

Practical Experiences of the the Chamber of Control and Accounts of Moscow in Combating Fraud and Corruption

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Legal powers of the Chamber of Control and Accounts of Moscow in Combating Fraud and Corruption:

- General rule: Within the limits of its competence the Chamber participates in counteraction to corruption.
- Within its competence while conducting expertise of the draft legal acts of the City of Moscow the Chamber has the right to evaluate legal norms on their potential to further corruption.
- If the audit reveals the fact of the illegal payments from the budget of Moscow which can indicate the occurrence of crime or corruption the President of the Chamber shall send the audit results to the State prosecutor or other law-enforcement agencies.

The Chamber has no power to conduct investigations, to act as a prosecution, or to defend the interests of the City of Moscow in courts



Main Activities:

- Prevention of fraud and corruption in the Chamber of Control and Accounts of Moscow;
- Detection of legal norms with potential to further corruption in the draft legal acts;
- Combating fraud and corruption in the process of management of public finances and public property of Moscow.

Prevention of fraud and corruption in the Chamber of Control and Accounts of Moscow



Prevention of fraud and corruption in the Chamber of Control and Accounts of Moscow (1)

- Management of personnel:
 - Control of the observance of the statutory restrictions;
 - Control of the annual declaration of income and property by the Chamber's personnel and audit of such declarations (with the help of law-enforcement agencies);
 - Regular rotation of the auditing personnel between the units;
 - Prohibition of single-person auditing groups;
 - Thorough check of complaints of the audited bodies.

Prevention of fraud and corruption in the Chamber of Control and Accounts of Moscow (2)

- Establishment of internal procedures and compliance control
 - Creation of the system of methodological documents governing auditing and analytical activities of the Chamber based on:
 - Standards;
 - Recommendations;
 - Organization of the main business processes of the Chamber in accordance with ISO 9001:2008 quality management system and regular assessment. Certified processes include:
 - Communications with customers;
 - Audit planning;
 - Audit.
- Internal audit of the quality of audit results (including assessment of methodological approaches) by the independent unit.

Detection of legal norms with potential to further corruption



Detection of legal norms with potential to further corruption (1)

The Chamber shall make an expertise, inter alia, of:

- The drafts of the budget of the City of Moscow and of the budget of the Moscow territorial off-budget fund and of the laws amending them;
- The drafts of laws and other legal act of the City of Moscow governing budgetary expenses, including state programs of Moscow.

If the Chamber reveals a draft legal norm with potential to further corruption, the fact shall be described in the final Conclusions of the Chamber on the draft legal act.

Detection of legal norms with potential to further corruption (2)

Example:

In the Conclusions of the Chamber on the draft law of the City of Moscow “On the budget of the City of Moscow for the year 2012 and the planning period of 2013 and 2014” the Chamber pointed that the draft provides that in case the company repays the amount of the consolidated indebtedness resulting from the earlier received loans from the budget of Moscow within the period determined by the terms of the restructure of such indebtedness, the sum of fines and penalties due but not paid by the company in relation to such indebtedness **may** be written-off. The Chamber deemed that norm to have a potential to further corruption.

The norm was changed as a result.

Combating fraud and corruption in the process of management of public finances and public property.



Combating fraud and corruption in the process of management of public finances and public property.

Special attention is paid to:

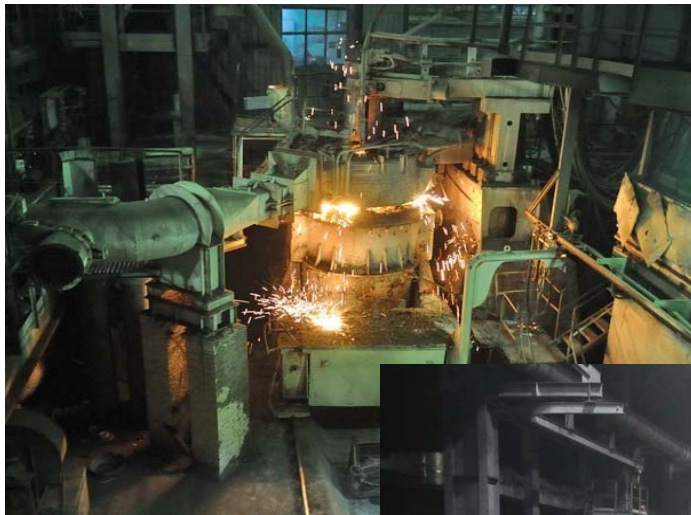
- The audit of the *de facto* execution of the public contracts in addition to the audit of accounting documents;
- The audit of the compliance with the terms of the receipt of money from the budget of Moscow;
- The application of penalties.

Combating fraud and corruption in the process of management of public finances and public property. Yartsevo plant

**State Enterprise of the City of Moscow
“Founding and Rolling Plant”
(Yartsevo plant)**

- Founded in 2003.
- Situated at Yartsevo, Smolensk region.
- Two phases of electric steel-making and section-rolling workshops, combined in a united founding and rolling production.
- Approximately 2000 employees.

