



*Translation*

# Audit Strategy 2019-2021 (Multi-annual plan)

Court of Accounts

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## Preamble

One of the points of reference for European integration is the public financial management system, which "needs to be significantly strengthened", requesting to "strengthen governance and institutional capacities in areas such as public fund management."

The Court of Accounts is the public authority of the Republic of Moldova exercising control over the formation, management and use of public financial resources and public property management by conducting external public audit, confirming adherence to international standards on best practices in the field.

**Our mission** is to provide an independent and objective assessment and assurance, in accordance with the International Auditing Standards of the Supreme Audit Institutions, that public funds are managed properly and according to pre-established goals, that all revenues have been collected and reported under the legal framework and public finance management is in line with performance principles.

In **our vision**, we aspire to be a Supreme Independent Audit Institution, appreciated and recognized by national and international partners as performing, responding to exigencies, expectations and challenges.

**The values** we tend to be guided of in our activity as a public authority are: independence, objectivity, professional excellence and capacity building, internal cooperation and team spirit, openness and, finally yet importantly, respect.

## Strategical objectives

Supporting good financial management in public administration by exercising control over the formation, management and use of public financial resources; increasing accountability, public transparency, and result-oriented management development are key elements of our activity.

The implementation of the Court's strategic objectives<sup>1</sup> has a direct impact on public institutions and, implicitly, on citizens, and is ensured through activities that derive from the next three pillars:

- Contributing to strengthening good governance;
- Ensuring institutional sustainability;
- Developing, maintaining corporate and audit quality.

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<sup>1</sup> CoA Strategic Development Plan for 2016-2020, approved by the Court of Accounts Decision No.39 of 10.11.2016.

## Types of audit<sup>2</sup>

The external public audit, in the context of the good governance system, aims at promptly reporting deviations from accepted rules and standards in the field of financial records and reporting or violations of legality principles, as well as measuring effectiveness, efficiency and economy in managing public funds.

Thus, we will concentrate on the qualitative achievement, in accordance with the legal requirements and the provisions of ISSAIs, of three types of audit:

***financial audit*** – an independent activity performed to obtain reasonable assurance that the financial statements as a whole are free of material misstatement as a result of fraud or error, which ends with expressing an opinion as to whether the financial statements are presented, in all material respects, according to the applicable financial reporting framework;

***compliance audit*** – an independent activity performed to ensure that the activities, financial transactions performed are, in all material respects, in accordance with applicable regulations;

***performance audit*** – an independent, objective and trustworthy assessment of how the audited entity complies with the principles of economy, efficiency and effectiveness.

## Mandate<sup>3</sup>

The Court of Accounts has the right to verify all financial and administrative activities, programs and projects managed by one or more public entities, including the process of selling, privatization or concession of assets and their income. Also, the Supreme Audit Institution has the right to audit the use of public financial resources by any beneficiary, regardless the type of ownership and legal form of organization, as well as by the political parties.

The Court of Accounts is obliged to carry out annually the financial audit of:

- the Government report on the execution of the state budget in the ended budget year;
- the Government report on the execution of the state social insurance budget in the ended budget year;

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<sup>2</sup> Art. 31 of the Law on the organization and functioning of the Court of Accounts of the Republic of Moldova No.260 of 07.12.2017.

<sup>3</sup> Art.133 of the Constitution of the Republic of Moldova; art.32 of the Law on the organization and functioning of the Court of Accounts of the Republic of Moldova No.260 of 07.12.2017.

- the Government report on the execution of mandatory health insurance funds in the ended budget year;
- Ministries reports on the execution of budgets in the ended budget year.

The Court of Accounts **shall have the right** to carry out the financial audit of all public authorities and institutions, including self-management public institutions and authorities, as well as the central public regulatory authorities.

The Court of Accounts **has the right** to carry out the financial audit at state and municipal enterprises, in companies whose share capital belongs entirely to the state or administrative-territorial unit, as well as to the companies in which the state, the administrative-territorial units, and municipalities own, separately or together, at least half of the capital share.

The Supreme Audit Institution **has the right** to audit the management of public assets and of performance in public-private partnerships, of public property management and performance in concessions, loans, credits and debts guaranteed by public sector entities, etc.

