (ii) Formulating the national public budget in compliance with the national legal framework to ensure the allocation of public funds in close correlation with policy priorities, to ensure expenditure ceilings that are included in the medium-term budget framework, and to increase the effectiveness and transparency of the budget preparation process via performance-based budgeting;
- (iii) Improving and modernizing Treasury management, ensuring effective control and proper monitoring of expenditures at every stage, and establishing an adequate system of accounting and reporting;
- (iv) Establishing a system of financial management, internal control, and internal audit in the public sector according to international practice aimed at ensuring efficient and transparent use of public funds;
- (v) Increasing revenue mobilization by enhancing authorities' capacities to administer revenues in order to collect planned tax and customs revenues;
- (vi) Establishing a modern system of public procurement in accordance with EU standards, and its implementation by the public authorities;
- (vii) Establishing a modern and effective management tool to support users in the budgetary process and provide a wide range of financial and non-financial information for decision making.

502. The adoption and enforcement of the law on public finances and budgetary-fiscal accountability no.181 of July 25, 2014, marked an important milestone in the promotion, modernization, and consolidation of the national public finance management system. The law contains important provisions aimed at strengthening the general budgetary-fiscal discipline and the budgetary process, streamlining budget resources management, and increasing transparency during the budgetary process. The application of budgetary-fiscal policy rules and the adoption of medium-term macro-budgetary limits by the Parliament, the implementation of the new budget classification, and of the new chart of accounts, the consolidation of program-based budgeting and establishment of new rules for management of collected revenues by budgetary institutions, clear delimitation of responsibilities within budget process, and the enhancing of central public authorities – are just a few of the most important reforms provided by the organic law on public finance.

503. The MoF provides the leadership for public financial management reform, in coordination with other government institutions. The MoF prepares and publishes the annual PFM Action Plan and reports on its implementation.⁶⁴ Starting in 2020, a triennial action plan (2020 – 2023) was prepared. Other key roles in implementation of PFM reforms are played by the Court of Accounts which has adopted its own development strategy.

504. There have been no external reviews or independent evaluation of the PFM reforms since 2018. There were only specific assessments conducted in the area of public investment management and public procurement as described below.

505. In 2019 the IMF conducted the Public Investment Management (PIM) assessment of Moldova's public investments institutions across the PIM stages for planning, allocation, and implementation. The assessment concluded that although the existing regulatory framework for PIM includes detailed provisions to ensure successful delivery of public investment and is more comprehensive than in other countries, the framework is limited by its narrow coverage and is not being effectively applied. The report produces the range of recommendations which prioritize the main actions at the key stages of the project cycle and for the MoF capacity development.

506. In 2020 the World Bank assessed the public procurement systems in Moldova based on 2018 Methodology for Assessing Procurement Systems (MAPS). Its purpose was to: (i) identify strengths and weaknesses of the public procurement system in Moldova, by benchmarking it with international best practices and standards; (ii) identify any substantial gaps that negatively impact the quality and performance of the public procurement system; and (iii) help the government to prioritize efforts in public procurement reform by suggesting recommendations to enhance the public procurement system. Special attention was paid to the scope for completing and harmonizing the legal and institutional framework, strengthening and promoting the procurement profession, enhancing the planning and preparation stages, improving the efficiency and transparency of the evaluation and award process, and strengthening contract management.

4.2 Recent and ongoing PFM reform actions impacting subnational governments

507. Reforms in public financial management in Moldova are driven by the central government and apply to both the central government and tiers I and II of the subnational government as the systems that have been developed are common to both CG and SNG: the Chart of Accounts, Treasury Information System, MTEF and programs with KPIs, PIFC and internal audit, financial control and inspection, and external auditing. Often the difference in application between institutions results from capacity rather than the systems themselves. Some activities such as revenue administration and social and health insurance are carried out at central/national level for all levels of government given the efficiencies of their common administration.

508. The government remains committed to the implementation of the Public Finance Management Strategy (2013-2020), which has been extended until the end 2022. The pace of reforms has slowed down due to frequent changes in the government and the increasing pressure on financial resources brought about by the pandemic. Moldova continued prudent fiscal management and disciplined budgetary planning in spite of the difficult circumstances during the pandemic. Nevertheless, the authorities have made progress on PFM reforms. Among the key achievements for 2019 and 2020 is the increasing

⁶⁴ PFM Annual Action Plans and Progress reports: <https://www.mf.gov.md/ro/managementul-finan%C8%9Belor-publice/strategia-de-reform%C4%83-a-mfp/planuri-%C8%99i-rapoarte>

accuracy of revenue projections by the MoF. The Ministry has continued to improve the medium-term budgetary framework process and improved the regulatory framework for financial management and internal control.

509. The main accomplishments of the strategy are summarized as follows:

- Improved fiscal governance, macroeconomic forecasting and revenue projection for setting fiscal targets and the level of expenditures compatible with these targets over the medium term;
- Improved annual and medium-term budget planning (MTBF) to enhance budget discipline and credibility;
- Improved budget transparency and public access to key fiscal information, to increase the citizens' access and understanding of the Budget;
- Improved treasury management to ensure effective control of expenditure, including an adequate system of accounting and reporting;
- Improved debt management;
- Enhanced financial monitoring of the public corporations (state owned enterprises) by the MoF;
- Strengthened public procurement framework and function;
- Development of the Public Sector Accounting Standards aligned with IPSAS;
- Consolidated public external audit function.

510. These reform initiatives have been implemented with the support provided by the development partners such as the EU, IMF, and World Bank.

511. In the area of public audit, with the support of the donors (EU, WB and Swedish National Office) the Court of Accounts took actions to make its audits more effective and ensure a stronger oversight of the budget implementation. A new law on the Court of Accounts strengthening financial, operational and functional independence of the supreme audit institution was adopted in December 2017 and promulgated in January 2018. To strengthen parliamentary oversight of the audit reports produced by the Court of Accounts, a new parliamentary committee for control of public finance was established in 2019.

512. In 2018-2019 the IMF worked with the government on improving its public debt statistics. Several recommendations were issued in areas such as the coverage of debt statistics, instruments coverage, and valuation of debt instruments. In addition, IMF provided technical assistance to improve the management of fiscal and budgetary risks, and to rationalize public expenditures.

513. Efforts were undertaken to strengthen fiscal transparency and procurement. In November 2020, the authorities amended secondary legislation on procurement to require provision and publication of beneficial owner information as part of the regular package of documents submitted for tenders. They published a report on pandemic-related spending for 2020, including beneficial owner entities contracting with the government. In June 2021, they also published an audit report by the Court of Accounts on the use of health resources to combat the pandemic in 2020. The authorities now make public the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency.

514. For the first time Moldova enrolled in the International Open Budget Survey in 2017. According to the results of 2019 survey, Moldova scored 57 out of 100 on budget transparency; higher than the global average score of 42, which is a positive result.

515. Under the five-year technical assistance project funded by the EU that started in 2020, the Ministry of Finance is working to address the issues related to the public capital investment: limited coverage of the regulatory framework for PIM for less than 20% of total public investment expenditures and overly complex regulation setting out the screening, selection and monitoring of public capital investment projects. The project objective is to strengthen the Moldovan authorities: (i) to plan, prepare, and manage public investment projects, both domestically and externally financed, (ii) to simplify the regulation on the capital investment projects, and (iii) broadening the coverage of the revised PIM regulatory framework to cover all investment in the Moldova's Public Investment Program. The expected outcome is to improve skills and capacities of the selected line ministries in identifying, designing and managing capital investment projects on the basis of 2019 PIMA analysis and recommendations.

516. In matters of internal control, the MoF continuously organizes capacity building activities and training on the implementation of managerial internal control system for various public authorities and institutions and created conditions for internal audit outsourcing and shared service arrangements by adopting the respective regulations in late 2020 that is meant to address, inter alia, the issue of insufficiency of qualified internal audit professionals.

