

TWINNING PROJECT FICHE

Support to development of an effective internal control and audit environment in public sector in Moldova

List of abbreviations

CHU - Central Harmonisation Unit

CoA - Court of Accounts

COSO - Committee of Sponsoring Organisations

CPA - Central Public Authority

FI - Financial Inspection

IA - Internal audit

IAU - Internal Audit Unit

INTOSAI - International Organisation of Supreme Audit Institutions

LPA - Local Public Authority

MS - Member State

PAR - Public Administration Reform

PFM - Public Finance Management

PIFC - Public Internal Financial Control

1. Basic Information

1.1 Programme: 2013/024-403 Framework Programme in support of EU – Republic of Moldova agreements 2013

1.2 Twinning Number: MD 13 ENPI FI 06 17 (MD/30)

1.3 Title: Support to development of an effective internal control and audit environment in public sector in Moldova

1.4 Sector: Finance

1.5 Beneficiary country: Republic of Moldova

2. Objectives

2.1 Overall Objective:

The overall objective of the Project is to improve public finance management by enhancing internal control and audit environment in the public sector in the Republic of Moldova in line with EU best practices

2.2 Project purpose:

The projects purpose is to develop an effective internal control and audit environment in public sector in line with applicable clauses in Article 49 of the Association Agreement

2.3 Contribution to Partnership and Cooperation Agreement/EU-Moldova Association Agreement/Action Plan on Visa Liberalization

- Link with the Association Agreement

The art 49 of the Association Agreement stipulates that the EU and the Republic of Moldova shall cooperate in relation to:

(a) further improvement of the internal control system (including a functionally independent internal audit function) in state and local authorities by means of harmonisation with generally accepted international standards and methodologies and EU good practice;

(b) the development of an adequate financial inspection system that will complement but not duplicate the internal audit function and will ensure adequate control coverage of government income and expenditure during a transitional period and thereafter;

(c) effective cooperation between the actors involved in financial management and control, audit and inspection with the actors for budget, treasury and accounting to foster the development of governance;

(d) strengthening the competences of the Central Harmonisation Unit for the Public Internal Financial Control (PIFC);

(e) the implementation of internationally accepted external audit standards by the International Organisation of Supreme Audit Institutions (INTOSAI); and

(f) exchange of information, experiences and good practice through, inter alia, personnel exchange and joint training in this field.

In 2016, the Government of Moldova adopted a Public Administration Reform Strategy (PAR) for 2016 – 2020 and an Action Plan for 2016 – 2018. PAR addresses a number of areas for which good public finance management (PFM) systems are crucial.

The **overall objective of the PAR Strategy in the field of PFM** is "The creation of a modern financial management system, based on principles and rules to ensure general budgetar-fiscal discipline, as well as transparent procedures for training and national public budget management and its components".

There are 6 **Specific objectives**:

1. National public budget formulation in accordance with the national legal framework, with the spending limits set by the medium-term budgetary framework and needs of local authorities, and fully respecting the procedures laid down
2. Definition of responsibilities and powers in the operational framework for management and financial control, and its application by public authorities according to the law governing public finance management and public administration in general
3. Implementation by each public authority of financial management and control and internal audit in general policy documents, according to internal audit, depending on its needs
4. The harmonisation of regulations on public procurement with EU standards, with appropriate regulation in other fields and their application effectively
5. Strengthening of the local public authorities' own revenues
6. The demarcation of state ownership of the territorial-administrative units, including areas (public and private), and ensuring full management mechanisms, efficient, effective and responsible heritage

3. Description

3.1 Background and justification

As mentioned in the 2015 OECD/SIGMA Baseline assessment¹, the operational framework for financial management and control has been in place for some time and includes

¹ <http://www.sigmaweb.org/publications/Baseline-Measurement-Moldova-2015.pdf>

legislation, sub-legislation and more detailed procedural guidance. The framework applies to "central and local public authorities, public institutions", as well as to "autonomous authorities/institutions managing funds from the national public budget". The legislation is brief, relying on sub-legislation and guidance, for example for National Internal Control Standards and the Financial Management and Control Manual. The latter provides a more detailed explanation of principles of the Committee of Sponsoring Organisations (COSO), although it does not include information and communication, which is one of the five COSO principles.

The primary legislation² establishes the authority of the Central Harmonisation Unit in the Ministry of Finance (CHU) for further development of PIFC, including both Financial Management Control (FMC) and internal audit (IA). Out of a total of seven staff, three are engaged in FMC work and three are engaged in IA work. The CHU is supported by the PIFC Council, chaired by a Deputy Minister. It reviews draft plans and legislation and monitors progress of harmonisation.

There is a current PIFC Development Program 2014 - 2017 and Action Plan with 66 actions for the MoF and other organisations with responsibility for implementing PIFC. Almost half of the document is a restatement of PIFC principles, followed by actions for the Ministry of Finance (MoF) and other organisations with responsibility for implementing PIFC.

The MoF provides an annual report on progress to the Government with the introduction of PIFC (including FMC and IA). This is largely based on reports submitted by internal audit units (IAU) at the top two levels of budget organisations. Information in these reports is accepted without further analysis. The report does not include any specific conclusions or recommendations for more effective FMC development.

Implementation of FMC at an organisational level is not equally structured and is lagging behind the development of the operational framework. Primary responsibility for the introduction of FMC rests with the top manager of each organisation, with other managers within the structure responsible for FMC in their subdivisions. In practice, IAUs support the development of FMC with the provision of staff training and advice on controls, as well as signing off on annual reports on FMC progress. Organisations are not required to have their own rules on FMC development or their own action plans, although some do, with the MoF having a very detailed plan. The FMC Manual anticipates but does not require organisational FMC co-ordinators, working groups and action plans. These have not been put in place.

One of the principles underpinning FMC is managerial accountability. This foresees delegated management responsibility within the hierarchical framework of the organisation. Neither the PIFC Law nor the new Law on Public Finance and Fiscal Responsibility provide for the budget delegation required for effective managerial accountability and thus FMC. Public financial management in Moldova is still highly centralised, which leaves not much scope for FMC on lower level in the public sector. The latest Public Expenditure and

² Law No. 229 on Public Internal Financial Control of 23 September 2010, Chapter IV.

Financial Accountability Assessment concluded that “the concept of managerial accountability is still not acknowledged among the management”³.

According to the preliminary findings of the on-going assessment of PIFC reform in Moldova, there are a number of hurdles which are hindering the development of FMC and which need to be addressed to enable an effective implementation of PIFC reform. The Twinning project aims at assist in creating this enabling environment and at changing the mind-set of PIFC stakeholders.

The framework for internal audit is better established than FMC in Moldova. The substantial increase in the proportion of organisations forming IAU as required (50% in 2013, 79% in 2014 has ended and the percentage is the same in the end of 2016).

Primary legislation on IA is brief, relying on secondary legislation, a technical Internal Audit Manual and other guidance for issues such as IA standards and audit charters. The framework does not prescribe levels of staffing or suggest alternative forms of IA provision for different sizes of organisations, such as consortiums or contracted arrangements for the smallest organisations that cannot justify employing their own internal auditors. In total 96 IAUs are set up in the public sector. Out of these 58 are mandatory, under the PIFC Law (21 in Central Public Authorities and 37 in Local Public Authorities II level. Out of the 58 authorities obliged to set up IAUs, 12 have not done it. At the same time more than 10 IAUs currently have no staff.

Overall, there was a net increase in the number of internal auditors in 2014 (from 108 to 125). Since then, the development has stagnated. In the end of 2016 the number of internal auditors was 135. A national basic training programme for certification of internal auditors, including a qualifying examination, has been set up, and the number of qualified auditors increased from 33 to 40 in 2014. The number has gone up to 44 during the two latest years. None of the staff have international qualifications, and Moldova is reliant on international partners for specialist skills such as the vitally important information technology (IT) audit. All internal auditors are provided with training, and the current level of turnover represents a significant loss of expertise, which inhibits the development of the IA function in Moldova.