Although the CoA audit mandate is clearly defined by the constitutional provisions and the Law on the organization and functioning of the Court of Accounts of the Republic of Moldova, there are other legislative and normative acts stipulating the right, as the case may be, the obligation to carry out the external public audit (**Annex to this Strategy**).

Statistically, the Court of Accounts' mandate provides for **16 annual audit missions**, including:

- **12 mandatory financial audit missions:**
  - 3 budgets;
  - 9 ministries, which consolidate 329 subordinate;
- **4 performance audit missions at:**
  - National Bank of Moldova;
  - National Agency for Energy Regulation;
  - The National Commission of the Financial Market;
  - National Integrity Authority.

Also, the mandate of the Supreme Audit Institution permits auditing:

- 15** central specialized bodies of the public administration (APP, CNAS, CNAM, etc.);
- 14** regulatory authorities<sup>4</sup> (ANRE, CNPF, BNM, CCA etc.);
- 15** independent/autonomous public authorities (CEC, CNA, SIS, ANI, Ombudsman Office, etc.);
- 8** other public authorities and institutions (Parliament Secretariat, the President of the Republic of Moldova's Office, Stat Chancellery ,etc.);
- 35** second level local public authorities;
- 899** first level local public authorities;
- 226** state enterprises;
- 550** municipal enterprises;

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<sup>4</sup> including 3 regulatory authorities to be audited annually

- 435 medical and sanitary institutions;
- 65 joint stock companies with a more than 50% state share;
- 41 joint stock companies with a more than 50% TAU share.

Allocations received by the political parties from the state budget will be audited in the year of the electoral polls.

## Available resources

The Court of Accounts is constantly developing and changing, aiming to increase the level of quality of its activity, having limited human, material, informational and financial resources.

### Human Resources

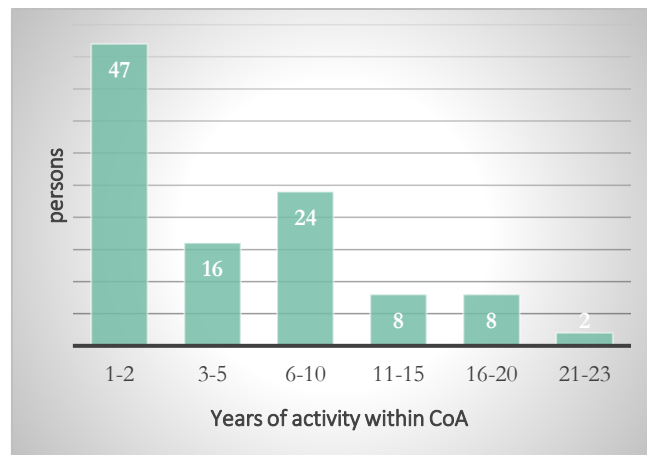
**Human resources** are the creative, active and coordinating element of the entity's activity, which decisively influences the effectiveness of the use of material, financial and informational resources.

The staff of the Court of Accounts consists of 160 units, of which: 112 are external public auditor positions. Of the total number of staff with external public audit functions, 105 positions are occupied or about 94%. The average age of audit staff is 40 years, with a slight rejuvenation trend over the past few years.

The professional education of the auditors of the Court of Accounts is in the following fields: accounting - 27 persons, economy - 38 persons, law - 20 persons, other fields - 20 persons.

The duration of the audit workforce within CoA is between 1 and 23 years, with 45 percent of auditors being employed for up to 2 years.

### Time resources



The time is a limited resource in absolute terms; it can not be extracted or produced; any activity is time-consuming, and the time gap can not be compensated or replaced by other resources.

Starting from the fact that an employee with audit duties activates during the year, on average, 220 working days (250 annual working days - 30 working days of leave), the annual budget that can be allocated for carrying out the activity of audit, total per institution, is about 23 thousand person/days. At the same time, taking into account the time resources needed to train audit staff, including in the context of certification, ad hoc audit missions (requested by Parliament, civil society, development partners, etc.) or follow-up missions, but also the probability of sick leave, the time resources available for audit work will be planned with a 10-15% reserve. Thus, the annual budget for the operational activity will be about 19.6 thousand person/days (186 days per employee), out of which 4.8 thousand person/days (about 25%) will be allocated to carry out mandatory financial audits.

