

Information document

Study Visit Type A, to Moldova

Participants: Armenia, Kazakhstan and Russia

This study visit is organized on the request of three ex soviet countries: Armenia, Russia and Kazakhstan to learn from country's experience about recently implementing of PIFC model and its functioning.

Objectives of the SV:

The objectives of the SV are the following:

- To see what is done in Moldova in the field of FMC, as well as the role and activities of CHU and IA;
- To share experience about the regulation and normative framework on internal audit and financial management and control on the state and local level;
- To learn from Republic of Moldova training certification and continuous development system.
- To learn about Strategic and annual planning (based on risk assessment) and carrying out an internal audit engagement;
- To learn about training and certification system for internal auditors;
- To exchange the views between the invited participants and the host on the difficulties and risks in the implementation of the internal audit function, as well as during the implementation of appropriate reforms (risks of the initial stage and further promote the reform).

Description of the institutional set up and regulation in the country(ies) of the beneficiary(ies) and that of the host

Host country, **Republic of Moldova** started PIFC reform in 2006 and at this moment has successfully developed a solid normative framework either institutional one, according to EU PIFC model. There are fully operational:

- PIFC Council under the Ministry of Finance;
- CHU;
- 80 decentralized internal audit units;
- Internal Audit Certification Commission;
- Financial Inspection under Ministry of Finance;
- Supreme Audit Institution (INTOSAI member) which report to Parliament and are oriented on financial, compliance and performance audit.

Normative framework is in place:

- PIFC law
- PIFC Development Program 2014-2017;
- Internal audit standards, Code of Ethics, IA Charter template and methodological norms, Public sector internal auditors continuous professional development program, Certification regulation for internal auditors;
- Regulation on Reporting of Internal Audit Activity;

- National Internal control standards and Regulation on Financial Management and Control Reporting, FMC Manual;
- Draft template charter of Finance and economy department

Armenia:

There are several steps done in Armenia in PIFC. Particularly in the area of internal audit following legal acts have been adopted by:

- Law on Internal Audit
- Government Decree on Standards of Professional activities of Internal Audit and Rules of Conduct of Internal Auditors
- Order on Approving the Methodology Instructions of Applying the Internal Audit Professional Activities Standards
- Order to Approve the Development Guidelines of the Internal Audit Manuals and Internal Audit Regulations for the Public Sector
- Order on Establishing the Main Requirements for the Internal Audit Department and Internal Audit Committee
- Order on Approving Procedures to Identify the Republic of Armenia Public Sector Organizations Internal Audit Environment and Description of Functions
- Order on Approving the Regulation Model Form of Internal Audit and Features of Its Preparation Procedures
- Government Decree on approving the procedures of the organization's internal audit system evaluation by persons not related to the organization's activities for the purpose of ensuring the quality of the organizations' internal audit, as well as of cooperation of internal audit with inspecting bodies and external audit body
- Government Decree on approving the procedure for internal auditor's qualification and requirements to public organizations for internal audit
- Order on Approving the Continuous Professional Training Procedure for Internal Auditors

But that is not enough to say that in practice all these acts are working regulations, as well as now Armenia is focused on FMC legal framework, and this part is missing in our country.

Kazakhstan:

Kazakhstan is at the first stage of development. There is a draft IA and financial control law,

Russia:

The Russian Federation has developed a system of state financial control, as well as a reform aimed to introduce internal audit in government.

Currently, the external state (municipal) financial supervision is done by Chamber of Accounts. Under the internal state (municipal) financial supervision means Auditing activities of the Federal Service for Financial and budgetary oversight of government (municipal) financial control at the level of the Russian Federation (local administrations).

In addition, the Budget Code of the Russian Federation, normative acts of the Government and local acts of the authorities have provisions related to:

- internal financial controls, aimed to verify compliance with internal standards and procedures for the preparation and execution of the budget, budget development and reporting;

- internal financial audit designed to determine the reliability of assessment of internal financial controls and make recommendations to improve its effectiveness, confirmation of the reliability of budget reporting and compliance of the budgetary accounting methodology and budget accounting standards, as well as for the preparation of proposals to improve the economy and effectiveness in the use of budget funds.

The main challenges facing the reform of internal audit in the Russian Federation are:

- transformation of internal financial control and audit in an internal control and audit with expanded audit area, analyzing not only the "financial" risks.
- training and retraining of internal auditors;
- implementation of the system of internal and external assessment of the quality of internal control and audit;
- upgrading relations and areas of cooperation between the external and internal public financial control and internal audit in government ("Issues" working group RIFIX);
- implementation of innovative IT solutions to ensure coordination and internal audit activities.

Socio economic context of the visiting country

Both host country and beneficiary countries have strong tradition of centralized financial management based on compliance in using public financial funds and centralized financial inspection performed by Parliamentary and MoF specialized control organizations. Also decentralized financial inspection located in line ministries and local authorities exist and there are focused on financial compliance.

Beneficiaries are in the process of public finance reform and public financial control is part of reform agenda. Countries are modernizing public internal financial control, including implementation of internal audit and transformation of functions to strengthening the managerial responsibilities and better control on results achieved and value for money provided by public institutions.