Development of IA is also covered by the PIFC action plan, and progress is covered in the same way in the MoF Annual Report on PIFC to the Government. External quality assurance assessment of internal audit work is required every five years by international standards, but arrangements for this have not yet been introduced. Future plans include “revision of the existing regulatory framework on the establishment, co-ordination, organisation and functioning of internal audit and local public administration authorities”. This should also include appropriate and achievable requirements for smaller organisations.

The operational framework for internal audit is in place and is largely in line with international standards. Specific provisions for ensuring appropriate internal audit coverage among smaller public organisations are not in place. Not all public organisations required to have internal audit have set up internal audit units.

The legal framework requires organisations at Central Public Authorities (CPA) and Local Public Authorities (LPA) of second level (rayons) to set up their own IA arrangements, but

³ http://eeas.europa.eu/archives/delegations/moldova/documents/more_info/pefa_assessment_2012-2014.pdf

does not prescribe minimum staffing levels. The first level LPAs have the right to establish IA (Article 19 PIFC Law). Capacity for IA had to be created by re-organising staff within existing staffing levels. Almost half of the IA units have a single internal auditor. It is difficult to recruit and retain staff of suitable ability and provide appropriate experience and training within these small units, especially given the high levels of turnover. In particular, IA standards envisage a level of review and supervision within the IA structure which is not possible within these units. Options for IA provision are being considered for LPA level organisations. These should include shared or contracted IA services.

The impact of the internal audit, as well as external audit, when it comes to addressing recommendations given is low. The reasons for this are several and related to the hurdles mentioned above, but also the approach and quality of the audit. Measures related to the external audit are underway addressing the situation in the triangle between the Parliament the CoA and the Government. Measures related to both forms of audit need to be taken within the Government level.

A significant financial inspection function is operated by the Financial Inspection (FI). FI predates IA in Moldova and has more resources and more power than IA, including the ability to impose sanctions. Most of its work focuses on compliance and suspected irregularities. Nevertheless, some elements of FI activity address issues that would be covered by investigators and IA in other entities and, because of the sanctions that can be imposed by the FI, there is a risk that the role of IA could be undermined.

The FI also functions as the external auditor of local level I Government, a task that normally is the responsibility of and is carried out by a Supreme Audit Institution at central or regional level (equal to the Court of Accounts (CoA) in Moldova).

3.2 *Linked activities (other international and national initiatives)*

The EU supported the introduction of PIFC in 2011-2013 through a twinning project implemented by Sweden and Netherland and has been advocating for improving the modus operandis of the Financial Inspection through SIGMA.

The Dutch Ministry of Finance has assisted the MoF within the PIFC field since 2010 and this support became more intensive after the end of the Twinning. This cooperation, mainly focused on internal audit, is on-going and will focus in 2017 on assistance in drafting a new PIFC Programme for 2018 - 2020, training and pilot audits.

The UK Government's Good Governance Fund will assist the MoF in elaborating curricula for FMC staff (Procurement officers, Internal auditors and Accountants) during 2017.

The EU will assist the MoF in up-grading the PFM strategy⁴ through an on-going PFM TA project. In addition the EU is currently undertaking a comprehensive assessment of the internal control and audit environment in Moldova. The study identifies the existing hurdles which are seen as hindering the development of FMC and IA in the public sector of Moldova are summed up. These hurdles will be discussed in March 2017 with the Government of

⁴ The PFM strategy 2013 -2020 will be reviewed and updated in 2017. It is an overarching document which provides a synthesis of all reforms in the PFM area, including PIFC.

Moldova. The outcome of this discussion will be laid down in a concept note that will form input for the aforementioned new PIFC Strategy 2018-2020.

This fiche incorporates some defined hurdles, which certainly need to be overcome in order to create a sound and transparent basis for implementation of FMC and IA. The nature of the expected results and the activities described here focus therefore more on improving conditions for the implementation of FMC and Internal Audit than on improving the operations in the mentioned fields.

Regarding assistance in the area of public administration reform, the EU intends to provide €15 million in projects targeting the promotion and strengthening of PAR in policy development, strategic framework, civil service and targeted public services.

SIGMA (a joint initiative between EU and OECD mainly funded by EU) has been also providing support to Moldova, mainly through the production of a SIGMA Baseline Assessment of the Central Public Administration, published in May 2016 and publicly available in their website. SIGMA is also working in other important fields, namely Public Procurement.

It has to be noted, also, that the EU High Level Advisers' mission (with a budget of €13,4 M) was not disrupted during the period and that the team of advisers have been actively supporting the needs of the government as well as pushing for meaningful reforms for the benefit of the citizens.

When defining the activities of the current fiche it is assumed that the following decisions are taken by the Government and relevant actions are already taken to implement the decisions in 2017:

- The PIFC law is amended (October 2017)
- Criteria for establishing IAUs with sufficient number of auditors are adopted (April 2017)
- IAUs are restructured and ministries have properly sized IAUs (December 2017)
- The PFM strategy up-dated (December 2017)
- A new PIFC strategy is approved (October 2017)
- Certification programmes for Internal Auditors, Procurement Officers, Accounting Officers and eventual other experts in great demand are drafted (December 2017)
- The annual PIFC assessment report is a more "analytical" report (May 2017)
- The Financial Inspection function is re-organised (October 2017)
- Pilot internal audits are carried out in some ministries (December 2017)

In the event that these Government actions have not been completed yet when the twinning project starts, the below mentioned activities may then need to be adjusted in the inception phase of the project.

3.3 Results

The project aims at achieving the following results:

1. The overall FMC system is strengthened and the capacity of the central Government and the individual budget organisations to address the recommendations of internal and external audit is enhanced.
2. The system and capacities for internal audit of state and local authorities is strengthened.
3. The Financial Inspection is reformed and implementing its new task.
4. A solid mechanism for certification of specialists in the public finance area is established.

3.4 Activities

The Twinning Project should not be a one-way technical assistance from a Member State (MS) to a Beneficiary Country; conversely it shall be implemented as a joint project in which each partner takes on responsibilities. The selected MS shall transfer the requested public sector expertise to a Beneficiary Country, support into introducing and sharing EU wide good practices in connection with Community legislation and specific needs of the Beneficiary in the field of PIFC all aimed at achieving the results specified in the present Twinning Fiche.

Proposed list of activities and estimates of man-days are indicative; it has to be adapted to the development of the Public Sector Reform and eventual other fundamental changes.

RESULT 1: THE OVERALL FINANCIAL MANAGEMENT AND CONTROL SYSTEM IS STRENGTHENED AND THE CAPACITY OF THE CENTRAL GOVERNMENT AND THE INDIVIDUAL BUDGET ORGANISATIONS TO ADDRESS THE RECOMMENDATIONS OF INTERNAL AND EXTERNAL AUDIT IS ENHANCED.

