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Reforming Master Programmes in Finance in Armenia and Moldova / REFINE

An Erasmus+ Capacity Building Project (2017-2020)

# Public Financial Control

*Academy of Economic Studies of Moldova.*

*Assoc. Prof. Ph. D. Denis Vostricov*



# BASIC INFORMATION



<b>TITLE OF THE COURSE</b>	<b>Public financial control</b>
<b>TEACHERS</b>	Assoc. Prof. Ph. D. Denis Vostricov
<b>YEAR OF THE COURSE</b>	I
<b>SEMESTER OF THE COURSE</b>	II
<b>LANGUAGE</b>	English
<b>NUMBER OF ECTS CREDITS</b>	5

# LEARNING OUTCOMES



- Master the concept of public financial control, types and methods of control; Understand the instruments in investigation and prevention of financial fraud; Clearly understand the responsibilities and role of internal control functions within an organisation;
- Identifying the risks of economic frauds and underperformance of the financial control; Analyzing economic indicators and giving appreciation to efficiency of public financial control at macro - and micro - level; Be familiar with national and international institutional, legal and regulatory frameworks in the field of public financial control;
- Master and apply methods of control to timely determine anomalies in a financial activity of an organisation and formulate ways to mitigate impacts or avoid them; Identify and distinguish various models of the financial frauds which for determining the approaches which should be taken by an organisation in prevention of fraud using appropriate internal organizational arrangements for financial control; Critically address current national and international problems of the economic security and public financial control, as well as their underlying theoretical and systemic underpinnings., as well as their underlying theoretical and systemic underpinnings.

# SYLLABUS OF THE COURSE



Week	TOPIC
1	Introduction to public internal control and financial contraventions and infractions. Scoping of public internal control and its elements. Public financial control as an instrument of financial policy of the state
2	Types and Methods of Control. Identifying and assessing the risks of PFC
3	Types of Economic Infractions and Contraventions
4	The Legal and Institutional Framework of Public Financial Control in the Republic of Moldova. Role, Functions, Duties and Powers of the Responsible Authorities. The Financial Intelligence Unit and its functions
5	Legal enforcement, prosecution and other competent authorities - the framework for the investigation and prosecution of offences, for confiscation and freezing. Efficiency of Public Financial Control Bodies. Identifying and assessing the risks of financial infractions and contraventions over the internal market and economic security of the country
6	The Activity of International Organisations in Prevention of Economic Crimes
7	International Standards in the Field of Money Laundering

# SYLLABUS OF THE COURSE



WEEK	TOPIC
8	International Conventions in the field of combating economic crimes. International agreements in the field of combating money laundering, where the Republic of Moldova is part
9	Prevention of money laundering risks / financing of terrorism. Customer due diligence
10	Financial institution confidentiality regimes and terms of cooperation
11	Internal Control Functions, Compliance, Audit Functions
12	Associated Regulatory and Supervisory Challenges in controlling jurisdictions who implement reduced standards on transparency and exchange of information for tax purposes
13	2. The impact of use of crypto-currency schemes and virtual currencies and other FinTech developments over the national economic security. Regulatory and Supervisory Challenges in Preserving the Integrity of the Financial System
14	Other financial schemes (ex. Ponzi schemes) which are used in economic crimes and Regulatory and Responses

# WEEK 1



- Introduction to public internal control and financial contraventions and infractions
  - Definition of Public Financial Control (PFC)
  - Objects of the control
- Scoping of public internal control and its elements. Public financial control as an instrument of financial policy of the state
  - Scope of public control
  - Functions of PFC
  - Components of PFC
  - Elements of PFC
  - Financial control as an instrument of financial management
  - Role of PFC

*Individual study:* Study the minimal recommended literature.

Review of the Law of the Parliament of the Republic of Moldova no. 229/2010 on the internal public financial control; Study the Chapter X Economic Infractions of the Penal Code No.985/2002 of the Republic of Moldova.

# WEEK 2



- Types and Methods of Control
  - PFC classification (state; municipal; interdepartmental; internal (internal audit); independent (auditing))
  - Methods of control
    - Accounting and statistical methods
    - Special legal-economic methods
    - Methods of open checks
- Identifying and assessing the risks of PFC
  - Risk that the information – subject of control is non-reliable
  - Control risk (similar to audit risk)
  - Risk of non - detection

*Individual study:* Study the minimal recommended literature.