### **Informational resources**

The use of information technologies in the audit activity will produce changes within the Court of Accounts, and respectively more successes will be recorded in the operational activity.

The use of specialized software solutions by the employees in audit activity will significantly contribute to enhancing the quality of the audit engagement planning and execution process, including time management implementation, but what is most important - will help improve quality and efficiency audit activity.

## **Priorities of audit activity**

### **General priorities**

The Court of Accounts annually presents to the Parliament the Report on the Administration and Use of Public Financial Resources and Public Assets, which contains the main findings and conclusions of the audit missions, absolutely opportune and necessary to be approached by Parliament, Government, central and local public authorities, in order to improve the management of public resources.

In order to develop a qualitative Report on appropriate audit topics to add value to decision-making, we propose:

- developing and approving balanced annual audit programs, including both mandatory audit missions and current audit topics;
- rational planning of audit engagements, based on available resources and capabilities;
- annual conducting, with a gradual increase in the number of financial audit missions to public authorities at all levels;

- continuing to conduct compliance and performance audit missions, mainly with a system approach, in areas of socio-economic importance (health and social insurance, education, poverty reduction, infrastructure development, central public administration reform, public sector wage reform etc.);
- mandatory assessment of the level of implementation of recommendations made in the annual financial audit missions. Performing **follow-up** missions, in particular to assess the impact of implementing recommendations made in thematic or system audit missions in areas of socio-economic or specific importance;
- auditors' specialization by type of audit;
- standardizing audit activities, including by implementing and using a specialized software system;
- Improving the quality of audit missions, audit methodologies and the professional skills of audit staff, etc.

## Priorities by type of audit

### Financial audit

The Court of Accounts is legally obliged to carry out the annual financial audit of the 3 budgets (state budget, state social security budget and mandatory health care fund) and mandatory annual audit missions of all ministries (9 ministries) to the budget year concluded.

By conducting financial audit missions, we aim to contribute to the consolidation of good accounting practices and financial reporting in public authorities so that their financial reports present a fair and accurate picture of financial performance and financial position in accordance with the financial reporting regulatory framework.

As financial audit, given our current circumstances and the predominantly binding nature, is our priority, we will allocate sufficient resources to ensure an adequate quality of these audit missions.

In order to achieve the proposed goal in the field of financial audit, we tend to:

- follow and take into account the reforms in the public sector and mainly in accounting and financial management;
- to initiate the mandatory annual audit missions to the ministries by the end of the management year so as to ensure that they are completed within reasonable time limits to use the data obtained in the preparation of the Annual State Budget Reports;
- make an effort to conduct financial audit missions in full compliance with ISSAIs;



- continue the process of standardizing and optimizing key audit procedures. Also, during the implementation of the Strategy, adjust the significance threshold to the optimum value;
- implement an adequate control of the quality of financial audit missions, respectively, to improve the professional skills of our staff through education, trainings, working groups, etc.
- Start using specialized audit management software to enhance the quality and efficiency of our audits.

## Compliance Audit

In the context of legal provisions, the Court of Accounts has an exhaustive mandate to perform compliance audit missions.

By accomplishing the compliance audit missions, we aim to increase the quality of public sector management. For us, as the ultimate audit authority, it is essential that public sector managers duly comply with legal requirements in the management of public funds entrusted to them. In the compliance audit, we will focus on the issues and draw conclusions. The compliance missions will be directed towards public procurement, subsidies, regularity of public authority exercise of delegated powers, compliance of public service delivery with citizens, LPAs, etc.

In the compliance audit, special attention will be given to the risks of fraud and corruption.

Our approach to this type of audit requires concentrating efforts on selected audits based on materiality and risk criteria. Similarly, when selecting audit engagements, we will take into account that entities that are not audited annually should be periodically covered by audit missions.

In order to achieve the medium-term objectives, we are proposing:

- opt for a systemic (transversal) approach to compliance issues;
- develop and implement an internal audit methodology framework that will standardize and optimize procedures for this type of audit;
- make an effort to carry out compliance audit missions in full compliance with applicable ISSAIs;
- implement an adequate quality control of audit missions and ensure continuing professional training to strengthen the professional knowledge of our auditors;
- start using specialized audit management software to enhance the quality and efficiency of our audits.