Combating fraud and corruption in the process of management of public finances and public property. Yartsevo plant



Combating fraud and corruption in the process of management of public finances and public property. Yartsevo plant

The Chamber has audited the execution of the public procurement contract to deliver equipment of the section-rolling workshop for the second phase of the Yartsevo plant costing **210.9** mln. roubles (approximately **€5.4** mln.). The budget of Moscow has made the advance payment for this equipment in 2008 in the amount of **105.5** mln. roubles (approximately **€2.7** mln.).

Documents of the Yartsevo plant has shown that the equipment was duly delivered in December 2010.

De facto the equipment **wasn't delivered** to the plant in May 2011.

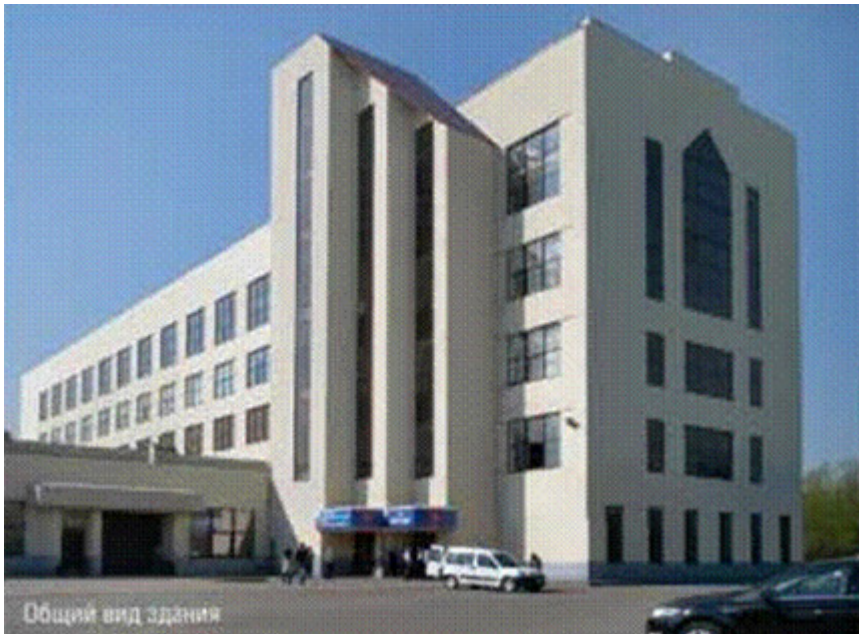
By **now** the equipment is still **undelivered**, the advance payment is not paid back to the budget of Moscow.

Combating fraud and corruption in the process of management of public finances and public property. MPTTsIR

State Enterprise of the City of Moscow “Moscow Industrial and Trade Center of Integration and Development” (MPTTsIR)

- Founded in 2001;
- Main objective – creation of the effective system of interregional economic relations, organization of the efficient mutual promotion of goods and services of business enterprises of Moscow, regions of Russia and CIS countries.

Combating fraud and corruption in the process of management of public finances and public property. MPTTsIR



Combating fraud and corruption in the process of management of public finances and public property. MPTTsIR

- Financial accounts of MPTTsIR for 2010 and 9 months of 2011 are unreliable. The sum of discrepancies is **623.7** mln. roubles (approximately **€15.6** mln.).
- Substantial sums that were supposed to be transferred from the third parties through accounts of MPTTsIR to the budget of Moscow were never transferred by MPTTsIR to the budget. On one occasion MPTTsIR has illegally kept on its accounts and used for its own purposes **610.5** mln. roubles (approximately **€15.3** mln.) from 2008 to 2011.

Combating fraud and corruption in the process of management of public finances and public property. MPTTsIR

Financial activities of MPTTsIR conducted without notification of the relevant governmental departments has allowed MPTTsIR to transfer to the third parties **768.8** mln. roubles (approximately **€19.2** mln.). During the audit the Chamber has revealed an additional risk of the illegal transfer to the third parties of another is **157.1** mln. roubles (approximately **€3.9** mln.).

The schemes used for such illegal transfers included:

- Payment for the undelivered goods in the amount of **480.1** mln. roubles (approximately **€12.0** mln.);
- Offsets of obligations with the businesses governed by the MPTTsIR's employees.

Combating fraud and corruption in the process of management of public finances and public property. MPTTsIR

- Most of the writs of execution were transferred by MPTTsIR to the bailiff service in the term of one to seven days from the end of the three-year period of transfer which had *de facto* made them unserviceable;
- In some cases writs of execution were never transferred to the bailiffs by MPTTsIR to start the execution of the court orders. On one occasion MPTTsIR has failed to transfer the writ of execution to the bailiff service to start the execution of the court orders to retrieve **92.6** mln. roubles (approximately **€2.3** mln.).
- In some cases MPTTsIR hasn't applied penalties for the breach of obligations. On one occasion the amount of penalties for the breach of the terms of the loan and of the due fees for the use of the loan has reached **40.4** mln. roubles (approximately **€1.0** mln.). That amount **4.1** times exceeds the amount of the original loan of **9.9** mln. roubles (approximately **€0.2** mln.).

Combating fraud and corruption in the process of management of public finances and public property. Basic problems

- Lack of access to the information containing tax or banking secrecy.
- Difficulty to prove facts of fraud and corruption lacking powers to conduct investigation.
- Lack of clear procedures allowing the Chamber to monitor the progress of law enforcement agencies in relation to the Chamber's audit results.