

## European Commission Directorate General for Economic and Financial Affairs – Operational Assessment (ECFIN-OA) - European Union



### Objective and features

#### 1. Objective

ECFIN-OA aims to

- provide a detailed analysis of the operation of various administrative bodies (central banks, ministries of finance, auditing bodies) involved in managing European Community funds in the countries receiving Macro-Financial Assistance (MFA) from the European Commission; and
- identify weaknesses and provide recommendations for improving the financial management system (including proposed deadlines for correcting these shortcomings).

#### 2. Institutional coverage

National governments.

#### 3. Technical coverage

ECFIN-OA covers the following:

- Budget preparation – legal framework, structure of state budget (local budgets, special bodies, state-owned companies, extrabudgetary funds), budget classification, budget amendments, medium-term expenditure framework, reserve funds, donor funds, state subsidies, process automatization, planned reforms.
- Budget execution – agreements with commercial banks and other financial institutions, budget implementation cycle and procedures (existence of a manual for commitments, expenditure, and payment authorizations, etc.), auditing salary files, internal audit within the Treasury Department, accounting and reporting, management of donor funds, planned reforms.
- Procurement framework – procedures relating to calls for tender at central and local level.
- Treasury and debt management – legal framework, treasury management (forecasts and decisions), debt management, debt structure, payment forecasts, debt statistics, IT systems, planned reforms.
- Internal financial control – legal framework, structure and organization of the internal audit service (auditors' independence, number, qualifications and training, etc.), latest audit reports, work program (annual, multiannual), planned reforms.
- External audit – legal and institutional frameworks of the audit bodies (independence), organization of external audit bodies, annual work programs, nature of the audits carried out (compliance, performance, etc.), audits during the last three years, training, human resources, planned reforms.
- Central Bank – legal and institutional framework, organizational structure, policy on interest on funds deposited and on loans to government, management of MFA funds, accounting and financial documents, internal audit department (nature of audits carried out), human resources (continuous training, staff regulations, salaries), IT department, planned reforms.

#### 4. Application method

Custodian.

### Methodology



#### 5. Methodology

The assessment focuses on the expenditure side. The operational assessment examines the PFM system and is used primarily as a fiduciary risk instrument by DG ECFIN. The methodology focuses on evaluating risks associated with performance of the PFM system in the technical areas listed above. Analysis provides an assessment of the administrative procedures and financial circuits involved in MFA to ensure that the beneficiary countries maintain a sound financial management framework. The operational assessment provides recommendations.

#### 6. Benchmarking system

The ECFIN-OA findings are presented as narrative evaluation. The operational assessment is not a scoring tool.

#### 7. Linkage to PEFA framework

PEFA can be used as a source of information on the technical areas listed above.

#### 8. Complementarity with PEFA framework

ECFIN-OA and PEFA examine PFM systems with different objectives.

### Development and use



#### 9. Development and coordination

ECFIN-OA was developed in the 1990s and was primarily focused on assessing core financial management functions and administrative bodies of countries eligible for an MFA. The operational assessment can be utilized by other Directorates General (DGs) in the European Commission (EC) during budget support programs to the countries.

#### 10. Assessment management

ECFIN-OA is conducted after a memorandum of understanding (MoU) is signed with the recipient country and before disbursing the respective assistance. Data is collected from authorities of each country, as well as publicly available information, including other PFM diagnostic reports such as PEFA (A01), TADAT Bo2), and PFM Annual Review of EU Delegations.

Walk-through tests are conducted regarding the treatment of the previously disbursed MFA funds with audit trail (if applicable). Planned reforms are considered, including donors' programs to support PFM reforms, reform progress evaluation, and identification of key actions to implement reforms. Note is taken of the progress made in addressing the weaknesses identified in previous operational assessments (if applicable).

Operational assessment reports are shared with country government representatives to check for factual errors and inconsistencies in data. The ECFIN team provides recommendations and comments. If the country has specific fiduciary risk leading to fiscal risk, the operational assessment indicators can be expanded to evaluate such weaknesses. In some cases, the operational assessment scope was expanded to meet the assessment needs of other programs that were commissioned in parallel.

#### 11. Uses by the government and members of the PFM community

The need for an operational assessment primarily arises from the financial regulation of the European Union (EU) to review the legislative framework and administrative procedures and conduct financial audits of countries where a decision on MFA needs to be made.

An operational assessment is conducted for countries eligible for MFA, that is, candidate countries and potential candidate countries for accession to the EU. The latest operational assessment report tracks the effectiveness of the MFA program previously conducted in the country.

#### 12. Sequencing with other tools

Findings can be complemented with any other tool that has a drill-down focus on the expenditure side or that examines the broader PFM cycle.

#### 13. PFM capacity building

Capacity-building measures are available as part of budget support programs and technical assistance (TA) activities in the countries. They are generally led by the EU delegations in respective countries and other Directorates General (DGs) but not the ECFIN team.

#### 14. Tracking of changes and frequency of assessments

The operational assessment report tracks the progress on past recommendations in case of consecutive assessments. Multiple assessments may be held during an ongoing MFA program which extends from one to two-and-a-half years. In that case, the MFA is disbursed in phases when policy/program benchmarks are met, and such disbursements are guided by the operational assessment outcomes.

The frequency of the assessment is not fixed. If a decision is taken to provide another MFA upon the completion of an existing MFA within a three-year period, the operational assessment is not repeated.

#### 15. Resource requirements

The cost of an operational assessment is about €80,000, and it takes two to three months to complete. Consultants and staff of the DG ECFIN are engaged in conducting an assessment.

### Transparency



#### 16. Access to methodology

Methodology is not available to the public. The ECFIN-OA reports are usually kept at the strict discretion of DG ECFIN and the authorities. No guidance on the specific content and application methodology is published.

#### 17. Access to assessment results

Not available.