ACTIVITY 1.1 Develop an overview of the implementation of FMC in relation with other reforms

Central to improving of FMC is managerial accountability, but as managerial accountability is still lacking the strengthening of FMC depends on the introducing of this accountability concept in a wider context. As the introduction of FMC should be understood as a management reform, and not just a technical financial control reform, there also needs to be coordination with public administration reform. The Public Administration Reform (PAR) Strategy 2016-2020 defines a specific objective on responsibilities and powers for FMC⁵ and is also inspired in article 22 of the Association Agreement. It will be necessary to review the progress made in PAR in order to influence the results of activities 1.2 and 1.3. For example, risk management is the responsibility of the manager of a budget entity. If the manager of that entity does not have clear objectives and is not authorised to make necessary decisions,

⁵ Article 2 - The operational framework for management and financial control defined responsibilities and powers, and its application of budgetary organisations is consistent with EC law, which regulates the management of public finances and public administration in general

the introduction of the risk management concept will fail. However, the interrelation with the annual and multi-annual budget planning will also have impact on the degree to which the FMC is strengthened. It will be necessary to understand how the PIFC Law has worked in practice, which means that answers will have to be sought for questions such as:

- How the FMC part of the PIFC Law is being applied by all general government institutions.
- What managerial structures have been established within organisations and the linkage of those structures with the organisation's objectives and the delegation arrangements.
- Whether managers at all levels have the necessary financial and performance information to enable them to exercise their responsibilities.
- How delegation of responsibilities (both financial and non-financial) operates in practice.
- How the PIFC Council operates in practice.

The aim of this exercise should be to establish the extent to which the present FMC arrangements result in the delivery of the objectives of organisations as well to more efficient and effective public services within the financial parameters set by the budget. The implementation of managerial accountability will be key. A further aim should be to establish whether these control arrangements are compatible with the objective to establish a modern and efficient system for public financial management and place stronger emphasis on monitoring actual expenditure against the budget and actual outputs against targets than merely focus on the control of inputs.

Inputs:

- MS: 1 x STE x 25 w/d

Outputs:

- Assessment report focused on the linkage between development paths of FMC and PAR;
- Workshops on the assessment results and recommendations for improvement;
- Analyses of the role and responsibilities of PFM staff and proposals on adjustments of these in the perspective of effective service delivery.
- Adjusted internal rules/procedures of FMC in view of the above assessment, workshops and recommendations in the perspective of most effective service delivery (link with outputs of activities 1.2 and 1.3)
- 6 months and then 1 year after the adoption of adjusted internal rules/procedures, report or workshop discussion on how this is being implemented in practice on the job.

ACTIVITY 1.2 Improvement of the impact of the annual PIFC assessment

Article 29 of the PIFC Law obliges the Minister of Finance to report on progress made in the implementation of PIFC. So far the CHU of the MoF evaluates annually the answers to a questionnaire that is submitted to budget organisations. The budget organisations base their answers on the results of a self-assessment of subordinated units. This process of evaluating progress of the implementation of PIFC in budget organisations does not lead to satisfactory results. The quality of the questionnaire should be improved, management of budget organisations are not always involved in the process (internal audits are responsible for the co-ordination of the answers on the questionnaire), and the causes of the weaknesses in FMC are not well-addressed in the report of the MoF, which consequently does not get the attention from the ministries it deserves.

During 2017, under the PAR Action Plan, the MoF is obliged to produce a more “analytical” and objective annual PIFC assessment report. This activity will assess on how the CHU gets assurance on the efficacy of the arrangements for the preparation of the annual assessment returns for all public organisations the quality of the returns and how the CHU addresses the strengths and weaknesses in the present FMC arrangements in order to make sure that the PIFC assessment will have the intended impact. The assessment will lead to a quality assurance guideline for the annual PIFC monitoring activity.

Inputs:

MS: 1 x STE x 20 w/d

Outputs:

- Proposals on the further development of MoFs Annual PIFC Report taken into account;
- Quality assurance guidelines for FMC (link with output of activities 1.1 and 1.2)
- 6 months and then 1 year after the adoption of the quality assurance guidelines for FMC, workshop discussion on how this is being implemented in practice and further steps to take.

Activity 1.3 Enhancement of internal FMC procedures and the application of risk management

Internal control is not only about financial control: it is also about the delivery of the objectives of the organisation. Internal control can extend to quality standards, health and safety, and other performance information depending upon the nature of the objectives being pursued.

The manager’s responsibility is to ensure that all of these internal control requirements are taken into account as the manager pursues the objectives that are expected to be met. Risk management is an important feature of PIFC as it is a responsibility of the manager and it should be focused on the achievements, taking into account those risks that could affect the achievement of the objectives. Risk management, as a principle, has been introduced by

Moldova but the quality of its implementation depends upon the knowledge and quality of management, the authority of the management and the quality of the objectives set for the management. There are internal PIFC procedures (2015 PIFC consolidated report) but the quality of these procedures is not known. No well-developed procedures are usually a sign that the internal control system is not well-designed with the risk that budget money is not spend legally or spend well.

Activity 1.3 should analyse to what extent and quality organisations concerned have drawn up internal FMC procedures and how these reflect the objectives of the PIFC Law (Chapter II). The activity should furthermore clarify to which extent and which level of quality these organisations apply risk management.

The aim is to establish the reasons for deficiencies. The analysis will have to be laid down in a report with recommendations to facilitate the further development of FMC. The report should further outline, based on experiences from Moldova or other transition countries, how the effectiveness of the implementation process may be increased.

In co-operation with the Moldovan Congress of Local Authorities, staff and senior officials of municipalities working on FMC including risk management might also be included in the training. Implementation of FMC within local government may be delayed. After the reorganisation of the ministries (foreseen in 2017) central powers will be decentralised to local government (territorial decentralisation). Nevertheless, staff of local government will be included in FMC trainings so that the local authorities are well-prepared once the decentralisation has taken place.

Inputs

MS: 1 x STE x 20 w/d

1 x STE x 15 w/d

Outputs

- Analysis report of lack of internal FMC procedures and/or risk management
- Plan for further development of FMC procedures and/or risk management
- Agreement on the new/adjusted FMC procedures and/or risk management (linked to outputs of activities 1.1 and 1.3)
- Training of targeted levels of officials in public administration including the CHU staff in risk management
- 6 months and then 1 year after the adoption of the FMC procedures and/or risk management and after the training, report or workshop discussion on how this is being implemented in practice on the job.

ACTIVITY 1.4 Development of a methodology for MoF and budget institutions to monitor the follow up of measures taken based on Financial Inspection's (FI) findings and Court of Accounts' recommendations

Reports of the Supreme Audit Institution of Moldova, the CoA and the FI, give insight in the quality of the state of play of FMC in Moldova. The CoA and FI findings relate to 'economic damages' in property sales, leasing or concession of state property, incorrect reporting on goods by customs, not or incorrectly applying public procurement procedures or urban planning regulations. In general, the CoA and FI report that irregularities are occurring in all budget organisations (State, district and local level).

The CoA and FI findings illustrate weaknesses in FMC. The recommendations of the external auditors are addressed to a limited extent. Linkages to improving internal FMC arrangements are un-clear. The findings of FI are mostly focused towards individual errors without any linkage to FMC systems as such.

Until now the MoF does not in a systematic way know how the budget institutions address the CoA recommendations. As stated above FIs findings are expressed in terms of economic damages and information is available about how much of these that have been regained to the budget.

In principle, the follow-up of the external audit recommendations should be embedded in the management of budget institutions. Indeed, the management of budget institutions are responsible for their FMC system and should take appropriate measures if weaknesses or gaps in this system are signalled. These weaknesses might influence the achievement of their objectives in an efficient and effective manner. The internal auditor can support the management in their tasks and play a role in the monitoring of the implementation of the external auditors recommendations, which until now is not done systematically.

Activity 1.4 should assess the implications of the recommendations of the CoA and measures taken based on FIs findings and develop a methodology for both MoF and budget institutions to monitor the follow up these. After validation of the methodology both CHU's and Heads of IAU should be trained in using the methodology.

This activity is closely related to activities 1.2 and 1.3 because it will also define weaknesses in the functioning of the current FMC system by using other sources.