# WEEK 3



- Types of Economic Infractions and Contraventions
  - Administrative
    - violation of the rules: of trade; circulation of payment documents; of payment in cash; of production; falsification of products; unauthorized use of trademarks, etc.
  - Penal
    - smuggling of goods, objects and other values
    - non-declaration or inaccurate declaration of goods, objects and other values in customs or other documents necessary for border crossing
    - narcotic, psychotropic, strong activity toxic, poisonous, radioactive and explosive substances, weapons, weapons, explosive devices, ammunition, cultural values, etc.
    - evasion of customs payments
    - Misuse of financial and credit instruments
    - Money laundering

*Individual study:* Study the minimal recommended literature. Study the Chapter X Economic Infractions of the Penal Code No.985/2002 of the Republic of Moldova.



# WEEK 4



- The Legal and Institutional Framework of Public Financial Control in the Republic of Moldova. Role, Functions, Duties and Powers of the Responsible Authorities. The Financial Intelligence Unit and its functions.
  - Review of the activity of national PFC institutional framework (Court of Accounts, MinFin, Office for Prevention and Combating of Money Laundering, *etc.*)
  - Review of applicable legal framework

*Individual study:* Review of the Law of the Parliament of the Republic of Moldova no. 229/2010 on the internal public financial control and Order of the Moldovan Ministry of Finance no.114/2012 approving the Regulation of the activity of the Board of the internal public financial control.

Review of the institutional framework of Public Financial Control in different countries.

# WEEK 5



- Legal enforcement, prosecution and other competent authorities - the framework for the investigation and prosecution of offences, for confiscation and freezing. Efficiency of Public Financial Control Bodies
  - Review of other authorities with control powers (NBM, NCFM, MinFin subordinated institutions, etc.)
  - Review of enforcement powers of named institutions
- Identifying and assessing the risks of financial infractions and contraventions over the internal market and economic security of the country
  - Analysing the impact of financial fraud over the national economic security
  - Emphasising the role of PFC in protecting national economy and its development
  - Measuring OFC efficiency
  - Challenges of PFC
  - Ways to overcome the challenges of PFC

*Individual study:* Study the national investigative and prosecution system. Review of international experience. Review of the National Money Laundering and Terrorist Financing Strategy.

# WEEK 6



- Activity of International Organisations in Prevention of Economic Crimes
  - Review of the activity and roles of relevant international organisations (Financial Action Task Force (FATF), MONEYVAL, International Organization of Supreme Audit Institutions (INTOSAI), European Organization of Supreme Audit Institutions (EUROSAI), ECB, ESMA, OECD +, INTERPOL, EUROPOL, etc.)

*Individual study:* Review of the recommended literature and the activity of supranational bodies' activity in the area of preventing, oversight, investigating and prosecution of Economic Crimes.

- *OECD Action Plan on Base Erosion and Profit Shifting*, OECD Publishing. 2013
- Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, as amended;

# WEEK 7



- International Standards in the Field of Money Laundering
  - The FATF Recommendations establishes a set of standards which national public competent institutions and private financial institutions should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction.
  - Updates on FATF Recommendations

*Individual study:* Review of the FATF recommendations and attached methodology.

- FATF Recommendations and methodology

# WEEK 8



- International Conventions in the field of combating economic crimes
  - The United Nations Convention against Corruption was signed by the Republic of Moldova on 28 September 2004. By Law No. 158-XVI/2007, the Republic of Moldova ratified the Convention and deposited its instrument of ratification on 1 October 2007
  - the Organization for Economic Cooperation and Development (OECD) Convention on Mutual Administrative Assistance in Tax Matters; Protocol amending the Organization for Economic Cooperation and Development Convention on Mutual Administrative Assistance in Tax Matters
  - GRECO's objective is to improve the capacity of its members to fight corruption by monitoring their compliance with Council of Europe anti-corruption standards through a dynamic process of mutual evaluation and peer pressure. GRECO comprises 49 member States (48 European States and the United States of America). The Republic of Moldova adhered to GRECO by Law no. 297-XV from 22.06.2001
- International agreements in the field of combating money laundering, where signed by the Republic of Moldova is part
  - 48 Treaties to avoid double taxation with other states
  - 5 treaties on the principles of indirect tax collection with the following states: Russian Federation, Commonwealth of Independent States, Republic of Kazakhstan, Uzbekistan, Republic of Belarus
  - 5 Treaties on Collaboration and Mutual Assistance in Tax Compliance with the following states: Republic of Azerbaijan, Republic of Belarus, Russia, Uzbekistan, Commonwealth of Independent States

*Individual study:* Review of the international conventions related to Financial Control and Combating Money Laundering.