## Performance Audit

The Court of Accounts has a broad mandate to perform performance audits. Performance audit missions give taxpayers a clear assessment of how their money is spent, they also help improve public institution management and reduce the risk of inefficient use of public resources.

By making this type of audit, we propose to provide answers to questions, such as: was there any added value ?; has the performance improved ?; is there any possibility for money to be spent better or wiser?

The primary objective of the performance audit is to promote constructively effective and efficient economic governance. By performing this type of audit, we aim to focus our limited audit resources on areas that have a major impact on the lives of ordinary citizens. Improving the management of public resources by helping to increase the accountability and transparency of public authorities will also be one of the main areas that we must focus on.

In order to achieve the proposed objective, we will focus our efforts on planning and delivering relevant performance audits in the context of the 17 UN Sustainable Development Objectives. Respectively, we propose:

- create performance audit incubators to ensure the training of qualified staff in this type of audit and to contribute to its continued development;
- to perform performance audit missions, priority with system approach, in areas of socio-economic importance (health and social care, education, poverty reduction, rural economic development, infrastructure, access to water and sanitation, etc.);
- strive to perform performance audits in full compliance with the applicable ISSAIs and approved methodologies;
- strengthen our performance audit procedures with the support of development partners;
- increase the quality and efficiency of performance audits by continuing professional training of employees with the necessary skills to carry out this type of audit;
- start using specialized audit management software.

Strategic priorities in performance audit will be orientated towards improving the performance of public authorities and institutions by assessing the performance of managed resources, focusing on:

- the social domain, especially health insurance, social protection and education;

- the economic domain, especially the public-private partnership; privatization of public property, etc .;
- the environmental domain, in particular the quality of water, soil, air and disaster and calamity management.

## Combating fraud and corruption

In order to implement this Audit Strategy, within the framework of the audit missions of all types, we aim to identify and immediately notify competent authorities and law enforcement authorities of suspected frauds and corruption.

Thus, audit engagements will take into account internal procedures for identification and documentation by auditors of cases of suspicion of fraud and corruption, as well as capacities to identify and document suspected fraud and corruption will be developed.

## Implementing the Strategy

This Strategy will be a benchmark for the coherent preparation of annual audit programs, taking into account the trends and changes that may take place in the decisions of the state institutions. In order to ensure the successful implementation of the Strategy, it is appropriate to allocate resources according to the types of audit, correlated with their importance in the context of the mandate of the CoA (see the table below).

Also, in the context of implementing the Strategy we will ensure:

- addressing in all financial audit missions a significant subject or domain for users of audit reports, for example, public administration reform, payroll, etc.;
- the realistic annual planning of the audit activity, based on the available resources and respecting the timing of the planned audit missions;
- In the preparation of the annual audit programs, we will provide a resource reserve from 15% (2019) to 10% (2021) annually to ensure resource flexibility if necessary, to carry out ad-hoc audit missions, follow-up missions, certification of the audit staff during 2019, etc.

### The share of resources allocated annually for basic activity

<i>Activities</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
<i>Financial audit missions</i>			
<i>from which:</i>			
<i>- mandatory</i>	<i>30%</i>	<i>25%</i>	<i>25%</i>
<i>- other than mandatory</i>	<i>10%</i>	<i>15%</i>	<i>15%</i>
<i>Compliance audit missions</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
<i>Performance audit missions</i>	<i>20%</i>	<i>25%</i>	<i>25%</i>
<i>Other activities*</i>	<i>15%</i>	<i>10%</i>	<i>10%</i>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

*\*Other activities - resources needed to carry out ad-hoc audit missions (requests from Parliament, civil society, development partners, etc.), follow-up missions, training and certification activities.*

## Impact

By implementing the actions outlined in this Strategy, we aim to include in the audit area as many entities or areas as possible to the audit, respectively, to carry out qualitative and timely audits that will contribute to the consolidation of good governance and will bring a difference in the life of the citizens.

