Operational Assessment (ECFIN-OA) - European Union

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 recommend improvements to strengthen 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 estimates, medium-term expenditure framework, reserve funds, donor funds, state subsidies, procuring systems, planned reforms.
- Budget execution - agreements with commercial banks and other financial institutions, budget implementation cycle and procedures (intensity 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.), internal audit reports, work program (annual, multiannual), planned reforms.
- External audit - legal and institutional framework of the audit bodies (independence), organization of external audits bodies, annual work programs, nature of the audits carried out (compliance, performance, etc.), audits during the last three years, training, human resources, planned reforms.
- Control 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 technical areas listed above.

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 (B02), 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).

11. Assessment report

The assessment report tracks the progress on past reform commitments and identifies areas for future reforms. The operational assessment report provides recommendations for improving the financial management system, including proposed deadlines for correcting these shortcomings.

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 program 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.

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.

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.