517. In 2018 The US Agency for International Development launched the Comunitatea Mea (My community) program in Moldova. This five-year program aims to facilitate Moldova's decentralization process by strengthening local governance and citizen engagement. On PFM, assistance to LPAs is focused on the increase of locally owned revenues and improved financial management. The program assists local governments with implementation of property delimitation, evaluation, and management. The project is working with local public officials to help them prepare for the annual budget planning and review process to increase budget transparency at the local level and improve citizen engagement.

518. With the support provided under EU-funded project, Strengthened Gender Action in Cahul and Ungheni Districts, 12 localities in the Cahul rayon have developed gender-sensitive strategies, action plans, and budgets in FY2022 for the first time. They allocated 2% of their budgets for actions to prevent and combat gender-based violence and have incorporated the gender perspective into local budget programs.

4.3 Institutional considerations

519. MoF is the leading implementing agency for a bulk of PFM related actions, with the remainder allocated to its subordinated agencies and to the Court of Accounts. Planned reforms are reinforced through a number of institution-specific strategies, including the Court of Accounts' Development Strategy for 2021 – 2025 and Strategy for Development of the Public Procurement System for 2016-2020. Reform efforts highly depend on the donors' assistance that may have an impact on the government's ownership and sustainability.

520. Coordination and set up of PFM reforms as part of broader public administration reform agenda is yet to be established. There has been little coordination done at the level of the State Chancellery and the Prime Minister's Office, although it was envisaged in the PAR strategy.

521. Considerable support to PFM reforms is available from externally financed technical assistance projects financed by various development partners. The government contributes with in-kind expertise.

Capacity development programs are in place and are enshrined in the institution specific development strategies.

522. Information on PFM reforms and status of their implementation is publicly available. The MoF publishes annually its action plan and reports the progress on the implementation of the planned actions. There is no platform however for policy dialogue and donor coordination that would include various governmental institutions, civil society, and development partners' stakeholders.

4.4 Key aspects of the SNG specific PFM reforms

523. As noted above reforms in public financial management in Moldova apply to both the CG and tiers I and II of the subnational government as the systems that have been developed are common to both CG and SN levels of government. However according to the law on public finances and budgetary-fiscal accountability, the SNG are not required to submit their annual reports to the Court of Accounts on an annual basis. This is done only upon request when the Court of Accounts initiates a financial audit. The obligation for a SNG's council for both tiers of the government to conduct hearings of the audit reports and their recommendations was introduced on February 12, 2021, through amendment of the law on local public administration.

524. One of the problems identified in the PAR Strategy in relation to local public administration was the inefficiency of the second level local authorities – the rayon councils. The rayon authorities have functional purposes that are not important for service delivery, their main purpose being to allocate resources and financial transfers from the state to the first-tier authorities, intervening in the elaboration and implementation of local policies.

525. The rayons have in practice assumed a higher hierarchical role in relation to the local authorities even if this role is not provided for in the legislation and does not already correspond to the existing realities. In recent years, the rayons have been entrusted with functional responsibilities, the administration of some important social services, the management of the school network, and the coordination of some social safety net services. At the same time, the new system of local public finances is taking over which the rayons had in allocating financial resources, because it establishes fixed quotas for the sharing of taxes, clear budget balancing formulas, and allows the direct allocation of funds from state to local authorities.

Annex 1. Performance indicator summary

Indicator /Dimension	Score	Description of requirement met
SUBNATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS		
HLG-1.1 TRANSFERS FROM HIGHER-LEVEL GOVERNMENT	A	
HLG-1.1 Outturn of transfers from higher-level government	A	Outturn of transfers from the state budget was between 97% and 106% of the estimate in all three years.
HLG-1.2 Transfers composition outturn	B	Transfer composition outturn was less than 10% in all three years.
HLG-1.3 Timeliness of transfers from higher-level government	A	The timetable for transfers from the state budget to SNG budget is prescribed in MFO no.3/2017 which was respected in all of the last three years.
HLG-1.4 Predictability of transfers	A	The budget circular issued by MoF to SNGs contains information on transfers for the fiscal year and the two following years with detailed explanations of any changes incurred and respective calculations.
HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION	A	
HLG-2.1 Fiscal rules for subnational governments	A	The fiscal rules are clearly laid down in the law local public finances.
HLG-2.2 Debt rules for subnational governments	A	The rules on ceiling on the subnational government debt are provided in the law. The Ministry of Finance monitors the subnational debt both at approval stage and at execution.
HLG-2.3 Monitoring of subnational governments	A	All SNGs provide their annual financial statements to MoF. Annual National Public Budget Execution Report produced by MoF includes consolidated report on execution of local budgets.
PILLAR I: BUDGET RELIABILITY		
PI-1 AGGREGATE EXPENDITURE OUTTURN	A	Aggregate expenditure outturn was between 95% and 105% in two of the last three years.
PI-2 EXPENDITURE COMPOSITION OUTTURN	D+	
PI-2.1 Expenditure composition outturn by function	B	Expenditure composition outturn by function was less than 10% in all three years.
PI-2.2 Expenditure composition outturn by economic type	D	Expenditure composition outturn by economic classification was more than 15% in in two of three last years.
PI-2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the reserve fund of the Cahul rayon council was on average 0.3% of the original budget.

PI-3- REVENUE OUTTURN	D	
PI-3.1 Aggregate revenue outturn	D	Actual revenue exceeded 116% of budgeted revenue in two of the last three years.
PI-3.2 Revenue composition outturn	D	Variance in revenue composition exceeded 15% during the last three years.
PILLAR II: TRANSPARENCY OF PUBLIC FINANCES		
PI-4 BUDGET CLASSIFICATION	A	Budget formulation, execution and reporting are based on consistent and detailed administrative, program and economic classifications.
PI-5 BUDGET DOCUMENTATION	B	Annual budget documentation fulfills 6 elements, including 4 basic elements and 2 additional elements. 2 other elements are not applicable at the subnational level.
PI-6 SUBNATIONAL GOVERNMENT OPERATIONS OUTSIDE FINANCIAL REPORTS	A	
PI-6.1 Expenditure outside financial reports	A	There are no unreported expenditures in the rayon.
PI-6.2 Revenue outside financial reports	A	There are no unreported revenues in the rayon.
PI-6.3 Financial reports of extrabudgetary units	A	The EBUs prepare annual financial reports and submits them to the rayon council.
PI-7 TRANSFERS TO SUBNATIONAL GOVERNMENTS	NA	
PI-7.1 System for allocating transfers	NA	There are no SNGs which would be defined under PEFA Framework.
PI-7.2 Timeliness of information on transfers	NA	There are no SNGs which would be defined under PEFA Framework.
PI-8 PERFORMANCE INFORMATION FOR SERVICE DELIVERY	B	
PI-8.1 Performance plans for service delivery	A	The draft budget documentation provides information on outputs and outcome objectives for the rayon programs at entity level.
PI-8.2 Performance achieved for service delivery	C	The budget execution reports provide information on the activities performed under the rayon sub-programs, but more detailed information of the outputs produced and outcomes achieved is not published.
PI-8.3 Resources received by service delivery units	A	Amounts allocated to individual service delivery units are recorded at the level of the unit in the accounting software system. The FMIS allows to issue the report compiling the resources received by each service delivery unit. The reports are compulsory issued monthly, but it could be generated at the requested date.
PI-8.4 Performance evaluation for service delivery	C	There have been two external performance reviews in health and education nationally in the past 3 years, which is relevant