Input

MS: 1 x STE x 25 w/d

1 x STE x 10 w/d

Output

- Assessment report on the analysis of CoA and FI reports
- Methodology for monitoring following up the recommendations of external auditors

- Training of CHU staff and internal auditors in the monitoring task
- Agreement on a new/amended set of internal rules of the PIFC Council following the assessment, workshop and related recommendations.
- 6 months and then 1 year after the adoption of the methodology and the training, workshop discussion on how this is being implemented in practice and further steps to take.

RESULT 2: THE SYSTEM AND CAPACITIES FOR INTERNAL AUDIT OF STATE AND LOCAL PUBLIC AUTHORITIES ARE STRENGTHENED

ACTIVITY 2.1 Developing the role of the PIFC Council

Article 30 of the PIFC Law regulates the establishment of PIFC Council as a consultative body under the MoF. The tasks of the PIFC Council are endorsing acts and the annual consolidated report on PIFC and reviewing problematic issues related to the functioning of the PIFC system and submission of proposals on their settlement. The council is chaired by a vice Minister of Finance and consists of representatives of the MoF, IAU of public entities, academic staff with scientific degrees and other specialists in the field.

In practice the Council has a limited impact. In 2016 there were four meetings and those meetings did not lead to conclusions and proposals on settlement of issues discussed. (The law also is not clear who has to settle). All of the hurdles referred to above are more or less discussed during the last few years but no systematic actions are noted. The strategic impact of some of the problems discussed is not taken into account. And most of the discussions concerns internal audit. Although the council also should deal with FMC issues, there is no representation of finance departments of ministries or agencies in the Council. Currently the MoF use the council to locate problems with implementing PIFC, but without giving follow-up to solve these problems. The Association of Internal Auditors has criticized the PIFC Council because it does not fully perform all its regular tasks, does not hold meetings as required by its Rules of Operation and is not, in their view, impartial, objective and transparent.

Activity 2.1 will analyse legal framework and the actual functioning of the PIFC Council and explore the possibilities to improve its impact in two directions. First, it should be assessed how to influence decision making regarding development of PIFC at the top level. Introduction of strategic thinking is an indispensable component for getting that type of impact. Activity 1.2 – Improving the impact of the annual PIFC reporting is closely related to this point (the PIFC Council endorses this report). Second, it needs to be defined how to best support the development of FMC and especially IA in real and practical terms.

Input:

MS: 1 x STE x 25 w/d

Output:

- Assessment report on the current and desired future functioning of the PIFC Council;
- Workshop on the assessment results and recommendations for improvement;
- A solid platform for interaction with stakeholders created, including visibility measures in place.
- Agreement on a new/amended set of internal rules of the PIFC Council following the assessment, workshop and related recommendations.
- 6 months and then 1 year after the adoption, report or workshop discussion on how this is being implemented in practice and further steps to take.

ACTIVITY 2.2 Further development of the Internal Audit methodology and clarification of IA standards

The methodology for internal audit was updated during the Twinning 2011-2013. The three main methodological documents are 'Methodological norms on internal audit in public sector', 'National Internal Audit Standards' and the 'Internal Audit Manual'. Despite that during this Twinning the internal audit methodology was laid down and introduced and that the CHU of the MoF later on disseminated the documents further, the outcome in practice has been a limited success. The documents are not widely used for guiding the internal auditors in the execution of their profession. The Association of Internal Auditors is of the opinion that the "existing methodological regulations proved to be too general and complex, with certain vague or useless aspects. The methodological assistance (*by the CHU*) has only been certain verbal counselling or rare pilot audit missions with the support of experts. So far, no methodological guide has been particularly developed for the internal audit practice, which would serve as a support for the internal audit activity" and "The National Internal Audit Standards do not have a detailed practical interpretation, they are poorly understood by the internal auditor and, accordingly, they are not fully applied in the practice of internal auditing".

It is clear that there is a need to further close the gap that exists between theory and practice when it comes to IA methodology and understanding of the National Internal Audit Standards. The activity 2.2 will explore the extent of such a gap by using a standardised survey which should be addressed to all or a statistically relevant number of all internal auditors currently working in the public sector institutions and to arrange roundtables to find out what the causes of the gap are. These communications with the internal auditors may then lead to proposals for how to improve and revise the methodology. It may also be an input to, following the review of the certification programme planned for 2017, further develop the certification processes as well as to a programme for a continuous professional development of the public internal auditors. This activity is closely related to *Result 4, Activity 4.3. Set up a training programme for a) how the different trainings should be prepared before start and b) the first year of operation.*

Input:

MS: 1 x STE x 25 w/d

Output:

- Assessment report on the practical use and value of the internal audit methodology, including the results of a survey;
- Recommendations given on amending existing methodology;
- Roundtables with internal auditors.
- Amendment of the existing methodology following the assessment and recommendations
- 6 months and then 1 year after the adoption of the amended methodology, report or workshop discussion on how this is being implemented in practice and further steps to take.

ACTIVITY 2.3 Effective reporting of indications of fraud and corruption by internal auditors.

The internal auditors have to report cases of fraud or corruption to the established anti-Fraud / corruption mechanisms. The instructions for how, when, based on what information etc. are however said to be un-precise. Further guidance is not given or known. This together with a common reluctance for reporting such “un-finished” cases is thought to lead to under reporting or too late reporting, which in the end sums up to additional costs for the general public.

This activity will analyse to which extent there may be an underreporting to prosecutors (or other control organisations) of indications of fraud and corruption coming up during audit activities done by internal auditors.

The analyses should, by using examples from different sectors or otherwise, illustrate what is likely to be indications of fraud and corruption and why early reporting of such indications is essential. It should also give guidance to managers, finance directors and internal auditors of public entities for how a more efficient reporting may be designed and how to establish effective and efficient communication and cooperation practices with other relevant control institutions and prosecutors. The analysis and its recommendations should be discussed with representatives of the anti-fraud and prosecution services.

Input:

MS: 2 x STE x 15 w/d each

Output:

- An analysis of the extent to which there is a risk that fraud and corruption indications are not reported in due time to the authorities. Including a set of recommendations and concrete advices with practical examples for how, when,

based on which indications / information and in which form to inform relevant organisations.

- A set of recommendations with practical examples for how to establish effective and efficient communication and cooperation practices with other relevant control institutions and prosecutors.
- Training of internal auditors and persons responsible for internal control for how to effectively communicate indications of fraud and corruption
- Adoption of the recommendations in a set of guidelines
- 6 months and then 1 year after the adoption of the guidelines, report or workshop discussion on how this is being implemented in practice on the job.

ACTIVITY 2.4 Assessment of consequences of the restructuring of IAUs

Of the existing IAUs some 41% had 2 or more (up to 5) internal auditors, 59% had only 1 auditor. The reasons for having only one auditor are usually the matter of the size and corresponding budgets of concerned organisations are too small and does not allow for more staff / higher costs.

According to the PIFC Law specialised central public administration authorities of level II are obliged to create IAUs. In the end of 2015 all central bodies which were obliged to establish IAUs had also created such units. At the local level II some 69% had established IAUs. At the same date there were in total 96 IAUs in the public sector. However, 26 of these were not operational as they had no staff at all. Until now much of the (donor) support has been devoted to training internal auditors in their primary task: how to carry out an audit assignment. The small IAU's usually cannot deliver the quality of products managers expect and the PIFC system describes with the consequence that the status of the position of an internal auditor within public institutions is low and not an attractive job on the labour market (salaries are low too). The Minister of Finance acknowledges that the position of the internal auditor will have to be improved in order to be of value for managers. The Budget Committee of Parliament passed a decision in December 2016, based on the 2015 Annual report of the CoA, saying that the Government should initiate the amending and completion of the PIFC Law with the objective to enhance the status of the IAU and improve the payroll for the internal auditor position. The MoF intends to analyse the internal audit universe and decide on establishing IAU's of a certain volume, which by its larger size can deliver more quality. There are several possibilities for enlarging the staff of IAU's. One may be to merge small IAU's, another to arrange access to use the IA function of larger entities based on a cost-sharing agreement with them, a further alternative may be outsourcing of the internal audit function. And there are several other ways. Such arrangements may be possible with no or limited additional costs. Carefully set up they will also meet all external demands for having an effective internal audit arrangement.

