



"The Court of Accounts of the Republic of Moldova: from financial control to audit. Progresses in Public Debt Audit"

Honored audience,

Dear colleagues, organizers

On behalf of SAI I represent, I thank you for the fact that we, the Court of Accounts of Moldova (CoA), were accepted as a member of the INTOSAI's Working Group on Public Debt, for the opportunity to share mutual experiences and knowledge in auditing public debt.

Due to the fact that our SAI attends the INTOSAI's public debt audit specialized group meeting for the first time, we considered it appropriate to bring some information about the CoA, in particular about reform processes that have taken place in recent years and our experience by participating in IDI's Transregional Programme for Public Debt Management Audit.

The Lima Declaration on Audit Guidelines adopted at the Ninth Congress of INTOSAI, determines the audit of public finance management not as an end in itself, but as an indispensable part of regulatory system, its purpose being to indicate deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of the public financial management, so it is possible to take appropriate corrective action in each case, to establish responsibility of parties involved, to recover damages or prevent such violations or at least make it more difficult to repeat such violations in the future.

Respecting international rule cited above, only an effective and permanent audit can ensure a proper management of public funds, removing irregularities, fight against corruption, phenomena which seriously affects all world economies.

The CoA of Moldova, as SAI, has an important role in improving public financial management, including of funds allocated by international donors, in promoting transparency and accountability, compliance with financial discipline, in preventing and combating economic frauds.

To ensure an effective and quality audit, the Court continues the process of rallying to the highest professional standards and practices, carrying out ongoing reforms in the areas of

institutional strengthening, staff development and ensuring effective communication of its activities. The primary objective of the CoA continues to be the increase of the impact of performed audits using available resources, and the mission of the Court is to perform independent, credible, transparent and professional audits on the use of public financial resources for the benefit of Moldovan citizens.

As a SAI, the Court of Accounts performs external public audits, thus suggesting the alert of deviations to the required standards and detecting breaches of legality, integrity, rigor in formation, management and use of public funds, and use, in terms of efficiency, economy and effectiveness of public property.

Starting from these roles, the Court of Accounts activity comprises a continuous string of regularity and performance audits, which aim at the effective monitoring of public money, and more than that, solutions for achieving an efficient financial management. However, the Court claims to be a partner institution of the public authorities to identify the best mechanisms for successful management of public funds.

Applying lessons learned from our foreign partners, from SAIs of other countries with whom we work over several years, rallying us to European standards and accepting a steady transformation of institutional quality, the Court meet its own goals and requirements of every citizen of the Republic of Moldova: transparency, involvement and responsibility.

Respecting the principles of involvement and responsibility, the Court has provided quality audits and, especially, impartial, thus assuming the role of the guardian of public money. And the principle of transparency was the gate to open to the public and partner institutions.

However, we promoted an openness to all those interested in our work, we have provided answers and we have guaranteed the truth.

The CoA will continue to work, respecting its fundamental values and principles, to keep pace with the changes and, finally, we are sure it will become a SAI of European class.

Some historical landmarks of the CoA of the Republic of Moldova:

- **1994** – was created the CoA of the Republic of Moldova; the Court becomes a member of EUROSAI and INTOSAI;
- **2000** – the CoA is a member of the Council of heads of Supreme Audit Bodies of the CIS member states;
- **2006** – starts the process of reforming the Court, from Supreme Control Institution of the State into Supreme Audit Institution – Strategic Development Plan approval of the CoA for 2006-2010;
- **2008** – New law of the CoA was approved, the status of Supreme Audit Institution was assigned.

On December 8, 1994, the young independent state - Republic of Moldova has set as a goal in itself - control over the formation and use of public funds and public assets management, establishing for this purpose the supreme external control body – **the Court of Accounts**.

The duty concerned, settled in Article 133 of the Moldovan Constitution, has been exercised by the CoA through financial controls and external financial revisions, with procedures and organizational structure approved separately by *Law no.312-XIII dated December 8, 1994 "On Court of Accounts"*.

Over the years, in order to exercise its statutory power, the CoA, through the financial controls and revisions of the financial resources used in public sector, has contributed to improving public management and accountability and tended towards effective management.

In 2006, along with other public authorities involved in the process of adjustment to high standards of competence and professionalism, the Court assumed the one of the tasks from *Action Plan Republic of Moldova – European Union: to ensure creation and operation of a SAI which will work according to INTOSAI's international standards and best European practices*, launching the **Strategic Development Plan of the Court of Accounts for 2006-2010**, with support from external donors.