		for the rayon. A limited review for one health centre was done by the internal audit unit.
PI-9 PUBLIC ACCESS TO FISCAL INFORMATION	D	Cahul rayon discloses 3 basic elements out of 5, and 1 out of 3 additional relevant elements. Element 7 is not applicable.
PI.9bis. PUBLIC CONSULTATION	C	
PI-9bis.1 Public consultation in budget preparation	B	The Cahul rayon council conducts public consultations for budget preparation prior to approval of the budget. Public consultation is facilitated by the provision of accessible reader-friendly and understandable information on the budget proposal (in PowerPoint presentation format). For the 2021 draft budget, 2 weeks were provided for public consultations. The inputs from the consultations are not published.
PI-9bis.2 Public consultation in the design of service delivery programs	D	Participation processes are carried out only for some local government programs, strategies and services. Reports regarding the opinions, observations and proposals made by citizens, as well as its feedback and conclusions are not published for each participatory process.
PI-9bis.3 Public consultation in investment planning	NA	There were no investment projects managed and decided by the subnational government in 2020.
PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES		
PI-10 FISCAL RISK REPORTING	C	
PI-10.1 Monitoring of public corporations	C	The annual financial reports of three public corporations are received within 3 months of the end of the financial year. They are not audited.
PI-10.2 Monitoring of subnational governments	NA	There are no SNGs under the rayon as per definition of the PEFA Framework.
PI-10.3 Contingent liabilities and other fiscal risks	NA	The rayon has no public-private partnership arrangements, and it has no extra-budgetary units under its ambit.
PI-11 PUBLIC INVESTMENT MANAGEMENT	D	
PI-11.1 Economic analysis of investment proposals	D	Economic analysis was not conducted for major investment projects. Applicants prepare design and estimate documentation without a feasibility study.
PI-11.2 Investment project selection	C	Major investment projects are prioritized based on the Socio-Economic Development Program; selection criteria were not established.
PI-11.3 Investment project costing	D	The capital expenditures for the forthcoming budget year and two following years were included in the budget documents for fixed assets as aggregate amount only, without disaggregation by projects.
PI-11.4 Investment project monitoring	D*	Monitoring reports present deviations from plans for both, the total cost and physical progress. Quarterly monitoring reports for major investment projects should be submitted to the rayon

		council but not published. However, there is no evidence the reports were prepared.
PI-12 PUBLIC ASSET MANAGEMENT	A	
PI-12.1 Financial asset monitoring	A	The Cahul rayon maintains a record of its holdings in all categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
PI-12.2 Nonfinancial asset monitoring	A	The Cahul rayon maintains a register of its holdings of fixed assets including information on their usage and age, which is published at least annually.
PI-12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the rayon council for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
PI-13 DEBT MANAGEMENT	B	
PI-13.1 Recording and reporting of debt and guarantees	B	The general finance division of the Cahul rayon council keeps domestic debt records complete, accurate, and updates them quarterly. Most information is reconciled quarterly with the creditors. MoF consolidates all reports received from SNGs together within the annual budget report and produces comprehensive management and statistical reports covering debt service, debt stock, and debt operations annually.
PI-13.2 Approval of debt and guarantees	A	The rayon general finance division based on the provisions of the law no.419/2006 manages the rayon debt. The public debt and state guarantees are endorsed by the Minister of Finance. The rayon council, as a deliberative authority of the local public administration, approves the issue of new debt.
PI-13.3 Debt management strategy	D	A medium-term DMS covering existing and projected subnational government debt is not developed. The explanatory note to the budget documentation provides data about annual debt program which is publicly available.
PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING		
PI-14. MEDIUM-TERM BUDGET STRATEGY	B	
PI-14.1 Underlying forecasts for medium-term budget	A	Estimates of revenue and expenditure for the budget year and two following fiscal years are based on a subnational fiscal strategy, sectoral strategies, and information on transfers, revenue, and expenditure assignments as well as on key demographic and macroeconomic indicators. Estimates of revenue and expenditures and sectoral and fiscal strategies are submitted to the subnational council.
PI-14.2 Fiscal impact of policy proposals	B	Cahul rayon prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the

		budget year which are submitted to the subnational council. The fiscal impact is not done for the following two fiscal years, although the estimates for the following two years are included.
PI-14.3 Medium-term expenditure and revenue estimates	A	The Cahul budget is presented to and approved by the Council for the forthcoming year with estimates for the following two years.
PI-14.4 Consistency of budget with previous year's estimates	D	The changes to expenditure estimates between the last medium-term budget and the current medium-term budget are not explained.
PI-17 BUDGET PREPARATION PROCESS	C+	
PI-17.1 Budget calendar	C	A clear budget instruction and calendar is issued for all public sector authorities and spending units, along with multiple budget request forms to be fulfilled. A deadline for 2021 budget drafting was less than one month (3 working weeks). Submissions are made in accordance with the timetable approved for each budget cycle separately.
PI-17.2 Guidance on budget preparation	C	A comprehensive and clear budget circular is issued to budgetary authorities and spending units, covering total budget expenditure for the full fiscal year. The budget reflects sectors ceilings per each subnational unit. Yet, the ceilings are not approved by the government before issuing the budget circular.
PI-17.3 Budget submission to the subnational council	D	For all three years, the executive authority of the Cahul rayon has submitted the annual budget proposal to the rayon council (legislature) less than a month before the start of the fiscal year.
PI-18 LEGISLATIVE SCRUTINY OF BUDGETS	B+	
PI-18.1 Scope of budget scrutiny	B	The rayon council review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue. The medium-term fiscal forecasts and medium-term priorities are not included in the tables to the explanatory note. However, the review does not cover the extent to which the original estimates of past policies have been fulfilled.
PI-18.2 Legislative procedures for budget scrutiny	B	The procedures to review budget proposals are covered by the national legislation and are adhered to. There are no separate procedures adopted for the Cahul rayon council. The current procedures include internal organizational arrangements such as committees, technical support, and negotiation procedures. There are arrangements for public consultation, but participation rate decreases year by year. The table with proposals and discussions' results is not publicly available.
PI-18.3 Timing of budget approval	A	The Cahul rayon council has approved the annual budget before the start of the year in each of the last three fiscal years.

PI-18.4 Rules for budget adjustment by the executive	A	The annual budget documentation provides clear rules for in-year budget adjustments by the subnational authorities and spending units. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances. They are part of the annual budget approval decision.
PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION		
PI-19 TAX ADMINISTRATION	NA	
PI-19.1 Rights and obligations for tax measures	NA	All tax revenues and fees are administered and collected by the STS on behalf of Cahul rayon.
PI-19.2 Property tax register and value assessment	NA	Cahul rayon does not levy any property tax nor property transfer tax (in case of sale or inheritance).
PI-19.3 Tax risk management, audit and investigations	NA	All tax revenues and fees are administered and collected by the STS on behalf of Cahul rayon.
PI-19.4 Tax arrears monitoring	NA	All tax revenues and fees are administered and collected by the STS on behalf of Cahul rayon.
PI-20 ACCOUNTING FOR REVENUE	A	
PI-20.1 Information on revenue collections	A	The State Treasury provides to both the STS and the general finance division of Cahul rayon information on collected revenues on monthly/daily/real-time basis. The information on total revenue collections is broken down by type of revenue and the finance division prepares a consolidated report covering all own source of revenues (both tax and non-tax revenue, broken down by revenue classification codes).
PI-20.2 Transfer of revenue collections	A	All tax revenues and fees are paid directly into the accounts registered in the Treasury – separately for each type of tax revenue. Therefore, all tax and fee revenues are directly transferred to the Treasury within 24 hours.
PI-20.3 Tax accounts reconciliation	NA	All tax revenues and fees are administered and collected by the STS on behalf of Cahul rayon.
PI-21 PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION	B+	
PI-21.1 Consolidation of cash balances	A	The Government of Moldova operates a Treasury Single Account within which each budgetary unit including subnational entities has its own subaccount. All the accounts are consolidated on a daily basis.
PI-21.2 Cash forecasting and monitoring	A	Based on the annual budget, an annual cash flow is prepared. Given that transfers form the greatest part of revenues, and these are received monthly, a monthly plan is prepared and adjusted based on when revenues are received on a monthly basis (including own source revenues). Based on this revenue forecast, procurement is planned accordingly.

