

**The Quality of Audits by the Court of Accounts of Moldova: A
Review of Compliance with International Standards of Supreme
Audit Institutions**

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Abbreviations and Acronyms

CoA	Court of Account
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
ISQC	International Standards on Quality Control
FM	Financial Management
GGP	Governance Global Practice
PFM	Public Financial Management
PMF	Performance Measurement Framework
ToR	Terms of References
SAI	Supreme Audit Institution
SAI-PMF	Supreme Audit Institution Performance Measurement Framework

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1. Introduction

1.1 Background

1. Public sector auditing is important as it provides independent and reliable information to legislatures, oversight bodies, those charged with governance and the public, on the management of public funds. Public sector auditing also enhances confidence of users by providing information, and independent - objective assessments on deviations from accepted standards or principles of good governance.

2. SAIs help promote good governance, accountability, transparency, and the public trust. The work of SAIs in reducing waste and abuse of public resources has the indirect effect of making more money available for programs for fighting poverty. SAIs have a special position among government institutions. They perform a vital role in the functioning of government as they inform the parliament and other stakeholders through their independent audit reports.

3. The International Organization of Supreme Audit Institutions (INTOSAI) enables SAIs to help their respective governments improve performance by producing robust auditing standards through the International Standards of Supreme Audit Institutions (ISSAI). The INTOSAI Framework of Professional Pronouncements, endorsed by the XXIII International Congress of Supreme Audit Institutions held September 25–27, 2019, in Moscow, contain three categories of professional pronouncements: the ISSAI, INTOSAI Principles (INTOSAI-P), and INTOSAI Guidance (GUID)¹.

- INTOSAI-P consists of founding and core principles. The founding principles have historical significance and specify the role and functions that SAIs should aspire to. These principles may be informative to governments and legislatures as well as SAIs and the wider public and may be used as a reference in establishing national mandates for SAIs. The core principles support the founding principles for the SAI, clarifying its role in society as well as high-level prerequisites for its proper functioning and professional conduct.
- The ISSAIs are the authoritative international standards on public sector auditing. Their purpose is to:
 - Ensure the quality of the audits conducted
 - Strengthen the credibility of the audit reports for users
 - Enhance transparency of the audit process
 - Specify the auditor’s responsibility in relation to the other parties involved
 - Define the different types of audit engagements and the related set of concepts that provides a common language for public sector auditing.
- GUID is developed by INTOSAI to support the SAI and individual auditors in:
 - How to apply the ISSAIs in practice in the financial, performance, or compliance audit processes
 - How to apply the ISSAIs in practice in other engagements
 - Understanding a specific subject matter and the application of the relevant ISSAIs.

4. Audits of World-Bank projects include financial, compliance and performance audits though the first two remain the common practice. They are performed in accordance with the International Auditing Standards produce by INTOSAI.

5. To comply with ISSAI standards, the Court of Accounts (CoA) of Moldova establishes policies and procedures for its work. These are outlined in an audit manual, a system of quality control and various other audit tools that guide auditors through a set of required steps to ensure that the audits are conducted according to professional standards and SAI policies. The review focuses on the following components:

1. For more information about IFPP, visit <https://www.issai.org/professional-pronouncements/>.

- SAI Independence
- Quality control
- Planning phase
- Audit execution phase
- Audit reporting and follow-up

6. This report summarizes the major observations related to the practice review of the Court of Account of Moldova.

1.2 Overview

Objective of the review

7. The objective of the practice review is to produce an evidence-based data on the viability of the assurance provided in order to determine whether:
- audits of projects financed by the World Bank comply with ISSAIs professional standards;
 - audit reports are supported and appropriate.

Scope and methodology

8. We planned to conduct the present review based on two questionnaires:
- Questionnaire 1 – ISSAIs standards are included in the audit manuals, guides and tools of the Court of Account of Moldova; and
 - Questionnaire 2 – Validation from the audit files that audit manuals, guides and tools are implemented by the Court of Account of Moldova.
9. The methodology to achieve the review objectives includes:
- Identify all SAIs that have produced and published at least one audit report during 2012-2017;
 - Agreement with Governance Global Practice (GGP), Financial Management (FM) staff on the selected SAIs based on interest in collaboration, to foster buy-in for the policy or operational recommendations which may come out from the review;
 - **Survey** - Develop and circulate a questionnaire to selected SAIs to obtain evidence that the SAIs meet the quality standards to be considered when conducting an audit; Independence standards; International Standards on Quality Control (ISQC); and standards related to the planning, execution reporting and follow up;
 - **Validation through audit file review** - Have FM staff to visit the SAIs to conduct an audit file review to verify the result of the completed questionnaire;
 - **Draft report** - Analyze and document the findings in a draft report;
 - **Report** - Disseminate the final review report.