The **main objective** was *to develop capacity for conducting financial and performance audits in accordance with international auditing standards*.

The **main change** under the Court's SDP was *to shift from external control to external audit*.

The **main factors** that made the reform of the Court an imperative of the time were:

- **Action Plan Republic of Moldova – European Union**, which contained provisions to reform the CoA in a Supreme Audit Institution, which operates according to best practices and standards;
- Clear objectives for the **implementation of the Public Internal Financial Control**, established by the Government in various strategies;
- The Court's **desire to align with best international practices and standards**.

In the SDP were established **four main directions** of reforming the CoA:

The **first direction** or the first pillar of the reform was **institutional strengthening**. All auditors are well aware of the three "E" (economy, effectiveness and efficiency). From an institutional perspective, for any Supreme Audit Institution is very important the insurance of the four "I". Actions under this section of the SDP entail the creation of legal and material base, to ensure to the CoA these four "I":

1. *Organizational* independence;
2. *Operational* independence;
3. *Functional* independence;
4. *Financial* independence.

The **second direction** of reforming the Court was **to ensure professionalism**, which aimed to create the methodological basis for the practical realization of public audit profession.

The **third direction** was the **staff development** and provided actions oriented to human creation for public audit.

The **fourth direction** was to provide a **greater impact of the Court's work**.

Moldovan Parliament supported these changes by the approval in *December 2008 the new Law on the Court of Accounts*, which empowered the Court to carry out both financial and performance audits.

Stages of reform the Court from a Supreme Control Institution to Supreme Audit Institution were as follows:

- I. **February-April 2006** - development, coordination, approval and launch of the Strategic Development Plan of the CoA for 2006-2010;
- II. **May 2006 - January 2007** - Pre-designed and initiation phase. During this period were completed a series of activities that have created the basis for the proposed reform and where talks were held with prospective partners and donors;
- III. **February 2007-December 2009** - the proper implementation of the Strategic Development Plan of the CoA;
- IV. **January-March 2010** - evaluation of the implementation of the Strategic Development Plan and strategic planning for the next five years.

All activities were carried out with the own powers of management and employees of the Court, as well as technical support and assistance from: **the Swedish National Audit Office** (SNAO); **World Bank** (WB); **Department for International Development of UK** (DFID); **the Multi Donor Trust Fund** (DFID and the Government of Netherlands), administered by the World Bank.

As with all changes, there were some people who argued that the external control process work well for Moldova, and insisted on the reversal of the transformation process. But, the transformation of the institution has not been suspended or postponed.

The CoA has carried out several audits of performance and has published a few reports of a new type - performance audit reports.

New audit approach was strongly supported by the beneficiaries of the audit reports, which have particularly appreciated the presentation of recommendations for solving found problems. Thus, through the new audits, it was established a different kind of relationship between audit institution and auditee, a relationship in which the Court seeks to become more involved: not only identifying the problems, but also offering practical solutions.

The new role of the CoA is a challenge not only for us ourselves, but also for institutions audited. From this point of view, the Court drew attention to the importance of continuing the implementation of public internal financial control in the entire public sector.

This is a critical issue for Moldova. The Court does not perform external financial control, so it is very important to strengthen the entities management responsibility for internal control with a strong financial and managerial control.

Strategic Development Plan for the years 2011-2015 tends logically to continue the success so far.

This will be a challenge, but the idea of top management to "target above" applies equally to the audit of public sector and in other fields.

If staff will maintain the strong commitment and dedication as in the past five years, this objective will be achievable.

The *transition* from external control to external audit has allowed the CoA:

- To perform a higher volume of work with the same resources;
- To use more widely the possibilities of modern information technologies;
- To use best practices;
- To become an active member of specialized international bodies;
- To raise the level of credibility in the work performed.

Some of the *benefits* of Society as a result of external audit are:

- Enhancing the responsibility of public authorities managers;
- Increase of the level of regularity, economy, efficiency and effectiveness of public money;
- Transparent use of public money and assets;
- Taxpayers are assured of a better management of resources;
- High degree of international partnership for the Country.