PI-21.3 Information on commitment ceilings	A	The rayon plans its budget execution for the whole year based on its cash flow projections so commitments can be planned accordingly.
PI-21.4 Significance of in-year budget adjustments	C	In-year adjustments requiring the approval of the Rayon Council are done to spend the balance from the previous year. This is done three to six times annually.
PI-22 EXPENDITURE ARREARS	A	
PI-22.1 Stock of expenditure arrears	A	There are no expenditures arrears for the Cahul rayon.
PI-22.2 Expenditure arrears monitoring	A	There is a robust system for identifying and recording the arrears.
PI-23 PAYROLL CONTROLS	B+	
PI-23.1 Integration of payroll and personnel records	A	The payroll and personnel records are integrated in the accounting program and are supported by full documentation for all changes made to personnel records each month. It is checked against the previous month's payroll data. Staff hiring and promotion are controlled by a list of approved staff positions.
PI-23.2 Management of payroll changes	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.
PI-23.3 Internal control of payroll	A	Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons. Changes made to the payroll provide for a clear audit trail.
PI-23.4 Payroll audit	B	A payroll audit covering all SNG entities of Cahul rayon has been conducted by Financial Inspection for the last four completed fiscal years.
PI-24 PROCUREMENT	D	
PI-24.1 Procurement monitoring	D*	The information shared by the Cahul Rayon Council does not present the whole picture of the procurement situation for all the relevant divisions of the rayon council which procure centralized or individually.
PI-24.2 Procurement methods	D*	In 2020, out of all procurement procedures within the thresholds defined by the public procurement law, 90.23% of the total value of contracts was awarded through competitive methods (open tenders, request for Quotations). However, inconsistencies identified in dimension PI-24.1 indicates that the procurement data may not be accurate.
PI-24.3 Public access to procurement information	D	2 out of 6 key procurement information requirements are made available to the public.

PI-24.4 Procurement complaints management	NA	The procurement complaint body is a national entity. Therefore, this dimension is applicable only once in a set of assessments.
PI-25 INTERNAL CONTROL ON NONSALARY EXPENDITURES	A	
PI-25.1 Segregation of duties	B	Appropriate segregation of duties is prescribed through the entire expenditure process. Responsibilities are clearly laid down for most key steps.
PI-25.2 Effectiveness of expenditure commitment controls	A	Strong controls effectively limit commitments to budgetary allocations and cash availability.
PI-25.3 Compliance with payment rules and procedures	A	There is high level of compliance with rules and procedures.
PI-26 INTERNAL AUDIT	D+	
PI-26.1 Coverage of internal audit	D*	The internal audit is not fully operational. Limited information about annual internal audit activity in the last years is available.
PI-26.2 Nature of audits and standards applied	C	Internal audit activities are less focused on evaluation of the adequacy and effectiveness of managerial internal control system. A quality assurance process is not adequate.
PI-26.3 Implementation of internal audits and reporting	D*	The annual audit plan does not exist for FY2020. There is no evidence about the programmed audits completed.
PI-26.4 Response to internal audits	D*	There is no evidence that the management of the rayon provided responses to the internal audit recommendation in the last three years.
PILLAR VI: ACCOUNTING AND REPORTING		
PI-27 FINANCIAL DATA INTEGRITY	A	
PI-27.1 Bank account reconciliation	A	Cahul regional treasury unit under MoF reconciles on daily basis all balances held by Cahul rayon with the TSA sub-accounts and other bank accounts in the NBM.
PI-27.2 Suspense accounts	NA	There is no suspense account.
PI-27.3 Advance accounts	A	Reconciliation of advances takes place at least monthly, within a month from the end of period. The balance of receivables at the end of 2020 was 1.8%.
PI-27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by the Treasury, which reviews financial information from budgetary units and Centre of Information Technology in Finance under MoF monitors unauthorized systems access.
PI-28 IN-YEAR BUDGET REPORTS	C+	
PI-28.1 Coverage and comparability of reports	A	Coverage and classification of data in the budget execution reports allows direct comparison to the original budget.

		Information includes all budget estimates and expenditures from transfers.
PI-28.2 Timing of in-year budget reports	C	Reports are prepared quarterly (except for the first quarter) and issued in average within 8 weeks from the end of reporting period.
PI-28.3 Accuracy of in-year budget reports	A	There are no issues with quality. The reports provide information on expenditures at the payment and commitment stage.
PI-29 ANNUAL FINANCIAL REPORTS	D+	
PI-29.1 Completeness of annual financial reports	A	The report on rayon budget execution is prepared annually and is comparable with the approved budget. It contains information on revenue, expenditure, financial assets, financial liabilities, and long-term obligations. It includes cash flow statement.
PI-29.2 Submission of reports for external audit	D	By law, the SNGs are not required to send their annual reports to the external auditor. The CoA performed no audits for the last three years.
PI-29.3 Accounting standards	D	The financial statements are prepared following the accounting standards consistent with the country's legal framework. However, the standards used in preparing annual financial reports are not disclosed.
PILLAR VII: EXTERNAL SCRUTINY AND AUDIT		
PI-30 EXTERNAL AUDIT	D	
PI-30.1 Audit coverage	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
PI-30.2 Submission of audit reports to the subnational council	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
PI-30.3 External audit follow-up	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
PI-30.4 Independence of the public audit institution in charge of subnational governments	NA	The CoA is a national entity, and it is assessed only once in case of a set of assessments. This dimension was assessed under Ungheni rayon.
PI-31 LEGISLATIVE SCRUTINY OF AUDIT REPORTS	D	
PI-31.1 Timing of audit report scrutiny	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
PI-31.2 Hearings on audit findings	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
PI-31.3 Recommendations on audit by the legislature	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.

PI-31.4 Transparency of legislative scrutiny of audit reports	D	No audit was conducted for Cahul rayon in the last three completed fiscal years.
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Annex 2. Summary of observations on the internal control framework

Internal Control Components and Elements	Summary of Observations
1. Control Environment	
<p>1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization</p>	<p>The public function and the status of the civil servant as well as the obligations, performance evaluation, professional development, and remuneration for civil servants is regulated by law no.158 of July 4, 2008.</p> <p>Chapter III of law no.133 of June 17, 2016, on declaration of assets and personal interests, regulates the conflict-of-interest situations and the way it is resolved for civil servants.</p> <p>The Code of Conduct for civil servants was adopted by law no.25 of February 22, 2008.</p> <p>The basic principles for implementing systems of management internal controls by the budget spending units were approved by the PIFC law no.229/2010, MFO no. 216/2005 regarding methodological norms for accounting and financial reporting in the public sector and MFO no.189/2015 on approval of national standards for internal control.</p> <p>These principles regulate: (i) listing of tasks and functions, their segregation and assignment to performers; (ii) establishing authorization and confirmation procedures (obtaining permissions from responsible officials to carry out operations by means of signing, confirming, or approving of documents); (iii) the segregation of duties between employees to reduce the risks of mistakes or wrongful acts and timely detection of such actions. Established guidelines prescribe that the internal control system in an institution is based on the principle of responsibility and sharing of powers, which means sharing of duties between the management of the institution and its employees, establishing boundaries of their responsibility in the decision-making process or when performing other actions. Control measures are carried out at all levels of the institution's activities and for all functions and tasks and include relevant rules and procedures.</p> <p>Public Internal Financial Control is a general consolidated system set up in the public sector, and the functions of coordination and centralized harmonization of PIFC policies are exercised by the Central Harmonization Unit in the Ministry of Finance which oversees the Internal Audit function. The Court of Accounts under their financial and compliance audits at the level of individual spending units mandatorily tests and assesses the existence of internal controls.</p> <p>At the level of Cahul rayon, the Ethics Code was adopted in 2017 and all employees had to familiarize themselves with the provisions of the code. Further, in 2019 the head of the rayon assigned a division responsible for organization and maintenance of managerial internal control system and instructed that job descriptions of all operational managers to be updated to include responsibilities related to the managerial internal control.</p> <p>The regulations regarding the prevention of fraud and corruption and the rayon anti-corruption plan for the years 2018-2020, adopted by the decision of Cahul rayon council no. 10/39-IV of December 21, 2017, were communicated to all employees of Cahul rayon council and subordinate subdivisions and placed on the authority's website.</p>

