I. AUDIT STANDARDS APPLICABLE DURING PLANNING STAGE

The purpose of audit standards applicable during planning stage is that the Court of Accounts plans the audit in a most rational and timely way, ensuring its performance within a well-defined time period and domain, which will guarantee the minimum of resources or costs, and efforts and the achievement of the planned results.

Both financial and performance audits have to be planned.

Financial audit planning provides for the organization of audit activities so that controller’s attention is focused on the most important audit directions, on identifying the possible problems and on quick performance of audit activities. The amount planned for financial audit depends on the audit complexity, professionalism, previous experience of the controller with the audited entity, as well as on other criteria.

Performance audit planning is carried out in two successive stages, whose structured format looks as follows:

- **Performance audit;**
  - Planning
  - Strategic planning
    - identification
    - documenting
    - analysis
    - Preliminary study
      - Report

Strategic planning involves the establishment of performance audit strategy, which identifies, documents and analyzes the areas and potential topics to be audited. Subsequently, the controllers carry out a preliminary study of the required topics, which is finalized with a report whose conclusions are regarded as
the basis for decision approval that determines the timeliness of the performance audit on a concrete topic.

The preliminary study is also applicable, under the same conditions, to financial audit within some large and complex domains.

For the planning stage the following audit standards are established

1.1. Knowledge of the audited entity’s activity

The purpose of this standard is to establish the guidelines for learning about the audited entity and to state the importance of this knowledge during all audit stages.

Guidelines and explanations

In order to plan the audit, which should be carried out in an economic, efficient and effective way, particularly, to reduce the risks, the controller, relying on previous expertise, will receive (if not already possessed) information and data about the audited entity with the view of identifying and learning about the activities, operations and practices which, in controller’s opinion, can have a significant impact on the audit report or on its review.

In this context, the controller will proceed to:

a) collecting information about the audited entity, in order to identify the risks and develop the audit plan;
b) setting the audit objectives and scope;
c) accomplishing a preliminary analysis in order to determine the methods, nature and amount of investigations to be carried out subsequently;
d) taking into consideration the previous operations, if these influence the financial situation in the audited year;
e) determining the methods, procedures and techniques to be used for collecting the audit evidence;
f) analyzing the organizational structure, financial management, reports on previous external and internal audits and the way their recommendations were fulfilled.

In order to make the best use of the gathered information, the controllers have to assess the way it influences the audited entity’s financial situation, to consider the compliance of the received information with the submitted assumptions regarding these situations.

The heads of the control department and division responsible for organizing and performing the audit shall make sure that the controllers involved in the audit mission have received enough valuable information, which will ensure an adequate performance of the entrusted mission.

1.2 Risk assessment
The purpose of this standard is to establish the guidelines for identifying the risk-bound areas, assessing the risk level and its components, and all this will reduce the risk while planning the audit, to a low acceptable level.

**Guidelines and explanations**

The assessment of the audit risk shall be carried out for all audit activities with the view of performing an effective and efficient audit, where the controllers will apply professional reasoning and appropriate audit procedures.

The risk assessment in an audit process means a systematic activity which is realized in order to assess the likelihood of non-conformity of the operations with the legal framework in force. The risk in an audit process means that the Court of Accounts, while taking a decision, will offer an opinion which will imply that the accounting records are fair, the transactions are legal and regular, and the financial management is reasonable, while the real situation is different.

The audit risk means the probable existence of some information, some significant errors or deficiencies in the financial situations of the audited entity that can escape controller's attention.

The controller shall assess the audit risk to such an assurance degree that will imply that the significant errors and the financial situations of the audited entity will not exceed the assurance level established by the audit policy of the Court of Accounts.

The assessment of the audit risk, included during the planning stage, allows the controllers to establish the priorities of the audit activity. It is supposed that the controllers shall be always prepared to adjust their audit program to the situations involving significant facts establishment; the facts that were unknown during the development process of the audit program.

The audit risk comprises three components presented in the table below:

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<thead>
<tr>
<th>Audit risk</th>
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<tr>
<td>Risks that cannot be</td>
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<td>controlled / influenced by</td>
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<td>the controller</td>
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<tr>
<td>Inherent (unavoidable) risk</td>
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<tr>
<td>Control risk</td>
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<td>Risks that can be controlled / influenced by the controller</td>
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<td>Detection risk</td>
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The inherent risk assessed by the controller shall be based on the knowledge about the audited entity's activity and on the information collected from its management system, taking into consideration certain circumstances like:

- The nature / the specific characteristic of the audited entity's activity;
- the experience, honesty and knowledge of the management / key-officials, as well as the changes within the management structure during the audit process; for instance, management's lack of experience can influence the quality of the financial statements;
- the factors that influence the field where the audited entity operates; for instance, the state of the economy and competitiveness conditions identified by determining the financial trends and coefficients in technology, etc.
- the complexity of the legal framework, operations, or some facts that need specialty expertise;
- the factors that influence the audited entity’s financial situation; for instance, lack of appropriate funding, the complexity of the institution structure;
- the circumstances that force the management to distort the financial statements; for instance, the existence of some insolvent enterprises within the field.

Some other factors are accepted while assessing the inherent risk. The assessment of the control risk is carried out in two stages:
- preliminary assessment that involves the assessment of the efficiency / effectiveness of the audited entity’s accounting and internal control systems with the purpose of preventing or detecting and correcting some significant errors;
- final assessment, which is carried out by the controller before completing the audit process and which is going to confirm or not the assessment of the control risk.