During the twinning period the reorganisation of the internal audit function within the public sector will probably have come into being.

The activity 2.4 will analyse how the larger entities to be created should operate in relation to the entities that will not have their own auditor(s) anymore. Furthermore, it will analyse and give recommendations for how a transition from the one or two person IAU to a larger unit best could be done.

Input:

MS: 1 x STE x 15 w/d

Output:

- Report on consequences of the restructuring IA for entities with and without IAUs;
- Recommendations on the further re-structuring.
- 6 months and then 1 year after the adoption of the plan, a workshop discussion on how this is being implemented in practice and further steps to take.

ACTIVITY 2.5 Management training for Heads of the new IA structure with larger units

During the twinning period the reorganisation of the internal audit function within the public sector will have come into being. Larger units will then be established or already exist. Managing larger units will be new for many Heads of IAU's, certainly for those managers of IAUs which will serve several institutions. Managing these new IAU's will therefore need some specific knowledge and skills.

This activity will train heads of IAU's in their role of manager of a unit with professionals. This means training in all aspects of management: programming of audits and reporting on results, ensuring the quality of the audit products, communication with top-management and balancing requests from several clients, human resource management (recruitment, professional development of staff, performance appraisal).

This activity will only start if a critical mass of larger units has been established.

Inputs:

MS: 2 x STE x 15 w/d each

Output:

- Development of Training material
- Training to Heads of IAUs
- 6 months and then 1 year after the training, report or workshop discussion on how this is being implemented in practice and further steps to take.

RESULT 3: THE FINANCIAL INSPECTION IS REFORMED AND IMPLEMENTING ITS NEW TASK

ACTIVITY 3.1 Assessment of the diverse functions of FI and organisational alternatives

Centralised financial inspection is an ex-post control function which finds its origin in the former socialist plan economy. In Moldova this type of control is carried out by the FI, which

is positioned under the MoF and has 135 posts. The objective of financial inspection is to check on the observance of the regulatory framework in the budgetary, economic and financial areas and to identify breaches/damages made by entities / staff subject to financial inspection. The results of financial inspection services are proposals for correcting the identified irregularities and to recover damages by means of administrative or criminal procedures. The work of the FI does not really fit into the PIFC concept, which promotes managers to take responsibility for delivering services in a legal, efficient and effective manner and to be accountable for the delivered results. In carrying out their tasks these managers can then be supported by an internal audit function. On the other hand the FI activities only stimulate managers to deliver services in a legal manner by complying with laws and regulations. In a highly legalistic environment there will be no or very limited room for manoeuvre in order to arrange activities in an efficient and effective manner. Punishment will eventually be the reward.

In principle, a well-functioning FMC does not need an ex-post function as the FI is carrying out. But the implementation of PIFC in Moldova is lagging far behind the PIFC Law and what the PIFC strategy of 2014-2017 envisages. Since 2010 the FI was the only control function that booked results, especially within its investigation function appreciated by law enforcement bodies and Parliamentarians.

During the last 20 years the FI has on request of then Governments and Parliamentarians taken on many partly new tasks. Tasks that in other countries usually are executed by other public bodies. The FI investigates / inspects for example the prices of certain socially important goods. Such investigations / inspections are often carried out by specific government bodies working for the Ministry or agencies in charge. The FI also carries out a type of external audit of local government given limited resources in CoA for carrying out its mandate. FI also operates on request of the President of the Republic of Moldova, the Prime Minister, Government, Members of Parliament, citizens and do inspections/ investigations of activities and persons pointed out by these requesters. Those requests are increasing over the years. A limitation of the number of requests is needed.

A common solution for managing such requests is also to have specific institutions to look into such request. One could expect that Members of Parliament do not address such request to the Government, but to the CoA or other Services at the level of Parliament. It could be noted that law enforcement bodies more and more ask the FI for help to look into the financial related parts of their pre-or criminal investigations.

The MoF intends under 2017 to draw clear border-lines between the functions currently carried out by FI and initiate needed organisational consequences. A centralised internal audit department will be organised within the FI.

Activity 3.1 will assist the MoF in further clarifying the position and function of the current functions of the FI out from the perspective of a well-functioning PIFC system based on international standards, an efficient system for investigations and well developed checks

and balances between different sectors of the public administration. It will assist in implementing new requirements needed for further development of the PIFC system.

Input:

MS: 1 x STE x 25 w/d

Output:

- Analysis of the future position of the FIs function as investigator with focus on further developing its professional expertise and services to support the prosecution and anti-corruption services.
- FI develops new/amended set of internal rules based on the above analysis, to codify its function as investigator with focus on further developing its professional expertise and services to support the prosecution and anti-corruption services.
- 6 months and then 1 year after the adoption of the new/amended set of internal rules, report or workshop discussion on how this is being implemented in practice and further steps to take.

ACTIVITY 3.2 Study visit on investigative methods and techniques (financial investigation, data mining and data analysis).

7 members of the FI staff will participate in a study visit to familiarise themselves with utilisation of special investigative methods and techniques when assisting law enforcement bodies in criminal investigations. Special attention should be given to how and for what data mining software could be used and the level of training and technical infrastructure needed. The study visit should take place after the assessment and re-organisation of the FI, but before training the staff in new guidelines so that lessons learnt from the study visit are taken into account. The attention should be paid to evidence admissibility and the value of the evidence as FI staff needs to well understand the need for quality of evidence and the evidence process.

Inputs:

MS: 7 BC participants x 3 days x 2 EU countries.

Outputs:

- Introduction to utilisation of special financial investigative techniques, best standards and practices of EU countries.
- Being updated on how the most common data mining software are used and for what and the type and level of competence needed for efficient use.
- Improved understanding of the requirements in relation to quality and quantity of evidence.

- Agree on and include the principles and methods learned in the new/amended set of internal procedures of FI
- 6 months and then 1 year after the adoption of the internal procedures, report or workshop discussion on how this is being implemented in practice and further steps to take.

ACTIVITY 3.3. Training the staff of FI in the new role as central IA in accordance with good practices in EU Member States

The training programme will focus on leadership in the new role of the institution, training the staff in carrying out internal audit in accordance with good EU practices. At least six pilot audits will be carried out. To support progressive capacity building, six training sessions will be organised throughout the project implementation period.

Inputs:

MS: 2 x STE x 45 w/d each

Outputs:

- Six trainings in internal audit
- Two leadership trainings linked to the new function
- Six pilot audits
- Produce recommendations.
- Include the recommendations and good practices in the new/amended set of internal rules of FI
- 6 months and then 1 year after the adoption of the new/amended set of internal rules, report or workshop discussion on how this is being implemented in practice and further steps to take.

RESULT 4: A SOLID MECHANISM FOR TRAINING OF SPECIALISTS IN THE PUBLIC FINANCE AREA IS ESTABLISHED.

ACTIVITY 4.1 Assessment of the demand for well-trained specialists in certain parts of the public finance area for the period 2017-2020.