Internal Control Components and Elements	Summary of Observations
1.2 Commitment to competence	The existence of the Internal Audit and Central Harmonization Unit and Financial Inspection Agency indicates a commitment to competence in implementing internal controls and is evidenced by high scores in PI-25.
1.3 The tone at the top (i.e., management’s philosophy and operating style)	<p>The MoF actively promotes managerial accountability. The regulations on the self-evaluation, reporting on the managerial internal control system and issue of the Managerial Responsibility Declaration approved through MFO no.4 of January 9, 2019, has as objective to increase the degree of the accountability of the public sector managers in the organisation of the managerial internal control evaluation process. In line with this regulation the managers shall issue annually a Managerial Responsibility Declaration and place it on the website of the respective institution. Such declarations are issued by the head of the rayon and are published.⁶⁵</p> <p>Although, the management promotes culture of internal controls, the internal auditor noted in 2019 that the disposition of assigning the managerial internal control responsibilities to the operational managers has not been implemented.</p>
1.4 Organizational structure	The heads of public entities define the organizational structure, responsibilities, tasks, as well as the reporting lines for each structural component separately and communicate the formalized documents to the employees. The internal audit analysis of the data related to the responsibilities, tasks, as well as the ways of reporting and the way of cooperation and communication, made the following conclusions: the organizational structure of the office of the rayon head and the subordinate divisions does not ensure communication, cooperation, the fulfillment of tasks, the distribution of resources and the taking of decisions in the most efficient way. The control of the execution of the delegated powers is weak, the calculation of salary bonuses is carried out without any evaluation.
1.5. Human resource policies and practices	Internal audit is in place and follows standard public sector policies and practices. However, the rayon has only 1 member in its IA unit which is below the norm of 2 given the rayon’s size. The Financial Inspection Agency is able to fill that gap and has carried out inspection of financial and economic activity covering the past 4 years, and this has not uncovered deficiencies.
2. Risk Assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks under the control of the rayon are identified, notably:</p> <p>Cash flow forecasting and monitoring is rated A in 21.2 – a comprehensive cash flow forecast is developed and updated routinely.</p> <p>Management of payroll is rated A in PI-23.1, 2 and 3.</p> <p>Effectiveness of commitment control is rated A in 25.2. Spending units cannot allocate beyond what funds are available to spend.</p> <p>However, the internal audit mission carried out in 2019 attested that at the level of the Cahul rayon council, the employees responsible for risk identification were not appointed, the team for risk management and verification of the risk register development was not created. The risk register at that time was developed only by the division for constructions, roads and territorial development and general Finance division.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)

⁶⁵ <https://cahul.md/declaratia-privind-buna-guvernare/>

Internal Control Components and Elements	Summary of Observations
2.3 Risk evaluation	See risk identification (2.1 above)
2.4 Risk appetite assessment	See risk identification (2.1 above)
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	See risk identification (2.1 above)
3. Control Activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail. Treasury maintains oversight.</p> <p>Recording and reporting of debt and guarantees are rated B in 13.1. Domestic debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly with the creditors. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually by MoF consolidating all SNGs together with the annual budget report.</p> <p>Approval of debt and guarantees are rated A in 13.2. Debt is managed by the rayon finance division in accordance with the provisions of the law no.419/2006. The public debt and state guarantees are endorsed by the Minister of Finance. The issue of new debt is approved by the rayon council, as a deliberative authority of the local public administration.</p> <p>Effectiveness of expenditure commitment controls is rated A in 25.2. Commitment control applies to all payments made from the Treasury Single Account. Actual expenditure incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personnel records is rated A in 23.1. Information on staffing tables, personnel and labor remuneration is accounted for and payroll and personnel records are reconciled.</p> <p>Management of payroll changes is rated A in 23.2. Personnel records are updated monthly. Retroactive changes are very rare.</p> <p>Compliance with payroll payment rules and procedures is rated A in 23.3. Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons and provide for clear audit trails.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated B in 25.1. Appropriate segregation of duties is prescribed throughout the entire expenditure process. Responsibilities are clearly laid down, with few exceptions.
3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated A in 25.3. Compliance with payment rules and procedures is high.</p> <p>Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is performed by the Treasury, which reviews financial information from budgetary units, and the Centre of Information Technology under MoF monitors unauthorized systems access. Internal auditors as part of their audits verify financial data integrity. The Financial Inspection Agency also assesses conformity.</p>

Internal Control Components and Elements	Summary of Observations
3.4 Verifications	Accuracy of in-year budget reports which is rated B in 28.3. There are no material concerns regarding data accuracy. Reports are prepared quarterly (except for the first quarter of the year) and issued in average within 8 weeks from the end of reporting period.
3.5 Reconciliations	Banks account reconciliations are rated A in 27.1. A TSA is in place and is reconciled on a daily basis. Other bank accounts are also reconciled daily.
3.6 Reviews of operating performance	The CoA conducted follow up audit on implementation of recommendation issued under compliance audit carried out for selected authorities, including Cahul rayon. The audit has highlighted relevant material issues and systemic and control risks.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated D* in 24.1. Procurement databases and records are maintained by individual spending units of the Cahul rayon. The information is incomplete.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development though mentoring and training is in place in the most divisions.
4. Information and Communication	
1.1. Information and Communication	The rayon communicates its budget plans and priorities to citizens through open meetings as well as publishing information on its website.
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated A in 8.3. The information on the resources received by the service providers is collected and recorded through the TSA.</p> <p>Monitoring of public corporations is rated C in 10.1. The financial statements of public corporations under the rayon are not audited and the rayon council does not produce a consolidated report on their financial performance. The financial information for most PCs is received by the rayon council.</p> <p>Monitoring of subnational governments is rated C in 10.2. Unaudited annual financial statements for subnational governments are submitted to the MoF.</p> <p>Quality of the rayon's financial asset monitoring is rated A in 12.1. There is a record of all categories of financial holdings at market value using international accounting standards. The annual financial statement includes a statement on financial assets.</p> <p>Quality of the rayon's non-financial asset monitoring is rated A in 12.2. A register of movable and immovable assets is maintained and published which contains information use and information that can establish age. The budget execution report provides their value annually as part of the balance sheet.</p> <p>Expenditure arrears monitoring is rated A in 22.2. Information on composition on arrears is generated monthly and for the full year in the MoF budget execution reports.</p> <p>Procurement monitoring is rated D* in 24.1. Procurement databases and records are maintained by individual spending units of the Cahul rayon. The information is incomplete.</p> <p>Implementation of internal audits and reporting is rated D* in 26.3. Annual audit plan does not exist. There is no evidence how internal audit recommendations were implemented. Although, few audits on public procurement, public patrimony, compliance with managerial internal control were conducted.</p>
5.2 Evaluations	Performance evaluation for service delivery is rated C in 8.4. There have been two external performance reviews in health and education. There was one internal audit focusing on service delivery in a health centre performed in the past 3 years.

Internal Control Components and Elements	Summary of Observations
5.3 Management responses	<p>Response to internal audits is rated D* in 26.4. There is no evidence on the level of implementation of audit recommendations by the management.</p> <p>External audit follow-up is rated D in 30.3. There was no financial audit conducted for the rayon in the last three years.</p>

