

**MANAGEMENT OF THE
TRANSITION PERIOD**

**TO INTERNAL AUDIT IN
MOLDOVA**

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“Factors that preconditioned PIFC introduction”

- **EU-Moldova Action Plan ratified on 22.02.2005 – contains provisions on PIFC introduction**
- **The Government indicated establishment of PIFC system as an objective in various government strategies (similar actions were envisioned in the PIFC Development Strategy adopted by Government Decree N 74 on 29.01.2008)**
- **PIFC establishment is preconditioned by the second component of Public Finance Management Project (Internal Control and Audit”) financed by the World Bank**

Stages of PIFC Implementation

- I. Initial Preparation Stage (2006-2007)*** – establishment of CHU; regulatory and legislative framework; methodology; raising awareness; initial training; maintenance of the existing inspection
- II. Centralized Audit Stage (2008-2009)*** – Reorganization of Financial Control and Inspection Service into Centralized Internal Audit Service for replacing inspection by internal audit, pilot IA projects in 3 institutions. Methodological and practical assistance and capacity building
- III. Decentralization Stage (2009-2010)*** – after assessment of pilot projects – Decentralized Internal Audit was set up in public sector institutions

Achieved Progress:

Legal framework

- **PIFC Concept (2006)**
- **National Internal Audit Standards (2007)**
- **Code of Ethics of Internal Auditor (2007)**
- **Internal Audit Chart (2007)**

- **Development Strategy of PIFC (2008)**
- **Methodology norms of internal audit in public sector (2008)**

- **Law on local public administration (amended in 2009 г.)**
- **Law on budget system in budgetary process (amended in 2008 and 2009)**

Achieved Progress: Legislative Framework

- **Draft Law on PIFC – submitted to the Government (2010)**
- **Draft Strategy of PIFC Development (2010-2012) – submitted to the Government together with the Law**
- **Draft of standard 19 "Audit of Quality Characteristics"(2010)**
- **Draft Strategy on Training and Professional Development of Internal Auditors (2010)**

Achieved progress:

Institutional environment

- **CHU establishment**
- **Internal audit pilot project**
- **Establishment of 35 internal audit units**
- **Methodological and practical support to internal audit units of public institutions**
- **Support to public institutions for establishment of internal audit units and staff hiring**
- **8 internal audit units perform audit**
- **Web page opening - <http://minfin.md/ro/cfpi/>**

Achieved progress:

Learning and professional development environment

- **Organization of seminars on mediation for executive managers**
- **Organization of seminars for internal auditors**

- **During the seminars, internal auditors who work in conformity with the National Internal Audit Standards organize practical trainings for junior auditors**

MAIN CHALLENGES

- **Absence of external consultants and funds**
- **Lack of understanding of internal audit function**
- **Establishment of internal audit units comprised of 1-2 employees (it is impossible to expand staffing due to limitation of new hiring in the public sector)**
- **Shortage of experienced internal audit specialists**
- **Status and level of remuneration of internal auditors**
- **Certification of internal auditors**
- **Quality assessment of internal audit performance**
- **Old “habits|” of internal audit units staff – look for errors and who to blame**
- **Internal auditors do not assess operative activity of public institutions**
- **FMC system is not established in public institutions**

LESSONS LEARNED

- **Compulsory availability of external funds and external consultants**
- **Strategy – good instrument to start establishment of IA**
- **Raising awareness of top management**

- **PIFC– IA– good anti-corruption instrument – preventive measure**
- **Audit is not inspection, it is value-added function...**
- **Support of internal audit and FMC by top management**

LESSONS LEARNED

(CONTINUED)

- **Do not confuse internal inspection and internal audit – management bears responsibility for inspection, while the auditor for internal control systems ...**
- **Do not let internal auditors to work in isolation**
- **Strategy of hiring and retention of responsible and qualified specialists**
- **Strengthening public-relations - conferences, press-releases, brochures**
- **Efficient and continuous training system for internal auditors**
- **Monitoring and reporting on the progress achieved by internal audit system**

QUESTIONS

- 1. How to ensure real independence and objectivity of internal auditors?**
- 2. How to organize certification of internal auditors in the best way?**
- 3. How should CHU monitor and report the progress of internal audit activity in the internal audit units?
Basing on what criteria?**
- 4. How to assess the quality of internal audit performance in a more efficient way?**