Rating system

10. The review team applied a simplified rating system to rate the degree of compliance with ISSAIs (table 1).

Table 1. Simplified Rating System to Rate the Degree of Compliance with ISSAIs

Compliant (Requirement is met by the SAI)	The ISSAI requirements and applicable auditing standards were implemented in SAI's audit practice.
Partially compliant (Requirement is partially met)	Improvements are necessary in some areas to fully comply with the ISSAI requirements

Non-compliant (Requirement is not met)	Major deficiencies exist; there is non-compliance with the ISSAI requirement.
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Source: World Bank.

2. Findings of the review of the implementation of ISSAIs by the Court of Account of Moldova

11. The CoA of Moldova completed the self-assessment questionnaire. Table 2 presents the summary of the analysis of the self-assessment followed by a detailed analysis.

Table 2: CoA of Moldova - Summary of the review of the implementation of the ISSAI's requirements

CoA of Moldova		ISSAIs implementation in the audit practice				
Component	Independence	Quality Control	Audit planning	Audit examination	Audit reporting and follow-up	Overall assessment
ISSAIs standards are included in the audit manuals, guides and tools and procedures	Partially compliant	Compliant	Compliant	Compliant	Compliant	
Validation from the audit files that audit manuals, guides and tools are implemented	Non applicable (N/A)	N/A	Compliant	Compliant	Compliant	
Overall assessment	Partially compliant	Compliant	Compliant	Compliant	Compliant	Partially compliant

Source: World Bank.

2.1 CoA of Moldova independence

12. Overall, the review found that the Court of Account is **partially compliant** with the INTOSAI requirements related to independence, the founding principles and prerequisites for an effective SAI set down by the INTOSAI members themselves.

13. The questionnaire included four questions related to the following sections:

- Constitutional and legal framework
- Financial independence and autonomy
- Organizational independence autonomy
- Independence of the Head of the SAI and its Officials

14. The review found that the Constitution and legislation of the Republic of Moldova, article 133 provide a strong basis for the CoA's independence from the executive power and its auditees; detailed rules protect the security of tenure and legal immunity of the Court of Account in the normal discharge of its duties; CoA's mandate has full discretion in the discharge of its duties as a Supreme Audit Institution in the field of public sector auditing.

15. Article 3 of the Status states that the Court of Accounts is the Supreme Audit Institution of the Republic of Moldova that controls the formation, administration and use of public financial

resources and public property by carrying out external public audit in line with International Standards of Supreme Audit Institutions. The Court of Accounts shall have organizational, functional, operational and financial independence under this law.

16. Article 17 related to the appointment of the members of the Court of Accounts contains crucial provisions about the independence of the President of the Court of Accounts and states that he shall be appointed by the Parliament for a five-year period, at the proposal of the Parliament Speaker, based on a public competition, with the majority vote of the elected Members of Parliament.

17. The review identified an important shortcoming related to the budget of the Court of Account which is approved by the Ministry of Finance, and it is submitted by the Government to the Parliament for endorsement. Such practice does not allow the Court of Account to prepare its own budget and submit this to Parliament. Likewise, the Court of Account of Moldova does not have the flexibility to use its budget according to its own priorities in accordance with the national budgetary laws. Consequently, there is room to improve to practical financial independence of the Court of Account of Moldova.

18. Overall, the review noted that improvements are needed for the Court of Account of Moldova to fully comply with the INTOSAI requirements related to the INTOSAI's Lima and Mexico Declaration.

2.2 Compliance of the System of Quality Control with the ISSAIs

19. The review found that the policies and procedures for Court of Accounts of Moldova's system of quality control were relevant and adequate and **compliant** with the ISSAIs requirements. We did not identify any major deficiencies.