The Court finds significant *progresses* in its development, measured by following visible results:

1. CoA has developed and promoted a *new law* on the Court, under which operates since January 1, 2009. Its provisions are in conformity with international standards and best practices in external public audit;
2. The Court has developed *and/or adjusted internal normative acts and methodological framework*. The Court has a Manual of regularity audit, Manual of performance audit, a Guidance on IT audit, and a quality framework, which it jointly developed with foreign experts;
3. *Improving the professional level* of the staff of the CoA has experienced during the years 2006-2009, an unprecedented rate and resulted in a large number of trainings. Thanks to these trainings Court employees perform, in compliance with the quality framework at all audit stages, regularity and performance audits;
4. The Court, supported by experts, has developed and initiated the realization *Competency Framework; employee performance evaluation system; the strategy of training staff; and documents for the planning and recruitment of staff, career development*;
5. *Advanced IT equipment* was purchased;
6. The Court has implemented a *time recording system*;
7. *Internal audit* has been implemented.

To ensure sustainability of changes that have occurred, the Court focuses on improving staff's professional skills to perform quality audits of all types.

To ensure a greater impact of the Court's work it is necessary to strengthen efforts to develop relations with the Parliament; to promote transparency and greater communication and openness to the media, civil society; to further improve the format and content of the Annual Report of the Court; to promote the Court image by actively participating in various activities within INTOSAI, EUROSAI.

Progresses in public debt audit. Public debt is a topic widely discussed over many years, both nationally and internationally because, in addition to income taxes, proceeds from borrowings are the most common source of funding for many programs of governance.

Public debt is characteristic for all countries whether highly industrialized or developing. Whether or not this is a problem for these countries depends on them: the purpose for and the circumstances under which they were raised, how it is administered.

Moldova has started to resort to foreign loans in the early 1990s, immediately after it gained the independence. Loans were contracted to cover the budget deficit, agriculture and private sector development, social sector support, development of land system, reconstruction of roads, water supply, ensuring the needs of the economy of grain, medicine and consumer goods.

Currently, public debt is regulated (mainly) by a special law - *Law 419-XVI of 22.12.2006 "On debt, state guarantees and on-lending"*, which entered into force on 9 September 2007.

Under the new law, **public debt** consists of state debt, the National Bank debt, the debt of territorial-administrative units, the debt of public institutions funded wholly or partially from the state or local authority budget, domestic and foreign debt on loans of companies where the State and/or territorial-administrative unit owns more than 50 percent of the equity, and debt of state and municipal enterprises.

Government, through the Ministry of Finance, is authorized to borrow from domestic and foreign markets, in national or foreign currency, to provide internal and external state guarantees, expressed in national currency or in any foreign currency, to issue state securities to place them on domestic and foreign markets. External loan agreements and the decisions of providing state guarantees shall be approved by the Parliament.

State loans, contracted on the name of the Republic by the Government are disbursed through the National Bank and/or commercial banks and kept in interest-bearing accounts for the State budget. Through the annual budget law, Parliament approves debt ceilings, including internal and external state debt and state guarantees ceilings.

Ministry of Finance includes in its periodic reports on the state budget execution, presented to the Government and Parliament, information on the volume and status of public debt, state guarantees and state on-lending.

Annual report on State budget execution of the Ministry of Finance is audited by the CoA, including the section pertaining to debt, state guarantees and on-lending.

The Court's decisions on public debt reports include requirements and recommendations for action to be taken, as a result of logical conclusions.

These decisions are official and binding on all public authorities and all natural and legal persons concerned.

The CoA shall annually, before July 15, report to the Parliament on the management of public finances in the expired budgetary year, which includes the aspect of public debt. It is made known to the general public through publication in the Official Gazette of the Republic of Moldova.

Participation of our institution in the activities developed within the **Transregional Programme on Public Debt Management Audit** was an excellent opportunity offered by the IDI that we have exploited to *increase the professionalism and to improve the methodological basis for the audit of public debt*, that is why we are grateful and sincere thanks to IDI, particularly to Subject Matter Experts: Mr. Jose Oyola, Mr. Tomas Margusson, Mr. Dwita Pradana, Mrs. Roula Katergi.

The activities carried out under the Programme consist of: distance learning course on the Audit of Public Debt; on-line examination of the audit plans; audit planning meeting; conducting the audits; a meeting of the audit review.

In this program we have performed an audit of public debt, according to an Audit Plan coordinated with the IDI's Subject Matter Experts.

The audit report was reviewed both by Experts and Auditors during the review meeting.

The recommendations made by Experts and Auditors will necessarily be taken into account in future audits of public debt.

Thank you for attention and feel free for questions!