# WEEK 9



- Prevention of money laundering risks /financing of terrorism
- Customer due diligence
  - *Primary legislation:*
  - The Law of the Parliament of the Republic of Moldova no.202/2017 on banks' activity
  - Penal Code No.985-xv/2002 of the Republic of Moldova
  - Contraventional Code of the Republic of Moldova, Law no.2018/2008
  - Code of penal procedure of the Republic of Moldova, Law no.122-XV/2003
  - Tax code, Parliament's of Moldova Law no.1163-XIII/1997
  - Moldovan Parliament Law on prevention and combat of money laundering and terrorism financing no.308 of 22.12.2017, as amended;
  - *Secondary legislation:*
  - NBM Regulation on bank's activity regarding prevention and combat of money laundering and terrorist financing, approved by the DCA of the NBM, No. 172 of August 4, 2011, as amended;
  - Regulation on Internal Governance and Risk Management in Banks, approved by Decision EB of NBM no. 146 of 7 June 2017
  - NCFM Decision approving the Recommendations on Risk Based Approach of clients by reporting entities to prevent and combat money laundering and terrorism financing no. 49/17 of 09.10.2014, as amended;
  - NCFM Decision on the approval of the Regulation on prevention measures and combating money laundering and terrorist financing on the non-banking financial market no. 49/14 of 21.10.2011, as amended;

*Individual study:* Study the minimal recommended literature. Study the legal tools aiming at preventing risks of economic crimes and money laundering.

# WEEK 10



- Financial institution confidentiality regimes and terms of cooperation
  - Terms of cooperation of the institutions with powers in PFC
    - The Office for Prevention and Combating of Money Laundering cooperates actively and shares information with similar authorities within international organizations such as the EGMONT Group, MONEYVAL, Euro-Asiatic Group, Europol, GUAM and so on. Additionally, the establishment of bilateral relations concerning information exchange with similar counterparts in other countries is a priority, and in this regard 43 cooperation memoranda have been signed.

*Individual Study:* Review of the Confidentiality regimes of the different supervisory authorities in financial sector and outside the financial sector (Law of the Parliament of the Republic of Moldova no. 548/1995, Law of the Parliament of the Republic of Moldova no. 202/2017, etc., and other sectorial legislation)

# WEEK 11



- Internal Control Functions. Compliance. Audit Functions
  - Review of the role of Audit function and Compliance function in preventing internal frauds
  - Review of other corporate governance arrangements for preventing internal frauds

*Individual study:* Study the minimal recommended literature. See the requirements for internal governance arrangements for different kind of institutions.



# WEEK 12



- Associated Regulatory and Supervisory Challenges in controlling jurisdictions who implement reduced standards on transparency and exchange of information for tax purposes
  - Methods used for PFC in “non-transparent” jurisdictions
- *Individual study*: Study the minimal recommended literature.

# WEEK 13



- The impact of use of crypto-currency schemes and virtual currencies and other FinTech developments over the national economic security.
- Regulatory and Supervisory Challenges in Preserving the Integrity of the Financial System

*Individual study:* Study the minimal recommended literature.

# WEEK 14



- Other financial schemes (ex. Ponzi schemes) which are used in economic crimes and Regulatory and Responses

*Individual study:* Study the minimal recommended literature. See the regulatory and supervisory responses of international policy setters and particular countries.

# TEACHING METHODOLOGY



- Predominant form of **lectures** organization is frontal instruction. Frontal instruction refers to a teacher-centred instruction, where the lectures are organised in a way that the lecturer stands in front of the auditoriums of students and professes material according to the learning program.
- **Seminars** are organised more in form of group instruction, which is more student-centred instruction, with direct involving of students in teaching process through making short presentations on researched topics (individually or in groups), group workshops, staging a situation (for example dividing students in groups of different stakeholders/players in the financial market), etc.
- During both, lectures and seminars is possible involving of students (individually or in groups) for numerical calculations for practical case studies.
- Pedagogical approaches applied for both, lectures and seminars, are the following: didactic, learning, research, assessment and exposure methods – case study, presentations, etc.
- Didactic means used for both lectures and seminars, are the following: projector, computers, etc

# LABOUR MARKET RELEVANCE



## Labour market demand

- Advances in technology and FinTech and current economic trends increase the risks of fraud.
- Corporate and government employers, national and international, need qualified professionals with accounting, computer, and investigative skills capable of dealing with contemporary types of economic crime. Labour market faces a lack of professionals having specific analytical and investigative skills in public financial control.
- The Republic of Moldova lacks such specialists in both private and public sectors. In private sectors there is a need of qualified workers with a specific knowledge for internal control functions. The lack of such specialists is mostly evidenced in banks, insurance companies and other institutions.