The success of the on-going reform of the public administration is to a considerable extent dependent on an easy and affordable access to very varied specialist competencies by the entities under reform. Examples of such specialist areas are internal auditing, public sector accounting, financial management and public procurement. Today several of the entities responsible for introducing and implementing the various part of the reform are struggling to find as well as to keep such specialists over time. It is clear that the number available of the sought-after specialist needs to increase. It is also clear that many of these specialists

will need a consistent further training in order to keep the needed specialist level competencies. Training is also needed in order to develop further the competencies of already existing specialists in related areas. What is now said explains also why several public entities have engaged themselves in trying to find ways to deliver the training needed. Several of these entities note however that the demand for training is beyond what their resources allow them to do. Besides, their competent trainers in specialist areas are much needed for developing and implementing the policies and practices the entities are responsible for. Therefore, there is an urgent need to find more sustainable and realistic solutions for how to meet the demand for several types of specialists in the public finance area, in the short as well as in the longer term.

In 2017 the MoF will analyse how and to what extent the increasing demand for well-trained specialists in certain parts of the public finance area will be met during the period 2017-2020 and develop needed curricula.

Depending on how far the MoF will be with completing the analysis and setting up the training programmes support of the Twinning project will be needed.

The aim of this activity is to support, if needed, the MoF in getting a substantiated overview of the amount and type of training that is and will be needed in a 4 year time-perspective in order to meet the demand for various specialists in the public finance area in Moldova. A further aim is to analyse to what extent it will be possible for the public sector, and what it will take, to deliver the training needed.

Input:

MS: 1 x STE x 15 w/d

Output:

- A substantiated report that clarifies the number and types of specialists that is likely to be needed in the public finance area in the period 2017 – 2020. And how and to what extent these needs will be satisfied by already on-going training activities within the public sector or via other existing sources.

ACTIVITY 4.2 Analysis of the existing potential organisational alternatives on which to build a longer term sustainable solution for the major training needs (as described in 4.1)

Currently there is no structured training framework for PFM specialists including financial management and control and internal auditing. Some elements of PIFC are included in the curricula of the Academy of Public Administration but those are not sufficiently correlated with the needs of the institutions. Not all areas demand many staff but every area demands a high degree of specialisation. Today several of the public entities responsible for introducing and implementing parts of the PAR are struggling to find as well as to keep such specialists over time. Training is needed both in order to increase the level of specialisation

of existing staff and to make sure specialists are updated over time. At present, certification scheme for public financial specialists is missing.

The organisation of the future training facility needs careful thinking. Criteria such as cost (varying from initial cost of setting-up a training institution up to cost of outsourcing), accessibility of location, quality of education of existing public or private education institutions, MoF policy regarding in-house trainings could influence the final decision how to organise trainings for staff working in the public finance area.

The analysis should in a systematic way describe the pros and cons of organising the trainings in the finance school of the MoF, the Public Administration Academy, or outsourcing to other public or private institutions /academies. The analysis should also indicate the point in time at which full scale training may be likely to start.

The activity aims to analyse the pros and cons of giving the responsibility for the training to one or some of the above providers of training in order to find the most viable alternative for covering the training needs of the central state level taking into account also the needs at local level. The analyses defined in 4.1 and 4.2 should, following translation, meet the quality standards for factual material on which a decision for how the training needs should best be met.

Input:

MS: 1 x STE X 10 w/d

Output:

- A report grading the existing organisational alternatives able to fully or partly deliver training that meets some or all of the needs identified in 4.1 including an analysis to which extent outsourcing to other private or public institutions /academies is possible and viable.

ACTIVITY 4.3 Setting up of training programme (s) for FMC

After activities 4.1 and 4.2 have led to decisions and based on the curricula developed the project will develop the process of preparing training programmes and define – in co-operation with the services directly concerned - the main parts of the first programme. Details will be filled in by the chosen service provider. The programme should also cover how the certification process (where needed) could be managed and its quality ensured.

The first year programme could tentatively start in the summer 2018.

This activity aims to get an overview for how the training best could be prepared taking into account the different ways the mechanism may be designed. And furthermore, which the most important components are for the first year of operation.

Input:

MS: 1 x STE x 20 w/d

Output:

- Action Plan for introduction of the training including an overview of the activities essential for preparing the start of the training;
- Recommendation on the most important components for planning, executing and monitoring of the first year of training.

ACTIVITY 4.4 To develop criteria for identifying, selecting, remunerating a relevant number and type of trainers and carry out training of trainers.

A relevant number of the trainees, will be trained as trainers and later be engaged in a pool of trainers aimed to train both new professional staff and more experienced however not fully professional staff in certain specialist areas, will have to be selected.

In co-operation with relevant Government institutions the project will define criteria set for selection of a relevant number and type of trainers. The project will also organise a first training for selected trainers on how to train non-specialists and specialists in the respective areas.

Inputs:

MS: 1 x STE x 30 w/d

1 x STE x 10 w/d

Output:

- Agreed criteria set for selection of a relevant number and type of trainers.
- Three workshops for selected trainers on how to train non-specialists and specialists in the respective areas.

3.5 Means/ Input from the Member State Partner Administration

The project will be implemented in the form of a Twinning contract between the Beneficiary country and EU Member State.

The implementation of the project requires one Project Leader, responsible for the overall coordination of project activities, one Resident Twinning Adviser (RTA), responsible for management and implementation of project activities foreseen and a pool of short-Term Experts.

It is essential that the team have sufficiently broad expertise to cover all the areas included in the project description.

The interested Member State(s) twinning team shall include in its proposal the CVs of the designated Project Leader, RTA, and the proposed Short-Term Experts and the specific tasks to which they will be assigned.

The details of implementation of the Twinning Project will be agreed upon during the preparation of the work plan.

3.5.1 Profile and tasks of the Project Leader

The MS Project Leader will continue to work at his/her Member State administration but will devote some of his/her time to conceive, supervise and co-ordinate the overall thrust of the Twinning project, and ensure the attainment of the projected outputs. The Project Leader is fully responsible for co-ordination of the work of the experts.

The MS Project Leader will manage the implementation of the project with the Project Leader from the Beneficiary Country and is expected to devote a minimum of 3 days per month to the project in his/her home administration with an on-site visit at least every 3 months. The Project Leader's (PL) seniority will ensure his/her ability to mobilise the necessary staff in support of the efficient implementation of the project. In addition, he/she should coordinate, on the Member State side, the Project Steering Committee (PSC), which will meet in Chisinau at least every three months and which she/he will co-chair.

He/she will be supported by his/her Member State administration for logistic, accounting and administrative affairs.

Tasks for the PL:

- Conceive, supervise and coordinate the overall preparation and implementation of the project
- Prepare the project progress reports with the support of the RTA
- Coordinate MS experts' work and availability
- Co-chair the Project Steering Committee
- Communicate with the beneficiaries and Delegation of the European Union to Moldova together with the RTA
- Ensure the backstopping functions and financial management
- Guarantee from the MS administration side, successful implementation of the project.

Profile for the PL:

- High-ranking public servant or equivalent staff of a Member State administration, and preferably the Head of a Department engaged in internal control or internal audit within a relevant institution with relevant working experience of minimum 7 years
- Minimum Bachelor Degree in finance, public administration, law/political science, economy (Master would be an asset) or internal/external auditing.

- Adequate IT literacy with knowledge of common software applications such as MS, Word, Excel and PowerPoint.
- Excellent knowledge of EU policies, legislation and institutional set up related to the areas of public finance management and particularly, internal control and / or internal/external audit.
- Previous experience in project management of EU funded projects will be an asset.
- Working knowledge in written and spoken English.
- Have strong inter-personal skills is an asset

3.5.2 Profile and tasks of the Resident Twinning Adviser

One RTA will be seconded, and he/she will be located in the premises of the MoF in the Beneficiary country. The secondment of the RTA will last 24 months.

He/she will come from an EU Member State to work on a full time and day-to-day basis with the beneficiary administration. The RTA will have a key role in the coordination of the inputs required for the successful implementation of the project activities under the overall guidance of the MS Project Leader. He/she shall be supported by a pool of short – term experts.