Annex 3.1 Evidence for scoring indicators

Indicators (PEFA 2020 framework)	Evidence
	Monitoring report, Advancing decentralization reform, ADEPT, 2022: https://drive.google.com/file/d/1Wc2edm7Cerw6ql0wapT6EvbcU7_KBC1o/view?fbclid=IwAR3fRnBmsX21XSigrCQrh6Um5baRgcszgwHTCoXG1c0nik3HCu6KiwkL64
HLG-1. Transfers from an HLG	Law on local public finances no.397 of October 16, 2003 MoF order no.3 of January 9, 2017 Budget execution reports for FY2018-2020: https://date.gov.md/ckan/ro/dataset/15969-date-privind-executarea-bugetelor-autoritator-publice-locale MoF Budget Circular for FY2020-2022 budget: https://mf.gov.md/ro/buget/circulara-bugetar%C4%83
HLG-2. Fiscal rules and monitoring of fiscal position	Law on local public finances no.397 of October 16, 2003 Law no.419 of December 22, 2006, on Public-Sector Debt, Government Guarantees, and state re-lending National Public Budget Execution Report prepared by the MoF: https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale
1. Aggregate expenditure out-turn	FY2018-2020 Annual budget execution reports and financial statements of the Cahul tier II local public authority
2. Expenditure composition out-turn	FY2018-2020 Annual budget execution reports and financial statements of the Cahul tier II local public authority
3. Revenue out-turn	FY2018-2020 Annual budget execution reports and financial statements of the Cahul tier II local public authority
4. Budget classification	Budget classification used for the last completed fiscal year (2020): https://www.legis.md/cautare/getResults?doc_id=129234&lang=ro# Chart of accounts used for the last completed fiscal year (2020): https://www.legis.md/cautare/getResults?doc_id=125434&lang=ro#
5. Budget documentation	law on local public finances no.397 from October 16, 2003 rayon council decision on 2021 rayon budget approval
6. SNG operations outside financial reports	Cahul rayon budget reports
7. Transfers to SNGs	Cahul rayon budget amendments
8. Performance information for service delivery	Methodological set regarding the elaboration, approval and modification of the budget no.209 of December 24, 2015 Cahul rayon budget documentation and budget execution reports
9. Public access to fiscal information	Rayon council decisions on 2021 rayon budget approval 6-month and 12-month budget execution reports
10. Fiscal risk reporting	Law no.287 dated December 15, 2017, on accounting and financial reporting Law no.246 dated November 22, 2017, on state enterprise and municipal enterprise government decision no.568 dated May 6, 2008, on organization of public property evidence, its circulation and exercising responsibilities by persons authorized to represent the interest of the Government / administrative and territorial units Reports provided by the Cahul rayon council
11. Public investment management	FY2020 budget documentation and budget execution reports rayon council's decisions approved for FY2020 Government's decree on approval of regulation on the state capital investments projects no.1029 of December 19, 2013 National Regional Development Fund regulation no.127 of February 8, 2008 Government's Decree on approval of Ecology Funds no.988 of September 21, 1998
12. Public asset management	Annual financial statements for FY2020 Government's decision no.675 of June 6, 2008, on Public Property Register

	<p>Law on the public property administration no.121 of May 4, 2007 government decision no.145 of February 13, 2008, regarding the approval of regulation on sale of shares at stock exchange Government's decision no.919 of July 30, 2008, regarding the approval of regulations on public property privatization by commercial or investment contest government decision no.136 of February 10, 2009, regarding the approval of regulation on open bidding auction Law on local public administration no.436 of December 28, 2006 government decision no.500 of May 12, 1998, regarding the approval of regulations on asset write off government decision no.480 dated March 28, 2003, regarding the approval of regulations on modality of determination and commercialization of unused assets by the enterprises</p>
13. Debt management	<p>Law no.419 of December 22, 2006, on public sector debt, state guarantees, and state re-credit Law no.397-XV of October 16, 2003, on local public finances Government decision no.1136 of October 18, 2007, regarding some measures for the execution of the law no.419 of December 22, 2006 Cahul rayon and MoF debt reports</p>
14. Macroeconomic and fiscal forecasting	FY2020 Cahul rayon Budget and its Annexes
17. Budget preparation process	<p>Budget circular for FY 2021 budget Budget submission letters</p>
18. Legislative scrutiny of budgets	<p>Law 397 from October 16, 2003, on local public finance Cahul rayon councils' decisions on budget approval</p>
19. Revenue administration	<p>FY 2020 Cahul rayon budget reports Information provided by STS</p>
20. Accounting for revenue	FY2020 Cahul rayon budget reports
21. Predictability of in-year resource allocation	<p>Law on Local public finances no.397 dated October 16, 2003 Cahul rayon council Budget amendments Daily consolidation reports Monthly cash flow forecast</p>
22. Expenditure arrears	<p>MFO no.121 of September 14, 2016, regarding the method of determining and reporting overdue receivables and overdue debts (arrears) Annual budget execution reports</p>
23. Payroll controls	<p>Law no.270 dated 23 November 2018 on unified payroll system in the public sector Law no.158 dated 04 July 2008 on civil service and status of the civil servant Law no.155 dated 21 July 2011 for approving the unified classification of the public functions Law no. 229 dated September 23, 2010, regarding public finance internal control Government decision no.1231 date 12 December 2018 on implementation the law no.270/2018 MFO no.218 dated 28 December 2018 on staffing for public sector Report FD-050 MoF order no.4 from January 09, 2019, regarding the regulation on self-evaluation relating to internal control reporting Internal audit reports CoA audit reports Financial inspection agency prescriptions</p>
24. Procurement management	<p>Law no.131/2015 dated July 3, 2015, on public procurement government decision no.665 dated May 27, 2016, for approving the regulation on small value public procurement ANSC FY2020 Annual Performance Report Data provided by Cahul rayon council and its subdivisions</p>
25. Internal controls on non-salary expenditure	<p>Law on public internal financial control no.229 of September 23, 2010 Law on public finances and budgetary-fiscal responsibility no.181 of July 25, 2014 MFO no.216 of December 28, 2015, regarding methodological norms for accounting and financial reporting in the public sector Methodological norms for cash execution of national public budget through treasury system of the Ministry of Finance approved through MFO no.215 of December 28, 2015</p>

	<p>MFO no.189 of November 5, 2015, regarding the approval of National Standards for Internal Control in public sector</p> <p>MFO no.60 of May 29, 2012, regarding the approval of inventory regulations</p> <p>MFO no.3 of January 9, 2017</p>
26. Internal audit	<p>Law no.229 on public internal financial control of September 23, 2010</p> <p>government decision no.617 dated December 11, 2019, for the approval of the regulation on the evaluation of the quality of the internal audit activity in the public sector</p> <p>MFO no.153 dated September 12, 2018, on the National Internal Audit Standards</p> <p>MFO no.161 dated December 17, 2020, on the Internal Audit Standards in the public sector</p> <p>MFO no. 105 dated July 15, 2013, on the methodological norms for internal audit in the public sector (only the supplementary instructions part is in force)</p> <p>MFO no.176 dated December 26, 2019, on the approval of the regulation on the reporting of internal audit activity in the public sector</p> <p>Internal audit reports produced by the internal audit unit of the Cahul rayon council for 2018 - 2020</p>
27. Financial data integrity	<p>Law on public finances and budgetary-fiscal responsibility no.181 dated July 25, 2014</p> <p>MoF methodological guidelines on cash execution of the budget components of the National Public Budget approved through MFO no.209 dated December 24, 2015</p> <p>Regulation related to detachment of employees on business trips approved through the government decision no.10 of January 5, 2012</p> <p>FY2020 budget execution reports, including form FD-044</p>
28. In-year budget reports	<p>law no.181 of July 25, 2014, on public finances and budgetary-fiscal responsibility</p> <p>law no.397 of October 16, 2003, on local public finances</p> <p>MoF methodological norms on accounting and financial reporting in the budget system approved by order no.216 of December 28, 2015</p> <p>Budget execution report for semester 1, 2020: http://cahul.md/proiecte-de-decizii-pentru-sedinta-ordinara-a-cr-cahul-din-14-august-2020/</p> <p>Budget execution report for FY2020:</p> <p>MoF consolidated local budget execution reports: https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-lunare</p> <p>In-year budgets reports produced by the rayon council</p>
29. Annual financial reports	<p>Annual financial statements produced by the rayon council for FY2020</p> <p>MoF methodological norms on accounting and financial reporting in the budget system approved by order no.216 of December 28, 2015</p>
30. External audit	<p>Law no.436 of December 28, 2006, on local public administration</p> <p>Follow up audit report on implementation of recommendations approved within the compliance audit: https://www.ccrm.md/ro/decision_details/1015/hotararea-nr68-din-26-noiembrie-2019-cu-privire-la-aprobarea</p>
31. Legislative scrutiny of audit reports	<p>Law no.436 of December 28, 2006, on local public administration</p>