20. The responses to the four questions related to the quality control were positive and supported, confirming that CoA of Moldova have documented its system of quality control policies and procedures and communicated them to staff. These include:

- The ethics code of CoA, approved through CoA Decision No.19 of April 26, 2019;
- The regulation on the Human Resources Management of the Court of Accounts, approved by the Court of Accounts Decision No.41 of June 22, 2018;
- The Audit Staff Training and Professional Development Strategy, approved by the Court of Accounts Decision No. 36 of June 22, 2018.
- The guide on Quality framework approved by the Court of Account Decision no.66 of December 17, 2013;
- The Quality framework guide, approved by the Court of Account Decision No.66 of December 17, 2013.

21. The review noted that the guides, manuals, and regulations of the system of quality control was maintained up to date by the Court of Account.

22. Overall, the review found that the Court of Account of Moldova design of the system of quality control was adequate and relevant in meeting the requirements of the International Standards on Quality Control.

2.3 Compliance of the audit planning process with the ISSAIs

23. The review found that audit procedures related to the planning phase are **compliant** with the ISSAI requirements.

24. The responses related to the nine questions of the planning phase were all positive and supported. The Court of Account's existing audit manuals describe the relevant procedures and documents to be prepared by auditors for the audit planning process.

25. Audit guidelines provide a reasonable basis for the conduct of the audit planning process and include: information on the audited entity's environment, audit materiality and risks, and describing the audit scope, objectives and methodology. We noted that the general audit planning approach complies with international standards.

26. The review also found from the audit files that « a comprehensive checklist exists on the entity's environment comprising its regulation framework, social and economic factors, entity's nature, strategic plans, internal audit reports, previous audits. For each aspect there are conclusions and assessment of the risks ». The review noted that the audit planning process was operating effectively.

27. In accordance with the manual, « the CoA develops an audit program which establishes the nature, time schedule and the extent of the planned audit procedures. The program includes: risks, testing procedures: tests of controls, substantive procedures, test of details, analytical procedures, assertions to be tested per each area during the examination phase ». The review noted that the planning process is robust.

28. Overall, the review found that the policies, procedures and guidelines for CoA of Moldova related to the audit planning process were relevant and adequate. We did not identify any major deficiencies.

2.4 Compliance of the audit execution process with the ISSAIs

29. The review found that audit procedures related to the audit execution phase are **compliant** with the ISSAI requirements.

30. Audit manuals provide for procedures in order to obtain sufficient and adequate audit evidence to support audit findings. CoA's auditors apply a robust methodology, as set out in the Audit Manual and supported by documentation tools and templates.

31. Procedures are implemented and documented in the audit programs. The working papers related to the general test on evaluation of key controls were good. In the execution phase practice areas, the fieldwork was sound, audit teams obtained sufficient and appropriate evidence to support reported findings.

32. On the selected audit files, auditors used a combination of techniques. In this respect the team checked the working papers related to the tests performed over entity's disbursement mechanism under World Bank project: objective, risk, and criteria of testing. Completeness and accuracy were tested. Testing of transactions: objective and risks.

33. Overall, the review concluded that the level of compliance of the audit execution phase requirements for the Court of Account is relevant and adequate with the international auditing standards. We did not identify any major deficiencies.

2.5 Compliance of the reporting and follow-up with the ISSAIs

34. As in the planning and execution phases, the review found that audit procedures related to the reporting and follow-up phases are **compliant** with the ISSAI requirements.

35. The review noted that the Court of Account make its reports publicly available through the website. These reports include the requirements set by the ISSAIs especially, easy to understand, supported by sufficient and relevant audit evidence, and be independent, objective, etc.

36. There were no significant observations related to the file review. The review found that the audit reporting process in place at the Court of Account was good.

37. The system of follow-up on audit recommendations included in the audit report is robust. « The methodology department introduces the recommendations on each audit in special system. The system flags when any recommendation is due and any follow up with the audited entity is needed. If any communication or evidence from auditee is received, the audit team attest whether the recommendation was executed or not ».

38. Overall, the review does not have a significant deficiency related to the reporting of audit findings, conclusions and recommendations by the Court of Account of Moldova. Its level of compliance with the ISSAI requirements is adequate and supported.

3. Conclusion

39. Compliance with International Auditing Standards is an important component of audit quality and is critical in maintaining SAI's credibility. The Court of Account of Moldova's audit methodology was generally compliant with these standards issued by INTOSAI. We suggest that the Court of Account sets up a system of continuous improvement by developing and implementing a more robust and systematic process for ensuring that the lessons learnt from audits and practice reviews are identified, captured and disseminated. These lessons should desirably be incorporated into learning and development programs as well as the audit methodology and guidance.