The RTA will have good knowledge of the project field and will have substantial recent experience working as senior manager in public finance management, particularly in the internal control and/or internal audit fields in a Member State.

She/he will need to have good interpersonal and communication skills, and be an effective negotiator. Prior experience in coordinating projects would be an advantage, especially in the context of transition countries.

The RTA will work closely with the Moldovan RTA Counterpart to deliver the project, as specified in the Twinning Contract, and part of the task will be to negotiate the Contract and work plan after the project has been awarded. The RTA will be responsible for the selection and supervision of the RTA Assistant and the management and performance of the Short Time Experts (STEs) while in Moldova. She/he will be responsible for drafting the quarterly and final project reports for the Steering Committee.

Profile for the RTA:

- Civil servant or equivalent staff seconded to work within departments/units related Public Finance Management, especially in the area of internal control and audit EU in Member State Administrations/bodies.
- Minimum Bachelor Degree in finance, public administration, law/political science, economy (Master would be an asset) or internal/external auditing.
- Minimum of 3 years of professional experience in the area of internal control and/or internal/external auditing in EU Member State Administrations/bodies.
- Good knowledge of EU policies, legislation and institutional set up related to the

areas covered by the project.

- Good knowledge of international standards for internal control, public accounting, internal and external auditing
- Experience in developing and/or delivering training programmes to build capacity for efficient internal control and internal audit in public sector will be considered as an advantage.
- Previous experience in project management.
- Excellent communication skills.
- Good working knowledge of written and spoken English.

Tasks of the RTA are:

As to the general responsibility of the day-to-day implementation of the Twinning project in the Beneficiary Country, the RTA's tasks will include:

- Coordination of all project activities and experts' inputs in the country.
- Provision of technical advice and assistance to the administration or other public sector bodies in the BC in the context of a predetermined work-plan to ensure timely completion of project outputs.
- Drafting of the Terms of Reference for short-term experts, coordination, facilitation and monitoring of their work during implementation.
- Liaise with MS and BC Project Leaders; daily contact with the BC RTA counterpart
- Co-preparation of project progress reports with the Project Leader
- Ensuring day-to-day implementation of the Twinning project in the BC.
- Ensuring smooth correlation between the activities, deadlines and the envisaged results in the Work Plan.
- Taking corrective actions, if necessary, inside the terms of the signed contract.

3.5.3 Profile and tasks of the short-term experts

Other specialist staff will be made available by the Twinning Partner to support the implementation of activities. Specific and technical matters not directly covered by the RTA can be taken over by a pool of short-term experts within the limits of the budget.

CV's and proposed activities of each Short-Term Expert should be an integral part of the MS Offer. The detailed expert input shall be established when drawing up the twinning work-plan.

Indicative profile for the Short-Term experts:

- Have a University-level degree or an equivalent of 5 years of relevant professional experience in the field of public finance management, in particular internal control and internal/external auditing in a public sector organisation of a Member State
- Be civil servants or equivalent staff seconded to work within departments/units

related to public finance management, in particular internal control and internal/external auditing

- Have good knowledge of international standards for internal control, public accounting, internal or external auditing in a Member State.
- Have at least 3 years of experience in implementation of institutional aspects targeted by the Twinning Contract.
- Have experience in organisation and implementation of training sessions organised by Member States or by Community institutions directed towards staff members and/or operators in the scope of the project.
- Good command of English, both oral and written.

Tasks of the Short-Term experts:

- Prepare and implement specific tasks based mainly on practical cases and experience in compliance with their mission definition and in accordance with project activities.
- Provide practical advices to relevant staff for execution of different tasks related to the Project.
- Address crosscutting issues.

4. Institutional Framework

4.1 Beneficiary institution:

MoF of Moldova will be the main beneficiary of the project. Other agencies such as Financial Inspection, Court of Accounts, relevant law enforcement bodies, line ministries will be involved in the project's activities, benefiting from expert advice, expertise, hands-on experience obtained during on the job and off the job trainings, study visits and other project activities.

4.2. Project Steering Committee

A Steering Committee (SC) will be established to monitor the implementation of the project. The Committee shall be composed of representatives of the Beneficiary Institution, the Beneficiary Country Project Leader, the Member State Project Leader, the RTA, the RTA counterpart, representatives from the Programme Administrative Office for Twinning project, Ministry of Foreign Affairs and European Integration representatives of the Delegation of the European Union as Contracting Authority.

The Contracting Authority should approve any observer to the SC.

The final and exact composition of the SC will be agreed with the Contracting Authority at the start up of the project.

The Committee will meet to discuss the progress of the project, verify the achievement of the outputs and mandatory results and discuss actions to be undertaken in the following

quarter. The SC will also discuss the draft of the quarterly report submitted to it beforehand and will recommend corrections.

The SC will meet quarterly or more frequently, if required; its meetings are called and chaired by both Project Leaders. The RTA will be responsible, jointly with the national counterpart, for drafting an interim quarterly report and presenting it to members of the committee at least 2 weeks prior to each SC meeting.

The SC will take the necessary decisions related to project facilitation and progress and will be the forum to discuss any unforeseen difficulties. Exceptional SC meetings can be convoked in case of exceptional needs.

4.3. Reporting requirements

Proper project reporting is essential to ensure proper follow-up of project implementation and to properly evaluate the results. Reports shall consist of a content section and a financial section.

Every three months, the MS Project Leader in co-operation with the BC Project Leader will prepare and submit interim quarterly reports. Each report will cover a three months period calculated from the date of notification of endorsement/signature of the contract.

Interim quarterly reports will be prepared and distributed to all the participants in advance of the meetings of the Project Steering Committee. The financial part of the interim reports, must document the actual expenditure in relation to budgeted expenditure. A list detailing each item of expenditure incurred in the period covered by the reports, and indicating for each its title, amount, relevant heading in the Budget of the Action and the reference of the justifying document, is annexed to them.

The first report will be due in the fourth month counting from the date of notification of endorsement/ signature of the Twinning contract.

The MS Project Leader shall submit the final report before the end of the legal duration of the Twinning contract. The final report shall be forwarded no later than three months after the implementation period of the Action work plan as defined in article 2 of the Special Conditions of the Twinning Contract.

The final report will be accompanied by a verification expenditure report. This means that the final report, final invoice, and expenditure verification report have to be submitted at the latest during the final month before the end of the legal duration of the Twinning contract.

Reports will follow the templates of Annex C4/Annex C5 of the Twinning Manual. In addition to these formal reporting stages, the twinning partners are obliged to inform in writing the

Contracting Authority as well as the final beneficiary of the action of any critical aspects or conditions of project implementation, or any amendments/modifications necessary within the budget.

All reports must be produced in English in electronic and hard copy. Both Project Leaders shall sign these reports. Each report must be presented in electronic format two weeks prior to the Steering Committee meetings and in two hard copies to the Project Beneficiary, the Contracting Authority, the members of the Steering Committee Meeting and the EU Delegation. The final versions should incorporate any comments and discussions during the Steering Committee meetings.

Failure to submit satisfactory reports in time may lead to the decision to suspend EU financing for the project.

5. Budget

The project will be implemented through a Twinning Contract estimated at a maximum of EUR 1.200.000

The project will be located in the premises of the MoF. The Ministry will ensure appropriate facilities and basic equipment for the work of the experts. This includes administrative support, office space, telephone and fax and other necessary facilities.