Annex 3.2 List of persons interviewed

Institution	Department	Name	Position
Cahul rayon council	Office of the rayon head	Larisa Racicovscaia	Internal auditor
	Accounting unit	Elizaveta Berdeu	Chief-accountant
	Accounting unit	Elena Oprea	Principal Specialist
	Legal and human resources unit	Tatiana Tricolici	Principal Specialist
	General finance division	Constantin Hodenco	Head of general division
	Budget preparation and administration division	Valentina Smesnoi	Head of division
	Budgetary accounting	Ana Bunghez	Principal Specialist
	Economy and territorial development division	Tudor Cretu	Principal Specialist
	State Treasury	Operational unit	Corina Damian
	Methodology unit	Ina Darii	Head of unit
Cahul regional treasury		Maria Cotorobai	Head of treasury
State Tax Service	Cahul Tax Service Division	Nicolae Boghean	Head of Division
	Organizational Management Division	Victor Lisnic	Head of Division
	Records and Tax Information Division	Liudmila Grițco	Head of Division
Court of Accounts		Eduard Morosan	Member
		Ecaterina Paknehad	Chief of Office
	General Audit Department V	Sergiu Stirbu	Head of general Department
	General Audit Division V, Division II	Ion Plesca	Head of Division
Financial Inspection	Division for financial inspection of local public finances	Valeriu Ivanțoc	Head of Division

Calculation of budget outturns for HLG-1 for 2020 (MDL thousand)

Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
Shared revenues (personal income tax)	16,082.7	16,164.5	16,512.3	-347.8	347.8	2.1%
Equalization Grant	61,009.0	61,009.0	62,638.5	-1,629.5	1,629.5	2.6%
Other general-purpose grant	0	1,157.2	0	1,157.2	1,157.2	0%
Targeted Grants for Social Protection of Population	6,284.4	8,188.9	6,452.3	1,736.7	1,736.7	26.9%
Targeted Grant for Education	206,262.2	203,200.4	211,771.4	-8,571.0	8,571.0	4.0%
Targeted Grant for Sport Schools	1,078.4	1,078.4	1,107.2	-28.8	28.8	2.6%
Targeted Grant for Road Infrastructure	23,050.8	22,955.8	23,666.5	-710.6	710.6	3.0%
Transfers between state budget institutions and level II local budget institutions	2,268.1	5,525.0	2,328.7	3,196.3	3,196.3	137.3%
Special purpose capital transfers between state budget and level II local budget	0	4,459.0	0	4,459.0	4,459.0	0%
Special purpose capital transfers between state budget institutions and level II local budget institutions	0	738.7	0	738.7	738.7	0%
Transfers received within the local budgets of the same administrative territorial unit	0	0	0	0	0	0%
Grand Total	316,035.6	324,476.9	324,476.9		22,575.7	
					<i>HLG-1 indicator variation</i>	<i>102.7%</i>
					<i>HLG-2 indicator structure</i>	<i>7.0%</i>

Calculation of expenditure outturns for PI-1 and PI-2

Data on functional classification for 2018 (MDL thousand)

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	8,510.7	14,443.8	8,882.3	5,561.5	5,561.5	62.6%
National defense	500.0	499.6	521.8	-22.2	22.2	4.3%
Public order and national safety	0	872.0	0	0	0	0
Economic affairs	16,543.3	15,509.6	17,265.5	-1,755.9	1,755.9	10.2%
Environmental protection	372.0	0	388.2	-388.2	388.2	100.0%
Housing and community amenities	400.0	462.0	417.5	44.5	44.5	10.7%
Healthcare	7,210.0	6,352.2	7,524.8	-1,172.6	1,172.6	15.6%
Culture, sport, youth, and recreation	4,203.2	7,333.8	4,386.7	2,947.1	2,947.1	67.2%
Education	171,509.1	177,228.1	178,996.8	-1,768.7	1,768.7	1.0%
Social protection	32,535.3	29,638.2	33,955.7	-4,317.5	4,317.5	12.7%
Allocated expenditure	241,783.6	252,339.3	252,339.3	-872.0	17,978.4	
interests	0	0				
contingency	2,100.0	0				
Total expenditure	243,883.6	252,339.3				
aggregate outturn (PI-1)						103.5%
composition (PI-2) variance						7.5%
contingency share of budget						0

Data on functional classification for 2019 (MDL thousand)

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	13,309.2	14,952.5	14,533.6	419.0	419.0	2.9%
National defense	550.0	594.3	598.5	-4.2	4.2	0.7%
Public order and national safety	0	463.8	0	463.8	463.8	0
Economic affairs	16,665.9	16,546.8	18,134.2	-1,587.4	1,587.4	8.8%
Environmental protection	372.0	543.7	404.8	138.9	138.9	34.3%
Housing and community amenities	5,175.4	1,585.3	5,631.4	-4,046.1	4,046.1	71.9%
Healthcare	8,232.0	9,728.4	8,957.3	771.1	771.1	8.6%
Culture, sport, youth, and recreation	8,587.0	8,188.2	9,343.5	-1,155.3	1,155.3	12.4%
Education	183,627.1	208,667.9	199,804.9	8,863.0	8,863.0	4.4%
Social protection	34,551.6	33,732.9	37,595.6	-3,862.7	3,862.7	10.3%
Allocated expenditure	271,070.2	295,003.7	295,003.7	0	21,311.4	
interests	47.6	0				
contingency	2,600.0	2,099.7				
Total expenditure	273,717.8	297,103.4				
aggregate outturn (PI-1)						108.5%

composition (PI-2) variance						7.2%
contingency share of budget						0.8%

Data on functional classification for 2020 (MDL thousand)

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	13,691.0	17,423.3	14,239.7	3,183.5	3,183.5	22.4%
National defense	915.0	921.2	951.5	-30.3	30.3	3.2%
Economic affairs	26,313.6	28,489.2	27,362.7	1,126.5	1,126.5	4.1%
Environmental protection	372.0	3,200.8	386.8	2,814.0	2,814.0	727.3%
Housing and community amenities	1,500.0	1,783.2	1,559.8	223.4	223.4	14.3%
Healthcare	5,760.0	5,114.2	5,989.7	-875.4	875.4	14.6%
Culture, sport, youth, and recreation	14,983.7	12,655.8	15,581.1	-2,925.3	2,925.3	18.8%
Education	215,442.6	223,254.8	224,032.5	-777.6	777.6	0.4%
Social protection	40,404.3	39,340.5	42,015.2	-2,674.8	2,674.8	6.4%
Allocated expenditure	319,382.2	332,183.0	332,183.0	0	14,567	
interests	64.2	0				
contingency	3,100.0	0.0				
Total expenditure	322,546.4	332,183.0				
aggregate outturn (PI-1)						103.0%
composition (PI-2) variance						4.4%
contingency share of budget						0%

Data on economic classification for 2018 (MDL thousand)

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	152,909.9	157,785.2	158,211.4	-426.2	426.2	0.3%
Use of goods and services	41,364.4	29,120.9	42,798.5	-13,677.6	13,677.6	32.0%
Transfers within public budget	500.0	7,146.6	517.3	6,629.3	6,629.3	1,281.4%
Interest	0	0	0	0	0	0
Subsidies	585.0	4,237.6	605.3	3,632.3	3,632.3	600.1%
Social benefits	8,286.5	6,982.0	8,573.8	-1,591.8	1,591.8	18.6%
Other expenses	5,184.0	2,131.2	5,363.7	-3,232.5	3,232.5	60.3%
Fixed assets	18,292.8	25,349.0	18,927.0	6,422.0	6,422.0	33.9%
Stock of materials	16,761.0	19,586.8	17,342.1	2,244.7	2,244.7	12.9%
Total expenditure	243,883.60	252,339.25	252,339.3		37,856.4	
composition variance						15.0%

Data on economic classification for 2019 (MDL thousand)

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	167,444.9	192,179.4	181,750.9	10,428.5	10,428.5	5.7%
Use of goods and services	47,854.2	27,987.5	51,942.7	-23,955.2	23,955.2	46.1%
Transfers within public budget	0	9,875.3	0	9,875.3	9,875.3	0
Interest	47.6	0	51.7	-51.7	51.7	100.0%
Subsidies	210.0	3,271.8	227.9	3,043.9	3,043.9	1,335.4%
Social benefits	11,177.5	10,525.1	12,132.5	-1,607.4	1,607.4	13.2%
Other expenses	4,802.0	2,634.8	5,212.3	-2,577.5	2,577.5	49.5%
Fixed assets	21,459.3	31,001.0	23,292.7	7,708.3	7,708.3	33.1%
Stock of materials	20,722.3	19,628.5	22,492.8	-2,864.3	2,864.3	12.7%
Total expenditure	273,717.8	297,103.4	297,103.4	0.0	62,111.9	
composition variance						20.9%