The consistent implementation of the Strategy will help us:

- better understand the expectations of stakeholders and respond to them in a timely manner and without compromising our independence;
- develop and approve annual audit programs so that we respond adequately to key issues affecting society;
- Evaluate the risks in changing the audit environment and respond to them through relevant activities, which will address the deficiencies of accounting and financial reporting and prevent fraud and corruption.

In the same way, we will continue to strengthen confidence in our activity, to become a credible voice in reviving the public sector.

## Risks of implementing the Strategy

The risks associated with the implementation of this Strategy may be both internal and external and may affect the proper achievement of the objectives set, and may jeopardize the achievement of the expected results. Potential major risks resume to:

- insufficiency and imperfection of the methodological norms related to the financial reporting framework in the budgetary system;
- failure to comply with the budget schedule, respectively, failure to approve within the established deadlines the Government Reports, as well as the annual financial reports of the ministries;
- elaboration of untested, complex and unbalanced annual audit programs;
- Performing non-qualitative and irrelevant audits.

To achieve a coherent management of the identified risks, we propose:

- define tolerance / acceptable level of risk exposure;
- assess the likelihood of risks materializing, to determine the impact and exposure;
- establish control measures to manage and monitor risks.

## Monitoring

The process of implementing the Strategy will be accompanied by the continuous monitoring of the achievement of the proposed actions and of the obtained results, as necessary modifications being carried out. We will report annually on implementation of the Strategy by including a separate compartment in the Court of Accounts' Activity Report.

*Legislative acts stipulating the obligation to carry out external public audit*

**Law No.181 of 25.07. 2014 on Public Finances and Budget-Fiscal Liability** provides for external public audit on the formation, management and use of the national public budget resources, as well as for the management of the public assets. Similarly, the Court of Accounts conducts audits of annual reports on the execution of the state budget, state social security budget and mandatory health insurance funds for the ended budget year and presents audit reports to the Government and to the Parliament by June 1<sup>st</sup>.

**Law No. 548-XIII of 21.07.1995 on the National Bank of Moldova** stipulates that the Court of Accounts, in its capacity of Supreme Audit Institution, has the right to assess the legality and regularity of the National Bank's expenditure estimates and allocations. The external public audit of the Court of Accounts will be limited to examining the operational effectiveness of the decisions taken by the National Bank's management, excluding those relating to the implementation of the monetary and foreign exchange policy of the National Bank and the management of foreign exchange reserves of the State.

**Law No. 174 of 21.09.2017 on Energy** establishes that the Court of Accounts conducts audits of the financial statements of the Energy Regulatory Agency, namely the legality, regularity and efficiency of budgeting and use of the budget.

**Law no. 192-XIV of 12.11.1998 on the National Commission of the Financial Market** stipulates that the external public audit of the financial-budget year of the National Commission is carried out by the Court of Accounts.

**The Law No. 753-XIV of 23.12.1999 on the Information and Security Service of the Republic of Moldova** provides for the Court of Accounts to carry out the external public audit of the financial activity of the Service.

**Law No.132 of 17.06.2016 on the National Integrity Authority** establishes that the Authority's activity is subject to the annual audit of the Court of Accounts.

**The Electoral Code No.1381-XIII of 21.11.1997** provides that, after the elections are concluded, the Central Electoral Commission shall submit to the Parliament, as soon as possible, a report on the management of the allocated funds, together with the opinion of the Court of Accounts.

**Law No. 246 of 23.11.2017 on the state enterprise and municipal enterprise** does not provide for mandatory annual auditing by the CoA of the annual financial statements of state and municipal enterprises and if they have been subject to external public audit, they will not be subject to mandatory auditing.

**The Competition Law No. 183 of 11.07.2012** provides for the performance audit by the Court of Accounts.

**Law No. 283 of 28.12.2011 on Border Police** stipulates that the external public audit of the financial activity, the way of training, administration and use of the Border Police's financial means is exercised by the Court of Accounts.

**The Law of the General Inspectorate for Emergency Situations No.93-XVI of 05.04.2007** stipulates that the external public audit of the use of the budgetary means allocated for the maintenance of the Inspectorate is exercised by the Court of Accounts.

**The Law No. 1104-XV of 06.06.2002 on the National Anti-Corruption Centre** stipulates that the external public audit of the use of the budgetary means allocated for the Centre's maintenance is carried out by the Court of Accounts.