Financial Inspection vs External & Internal audit in Republic of Moldova

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Similarities get confusion

- Ex post control functions

- Public sector area: The public finances and assets

- Working procedures: interviews, sampling, questionnaires etc

- Notion “Audit” and “control” as synonyms
Background

Inspection

- To inspect –to compare the item or activity in line with specified requirements and standards
- Tradition from Latin countries
- In ex soviet countries control system is based on revision
- Periodical checking of economical-financial discipline or at the requests
- Inspection is a component of Government (Ministry of Finance) centralized control

Audit

- From “audio”–to listen
- Tradition from Saxon countries
- Is an conditionality of EU integration
- Internal auditor asses internal control in all processes, including operational ones
- Internal audit is a component of internal control
- External audit is a component of Parliamentary control
Financial Inspection in Moldova

- Centralized financial control function of Government

- Regulated be Governmental decree, provisions in Organic budget law

- The mission: to protect financial Governmental interest

- Subordinated and report directly to MoF

- Scope: all public organizations and state owned companies,
Moldovan Financial inspection functions

- To check ex post financial transactions for compliance with the laws, budgetary and accounting rules
- To detect irregularities and frauds
- To impose sanctions
- To ask for corrections
- To contribute making managers accountable, passing materials to Prosecution and asking for bringing to justice
Types of inspections

- **Planned**, on risk based approach

- **Ad hoc**, mandatory to be done:
  
  → on requests of Government, Parliament, Court of Accounts, law enforcement bodies
  
  → on signals about eventualfrauds and serious irregulararities
Financial Inspection in Moldova
Planning procedures

- On risk based analyses:
  - semiannual plan:
    - proposals of Ministries, MoF
    - knowledge of inspected areas and institutions
    - requests of public institutions, citizens
Supreme Audit Institution in Republic of Moldova

New regulation in 2008: Law on Court of Accounts

The Court of Accounts is the only state public authority that controls the formation, management and use of public financial resources and management of public property by carrying out external audit in the public sector as a Supreme Audit Institution and shall be legally protected against interference of law enforcement or control bodies.

Compliance with INTOSAI:
The external public audit shall be performed according to the legislation of the Republic of Moldova, internal documents, own audit standards approved on the basis of the international auditing standards (INTOSAI).

Scope:
√ the central and local public administration authorities, other public authorities;

√ the institutions and organizations financed from the national public budget;

√ economic units, where the State has a full participation or its share in the statutory capital exceeds 50%;
Law on Court of Accounts

Objectives of SAI

- assessment of the regularity, legality, conformity, economy, efficiency, and effectiveness of public financial resources and public property;

- promotion of the internationally recognized standards on the transparency and accountability in the area of public financial management;

- transparency by informing strategic and annual plans, findings and recommendations;

- certification of the staff with functions of public auditor.
Moldovan SAI
Types of audit

• (1) The Court of Accounts shall control the management and use of public financial resources and public property via:
  • a) regularity audit;
  • b) performance audit;
  • c) other types of audit.

• (2) The Court of Accounts shall carry out annually, on a compulsory basis, the audit of the Government reports on the execution during the expired budgetary year of:
  • a) the state budget;
  • b) the state social insurance budget;
  • c) the compulsory medical insurance funds;
INDEPENDENCE of SAI

- The Court of Accounts shall carry out its activity independently
- The Court of Accounts shall have organizational, functional, operational and financial independence
- The Court of Accounts shall decide independently on its Activity Program, and on the way of its implementation.
- (3) No public authority may request or force the Court of Accounts to change its Audit Activity Program, to carry out or stop certain audit activities.
- (4) The Parliament or parliamentary factions may request the Court of Accounts to perform some audit work. The audit work may be requested
SAI strategic development objectives

- Transition from external control to public external audit, as an good governance tool;
- Institutional strengthening and increasing effectiveness;
- Harmonization of public external audit reform and implementation of Public Internal Financial Control, excluding duplications;
- Implementation of international standards and best external audit practices.
Republic of Molodva Inspection vs SAI

- Same scope
- Same tradition in controlling
- Different reporting line
- Different planning procedures
- Different working standards
- Different roles
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<td><strong>Scope</strong></td>
<td>Ministerial</td>
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<td>Risk based</td>
<td>At requests MoF decision</td>
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<td><strong>Sanctions</strong></td>
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<td>Yes</td>
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<td><strong>In the case of eventual fraud send report to</strong></td>
<td>Standard have to elaborate</td>
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Supreme audit institution

Ministry of Finance

Financial Inspection    Public Internal financial control

Ministries, Local authorities, Public institutions

Accountable to Parliament
Audit and the chain of accountability in parliamentary systems

Voters

Parliament

Prime Minister Cabinet

Departments Accounting Officers

Confer authority on Confers authority on Establish and appoint

Is accountable to Are accountable to Account to

Appoints Reports to

Auditor General

Supreme Audit Institution Audits and evaluates
Arguments for friendship

- If the roles are not separated and defined, there is a fight for surviving

- If there is no inspection, internal auditor are asked to investigate individual transactions, suspicions of frauds

- If inspection exists, internal audit could focus on operational systems, provide consultancy services and add value

- If inspection exist, external audit could pay more attention to Governmental institutions performance and rely on inspection in compliance field
Conclusions? Collaboration!

For mutual benefits and public welfare!