Data on economic classification for 2020 (MDL thousand)

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	205,758.0	214,785.3	211,905.4	2,879.9	2,879.9	1.4%
Use of goods and services	55,865.9	35,983.9	57,535.0	-21,551.1	21,551.1	37.5%
Transfers within public budget	0	10,898.2	0	10,898.2	10,898.2	0
Interest	64.2	0	66.1	-66.1	66.1	100.0%
Subsidies	260.0	5,100.2	267.8	4,832.4	4,832.4	1,804.7%
Social benefits	10,973.0	11,569.8	11,300.8	269.0	269.0	2.4%
Other expenses	5,501.1	2,296.1	5,665.5	-3,369.4	3,369.4	59.5%
Fixed assets	24,803.4	36,483.2	25,544.4	10,938.8	10,938.8	42.8%
Stock of materials	19,320.8	15,066.3	19,898.0	-4,831.7	4,831.7	24.3%
Total expenditure	322,546.4	332,183.0	332,183.0		59,636.6	
composition variance						18.0%

Calculation of revenue outturns for PI-3

Revenue Data for 2018 (MDL thousand)

Revenue type	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues and fees						
Personal income tax payable / paid	0	464.4	0	464.4	464.4	0%
Personal income tax in the field of road passenger transport by taxi	0	0	0	0	0	0%
Income tax related to the transfer of possession and / or use of real estate	0	45.2	0	45.2	45.2	0%
Water fee	550.0	657.7	774.6	-117.0	117.0	15.1%
Fee for timber released on foot	30.0	31.9	42.3	-10.4	10.4	24.5%
Fee for the extraction of useful minerals	57.0	78.2	80.3	-2.1	2.1	2.6%
Grants						
Grants received from international organizations for projects funded from external sources for the local level II budget	0	0	0	0	0	0%
Other revenue						
Registration fee for public associations and media collected in the local budget of level II	0	0.4	0	0.4	0.4	0%
Revenues from property	0	-1.7	0	-1.7	1.7	0%
Fee for foreign currency purchase by individuals in the exchange offices	200.0	328.3	281.7	46.6	46.6	16.6%
Receipts from fee-based services	3,135.4	4,058.9	4,415.9	-356.9	356.9	8.1%
Payments for rental of public property goods	409.6	452.6	576.9	-124.3	124.3	21.5%
Fines and contravention sanctions	130.0	29.3	183.1	-153.8	153.8	84.0%
Voluntary donations	0	208.5	0	208.5	208.5	0%
Other unidentified revenues	0	1.1	0	1.1	1.1	0%
Total revenue	4,512.0	6,354.7	6,354.7	0.0	1,532.2	
Overall variance						140.8%
Composition variance						24.1%

Revenue Data for 2019, (MDL thousand)

Revenue type	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Income tax on individuals for payment	0	785.7	0	785.6	785.6	0%
Income tax on individuals in the taxi passenger transportation	0	43.9	0	43.9	43.9	0%
Income tax on the operations of real estate rental / use	0	88.7	0	88.7	88.7	0%
Fee for water	570.0	683.3	843.1	-159.8	159.8	19.0%
Fee for the wood	33.3	36.8	49.3	-12.5	12.5	25.4%
Fee for the extraction of useful minerals	47.0	166.1	69.5	96.5	96.5	138.9%
Grants						
Grants received from international organizations for projects funded from external sources for the local level II budget	0	0	0	0	0	0%
Other revenue						
Fee for foreign currency purchase by individuals in the exchange offices	300.0	304.2	443.8	-139.5	139.5	31.4%
Receipts from fee-based services	3,696.8	4,864.3	5,468.3	-604.0	604.0	11.0%
Payments for rental of public property goods	480.2	527.6	710.3	-182.7	182.7	25.7%
Fines and contraventional sanctions	25.0	18.0	37.0	-19.0	19.0	51.3%
Voluntary donations	0	102.7	0	102.7	102.7	0%
Total revenue	5,152.3	7,621.2	7,621.2	0.0	2,235.1	
Overall variance						147.9%
Composition variance						29.3%

Revenue Data for 2020, (MDL thousand)

Revenue type	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Personal income tax payable / paid	0	528.8	0	528.8	528.8	0
Personal income tax in the field of road passenger transport by taxi	0	45.7	0	45.7	45.7	0
Income tax related to the transfer of possession and / or use of real estate	0	106.9	0	106.9	106.9	0
Water fee	680.0	772.2	625.9	146.3	146.3	23.4%
Fee for timber released on foot	35.0	32.4	32.2	0.1	0.1	0.4%
Fee for the extraction of useful minerals	100.0	240.9	92.0	148.8	148.8	161.7%
Grants						
Grants received from international organizations for projects funded from external sources for the local level II budget	0	0	0	0	0	0
Other revenue						
Tax on the purchase of foreign currency by individuals in foreign exchange offices	280.0	217.2	257.7	-40.6	40.6	15.7%
Receipts from the provision of paid services	4,864.9	3,554.5	4,478.0	-923.4	923.4	20.6%
Payment for the lease of public property	530.9	438.8	488.7	-49.8	49.8	10.2%
Fines and sanctions	20.0	5.7	18.4	-12.7	12.7	69.1%
Voluntary donations	0	50.0	0	50.0	50.0	0
Total revenue	6,510.8	5,993.0	5,993.0		2,053.2	
Overall variance						92.0%
Composition variance						34.3%

Annex 5. Transfers from the rayon budget to lower-level budgets as share in the central government transfers

	Tier I local public authority	Transfer from CG (thousand MDL)	Actual allocation from Cahul rayon budget available balance (thousand MDL)	Percentage (%)
1	Alexandru I. Cuza	4,420.50	0	0.0
2	Alexanderfeld	2,086.40	149.90	7.2
3	Andrusul de Jos	5,004.40	400.00	8.0
4	Andrusul de Sus	3,511.90	350.00	10.0
5	Badicul Moldovenesc	2,443.20	505.00	20.7
6	Baurci-Moldoveni	3,888.00	384.00	9.9
7	Borciag	3,847.00	500.00	13.0
8	Bucuria	885.50	0.00	0.0
9	Burlacu	3,653.80	0.00	0.0
10	Burlaceni	3,125.60	250.00	8.0
11	Brinza	3,605.90	0.00	0.0
12	Chioselia Mare	2,016.20	97.60	4.8
13	Colibas	8,905.80	622.20	7.0
14	Crihana Veche	6,038.50	285.00	4.7
15	Cucoara	3,075.80	87.60	2.8
16	Cislita-Prut	2,323.60	548.40	23.6
17	Doina	4,337.60	550.00	12.7
18	Gavanoasa	1,535.10	350.00	22.8
19	Giurgiulesti	4,669.70	0.00	0.0
20	Huliboaia	2,004.10	401.70	20.0
21	Iujnoe	2,114.50	298.50	14.1
22	Larga Noua	2,382.60	350.00	14.7
23	Lebedenco	2,768.10	149.00	5.4
24	Lopatica	1,060.00	250.00	23.6
25	Lucesti	597.90	446.30	74.6
26	Manta	7,654.70	170.00	2.2
27	Moscovei	4,062.40	141.50	3.5
28	Pelinei	4,691.80	250.00	5.3
29	Rosu	4,356.80	0.00	0.0
30	Slobozia Mare	10,566.50	300.00	2.8
31	Taracia de Salcie	3,286.30	169.50	5.2
32	Tartaul de Salcie	2,718.60	86.00	3.2
33	Tatarasti	3,324.10	127.50	3.8
34	Vadul lui Isac	3,865.90	50.00	1.3
35	Valeni	6,678.70	550.00	8.2

36	Zirnesti	3,645.10	470.00	12.9
	TOTAL	135,152.60	9,289.70	6.9

Source: Budget amendments: <http://cahul.md/wp-content/uploads/2020/06/26..pdf>; <http://cahul.md/wp-content/uploads/2020/09/10.pdf>; <http://cahul.md/wp-content/uploads/2020/12/21.pdf>;