All the institutions with public financial control powers (for example: CB, MinFin, National Security Service, etc., and other entities which have internal control departments) lack employees with specific professional background in fraud investigation and prevention.

- The course bring a evidenced value in preparing full-fledged financial professionals, which corresponds to the actual needs of labour market.

# LABOUR MARKET RELEVANCE



## Employment opportunities

- Public financial control course qualifies students to work in a wide range of crime prevention and investigative roles.

### Public Sector

- Any supervisory function/ policy development function within Central Bank, MinFin, National Security Service, The Office for Prevention and Combating of Money Laundering (Financial Intelligence Unit)
- Employee of internal control function within the named institutions and any other public authority (city administration, other ministries, etc.)

### Private Sector

- Employee of any of internal control functions (audit, compliance, risk management, etc.)
- Financial consultancy and research companies
- Fraud Specialist
- Asset Protection specialist
- Financial and Corporate Investigator

### Associative Sector

- Deployment and coordination of financial policies and strategies related to the combating economic and financial frauds
- Fraud Specialist

# ASSESSMENT AND GRADING



- The final grade consist of two components:
  - Current performance(formative assessment)- 60%;
    - The current performance assessment represent the overall assessment of student’s activity during the course, and namely:
    - Assessment of current reports, individual works, research papers;
    - Assessment of intermediate tests, as the case may be, and course assignments 1 or 2;
    - Assessment of participating in relevant extracurricular activities (symposiums, conferences, round tables, etc.)
  - Examination mark (final evaluation) – 40%.
    - Practical modality of final assessment: writing paper (descriptive and/or multiple choice test and/or case study solving etc.), oral examination by choosing task cards, etc.

# REFERENCES



- Main recommended references:
  - DRYSDALE, Alasdair, *The Financial Controller*, Management Books 2000 Ltd., 2010;
  - VAN DUYNE, PETRUS C., MARCEL PHEIJFFER, HANS G. KUIJL, ARTHUR TH.H. VAN DIJK, AND GERARD J.C.M. BAKKER, *Financial Investigation of Crime: A Tool of the Integral Law Enforcement Approach*, Nijmegen: Wolf Legal Publishers, 2003.
- Other references comprises of the following documents, but not limited to:
  - BUCHAK, Greg, and others, *Fintech, regulatory arbitrage, and the rise of shadow banks*, Federal Reserve Bank of New York Staff Reports, no. 580, October 2012;
  - Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, as amended;
  - *FATF Recommendations* - adopted on 16 February 2012, and updated November 2017;
  - IMF, *Financial intelligence units: an overview*, Washington, D.C. : International, Monetary Fund, Legal Dept., Monetary and Financial Systems Dept. : World Bank, Financial Market Integrity Div., 2004;
  - TOBIAS, ADRIAN, ASHCRAFT, ADAM B., “*Shadow banking: A review of the literature.*” In *Banking Crises*, Palgrave Macmillan UK, 2016;



# COURSE ASSIGNMENT 1



- Analyse the past tenders. Then select one big tender (in terms of amounts) and analyse it from the point of view requirements, participants, merchandise, conditions, prices.
- The scope of the work is an investigation of the transparency and fairness of the conditions of the tender: if there were no affiliations, if the price was real according to the market in the respective period, etc.

# COURSE ASSIGNMENT 2



- Elaborate a comparative analysis (at least 2 countries) of a legislation or a strategy in the field of public financial control. The analysis shall contain the comparison of one Moldovan document for example: *Law no. 202/2010 on public internal financial control* or *Government Decision on the organization of financial inspection activity no. 1026 of 02.11.2010* or *Government Decision No. 124/2018 regarding the approval of the Development Program public internal financial control for the years 2018-2020 and the Action Plan for its implementation* or *The Ministry Of Finance Order No. 105/2013 on the approval of the Methodological Norms internal audit in the public sector* or *Law no. 260/2017 on organization and functioning of the court of accounts of the RM.*



**THANK FOR ATTENTION**

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