6. Implementation Arrangements

6.1 Implementing Agency

Ms Oxana Gluscenco
Acting Director of Policy coordination and strategic planning
State Chancellery
Piata Marii Adunari Nationale, 1
MD-2033 Chisinau
Tel: +373 22 250 215
Fax: +373 22 250 2596.2

Delegation of the European Union to Moldova:

Ms. Ekaterina Yakovleva
International Aid Cooperation Officer / Project Manager
Chisinau, Republic of Moldova
12 Kogalniceanu Street, MD 2001, Chisinau, Moldova
tel.: +373-22-505210
e-mail: ekaterina.yakovleva@eeas.europa.eu

6.2 Main counterpart in the BC

The main counterpart in the BC is the MoF.

The following persons will be counterparts of the key personnel of the MS Partner:

Administration.

For the PL:

Mr. Iuri Cicibaba

Deputy Minister of Finance

Ministry of Finance

7 Constantin Tănase Street, Chişinău,

MD- 2005, Republic of Moldova

Tel./Fax: + 373 22 2625 00

For the RTA:

Mr. Ion Sirbu

Head of Central Harmonisation Unit

Ministry of Finance

7 Constantin Tănase Street, Chişinău,

MD- 2005, Republic of Moldova

Tel./Fax: + 373 22 26 28 10

6.3 Contracts

One (1) Twinning contract is foreseen to implementation of the above-mentioned activities.

7. Implementation Schedule (indicative)

7.1 Launching of the call for proposals

The estimated date for the launching of the call for proposals is March 2017

7.2 Start of project activities

The estimated date for the start of the project activities is October 2017

7.3 Project completion

The estimated date for the project completion is September 2019

7.4 Duration of the implementation period

The overall execution period of the Twinning project is 27 months (implementation period is 24 months)

8. Sustainability

The Beneficiary administration is fully committed to ensuring a long-term impact of the activities of this Twinning Project. The expected combined impact of this project will bring about significant improvement in the fight against corruption. The project will have impact on improving the skills, practices, mechanisms, rules and strategies of the relevant institution. An ongoing review of key issues impacting on sustainability will start from the beginning of the project implementation, based on the results and outcomes that should be achieved over time. The objective of this review is to facilitate the sustainable impact of outcomes beyond the end of the project. After project completion, the key elements of the mechanisms are expected to be in place and operational.

The Member State Twinning partner shall transfer their best practices and know-how necessary to achieve the mandatory results to the Beneficiary administration. Staff benefiting from trainings shall transfer knowledge through subsequent training to their colleagues.

9. Crosscutting issues

Cross cutting issues will be taken into consideration in all phases and aspects of the project, including in the definition of the Work plan, selection of project staff/participants/stakeholders and implementation of activities. However, the crosscutting issues do not need to be specifically implemented by means of direct activities of the project, but solely need to be taken into consideration – i.e. if possible, mainstreamed, and in any case, not breached during the preparation and implementation of the Project.

10. Conditionality and sequencing

10.1 Conditionality

See point 3.2, page 6.

Sufficient managerial and technical human resources allocated to the relevant Departments involved in the project activities.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix

Annex 1: Logical Framework Matrix

Support to the development of an effective internal control and audit environment in public sector in Moldova		Name and number of the program: Framework Programme in support of EU – Republic of Moldova agreements 2013	
		Contractual period expires at: 25/08/2017	
		Total Budget: 1,2 million €	Contribution:
General Objective	Objectively verifiable indicators (OVI)	Sources of verification	
To strengthen public finance management and especially public financial management and control in the Republic of Moldova in line with internationally recognised standards and European good practices	<ul style="list-style-type: none"> • Progress in the Republic of Moldova’s compliance with international PIFC requirements in Association Agreement. 	<ul style="list-style-type: none"> • External review of the project • SIGMA Baseline Measurement Reports • PEFA reports 	
The project purpose	Objectively verifiable indicators	Source of verification	Assumptions
The project’s purpose is develop an effective internal control and audit environment in public sector in Moldova	<ul style="list-style-type: none"> • Qualitative improvement of FMC systems measured by lower percentage of FMC related CoA and higher percentage of implementation of Internal Audit recommendations • Lower percentage of FMC related criminal procedures • Number of trainings delivered 	<ul style="list-style-type: none"> • External review of the project, including EU peer-assessments. • Final report of the project Assessment of EUD to Moldova and reports of EU HLAs (PAR, Finance, Anti-corruption, prosecution) • Reports of the SIGMA and donors • CoA reports 	<ul style="list-style-type: none"> • The Republic of Moldova remains committed to the implementation of PIFC in accordance with the Association Agreement • Staff level in CHU is sufficient for its supporting task and there are no significant

	<ul style="list-style-type: none"> • Number of internal auditors and financial inspectors trained • Number of study visits organized 		<p>changes in staff</p> <ul style="list-style-type: none"> • Sufficient technical expertise and managerial capacity to support the activities • PIFC Law is revised • PIFC 2018-2020 Strategy is adopted by the Government • Criteria for establishing internal audit function are defined and adopted by the Government
Results	Objectively verifiable indicators	Source of verification	Assumptions
1. The overall Financial Management Control system is strengthened and the capacity to address the recommendations of internal and external audit are enhanced.	<ul style="list-style-type: none"> • The Interministerial Committee for Strategic Planning defines actions (with deadlines) to be taken by ministries in response to findings and recommendations in the annual PIFC report of the Minister of Finance • The percentage of institutions where risk management is implemented • The implementation of findings and recommendations of CoA and the (new) FI are systematically monitored by IAUs and CHU of the 	<ul style="list-style-type: none"> • Internal orders of the beneficiary institutions approving the regulations and guidelines • The assessments and reports of EU HLAs (PAR, Finance, anti-corruption,) • Final report of the project • SIGMA and donors reports • Annual Reports of CoA, CHU(MoF), Financial Inspection Agency 	<ul style="list-style-type: none"> • Sufficient staff with appropriate qualifications will be available to participate in the project • There is a common understanding between the project partners on the content of the definitions of internal control, FMC, internal and external audit,

	<p>MoF</p> <ul style="list-style-type: none"> 80% of the proposals of the PIFC Council are accepted in meetings of the Interministerial Committee for Strategic Planning 		financial inspection.
<ul style="list-style-type: none"> The system and capacities for internal audit of state and local authorities are strengthened. 	<ul style="list-style-type: none"> All IAUs appreciate and work with the new internal audit methodology One/two person IAU's do not exist anymore; All Heads of large IAU's are trained in their new role and responsibilities 	<ul style="list-style-type: none"> Minutes of Council of Ministers meetings The assessments and reports of EU HLA on Finance Final report of the project SIGMA and donor reports Annual Reports of CoA and CHU 	
<ul style="list-style-type: none"> The Financial Inspection is restructured and implementing its new task 	<ul style="list-style-type: none"> Re-defined competences and expertise for financial inspection services reflect the needs for specialized ex-post control 80% of the support activities to law enforcement bodies are followed up by those bodies Ratio between support to law enforcement bodies and traditional financial control work No complaints of internal auditors and CoA about ex-post controls by the new financial inspection service 	<ul style="list-style-type: none"> Annual report of new financial inspection service The assessments and reports of EU HLA on Finance 	<ul style="list-style-type: none"> Sufficient staff with appropriate qualifications will be available to participate in the project There is a common understanding between the project partners on the content of the definitions of internal control, FMC, internal and external audit, financial inspection.
<ul style="list-style-type: none"> A solid mechanism for certification of 	<ul style="list-style-type: none"> A sustainable training facility staff working in the public finance area is established and operational 	<ul style="list-style-type: none"> Comparative study on public finance facilities and training programmes in neighbouring 	

<p>specialists in the public finance area is established.</p>	<ul style="list-style-type: none"> • The first training programme started 1 January 2019 	<p>countries</p> <ul style="list-style-type: none"> • Press release of opening of new training facility by the MoF • Publication of first training programme on MoF website or website of new training institute 	
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