While assessing the control risk the controller will keep in mind a range of factors:
- inappropriate control performance due to some human errors as a result of wrong reasoning or interpretation, and carelessness / absent mindedness;
- control environment, especially, the existence of managerial control;
- substantive procedures that the controller plans to apply;

The inherent and control risks are interconnected and simultaneous assessment of both of them is preferable;

If inherent and control risks are high, the acceptable detection risk probability shall be low, in order to reduce the audit risk. If inherent and control risks probability is low, the controller can accept a higher detection risk probability, under the condition to reduce the audit risk to a low acceptable level.

Detection risk and the substantive procedures are interdependent. The assessment of the control risk and inherent risk has an impact on the nature, actions, and amount of the substantive procedures that is carried out with the purpose to reduce the detection risk, and, respectively, the audit risk to the low acceptable level.

In order to reduce the detection risk (audit risk) the controller will consider the following factors:
- the time of substantive procedures application; for instance, at the end of the audit period and not on an intermediary stage;
- the amount of the substantive procedures to be applied; for instance, application of a larger sample;
- the nature of the substantive procedures; for instance, carrying out the tests for obtaining evidence from the audited entity’s outside environment not from the inside.

There will always be some detection risk, even if the controller will perform a walk-through audit.

The higher the probability of the inherent and control risks, the more audit evidence the controller shall obtain while applying the substantive procedures, in order to reduce the audit risk.

1.3. Assessment of the internal control system

The purpose of this standard is to establish the guidelines for assessing the internal control system during an audit process.

*Guidelines and explanations*

The internal control system comprises all the policies and procedures approved by the audited entity’s management in order to ensure a well-organized and efficient economic activity, and which are meant to ensure the assets integrity, prevention and detection of frauds and errors, correctness and completeness of accounting records.

The internal control system includes:
- control environment;
- control risk;
- control procedures;

**Control environment** encompasses the actions of the audited entity’s management with regard to internal control system functioning and reflects the following factors:
- the way the management system is organized;
- method of management;
- audited entity’s structure, organisational chart, competence and responsibility delegation;
- the control systems used by the management.

**Control risk** means the risk of a wrong assumption that can appear in an account balance or within some operations that cannot be foreseen or detected in useful time by the accounting and internal control systems.

Initially, within the audit, the control risk assessment shall be carried out during the planning stage, then the confirmation of this action shall be performed by the tests of control during the audit process.

**Control procedures** represent the rules established by the audited entity’s manager aiming at completing the control method that will ensure the achievement of audited entity’s objectives and which will include:
- certification on a quarterly or annual basis, accompanied by the audit report on the audited entity’s financial situation;
- inspection of legality, regularity, and conformity of operations; identification of errors, waste, mismanagement, and frauds, and, on their basis, measures and solutions are proposed that will recover the losses;
- identification of drawbacks within the management and control systems, and the relevant risks.

Investigation and assessment of internal control system shall be carried out taking into account the audit time limit.

In the case of a financial audit, the investigation and assessment of the internal control refer, first of all, to the internal control system that involves: protection of audited entity’s assets and resources, control of accounting and internal control systems, investigation of financial and operational information, review of law and other regulations observance, compliance with the management policies and directives.

In the case of performance audit, the review and assessment of the internal control system refer to those controls that will contribute to the improvement of the audited entity’s activity in an economic, efficient and effective way.

The controller shall determine the reliability level on the audited entity’s internal control system, analyze the way the information, reporting, and monitoring of the internal control system functioning is carried out.

Being aware of the fact that a strict control environment is not enough to ensure the functioning of the internal control system, during the planning stage, the controller shall consider the following aspects:
- performance of a preliminary assessment of the internal control system with the view to see if it is relevant and fosters the achievement of the audit objectives;
- determination of which element of the internal control system can be characterized as key-element and whether it operated appropriately during the audit process;
- checking if the audited entity’s management established adequate control procedures and if they are relevant to the achievement of the set control objectives.

1.4. Audit performance within a computerized environment

The purpose of this standard is to offer guidelines regarding the procedures to be applied during an audit process carried out within a computerized environment.

Guidelines and explanations
In the context of this standard, a computerized environment means that the financial information important for the audit is processed by a computer of any type; whether it is used by the audited entity or by a third party.

**When the financial operations are processed by a computer, the controller shall:**

- assess these systems functioning, establishing if their integrity and reliability are guaranteed and if they are appropriate to the complexity level of the audited entity’s activity;
- consider the effects of the computerized environment on the audit process;
- possess professional expertise in IT area in order to succeed in planning, following-up, and reviewing the audit activity;
- have realized, by the planning stage, the importance and complexity of activities and IT; whether they can influence the inherent and control risks assessment.

1.5. **Sampling and other selective testing procedures**

The purpose of this standard is to offer the guidelines for applying the procedures of selecting the elements for testing aimed at collecting audit evidence like sampling.

*Guidelines and explanations*

Audit sampling means the application of the audit procedures on the population (the elements comprised under a certain category of economic operations), so that the controller, as a result of assessing the audit evidence received by testing these elements, drew conclusions that will cover the population.

*While planning* the audit procedures, in order to receive enough evidence for achieving the audit objectives, the controller shall establish reasonable methods for selecting the elements to be tested.

*While applying* the audit procedures on each sample element the controller shall:

- analyze the nature and the cause for every detected error in the sample and its probable effect on the audit objective;
- determine, applying the approximation method, the errors and irregularities detected in the sample, assessing the effect of the approximate error on the audit objective;
- check if the preliminary assessment of the relevant characteristics (inherent, control, and sampling risks) are confirmed or need to be revised.

Sampling risk and non-sampling risk can influence the components of the audit risk. For instance, there is the risk that during the testing of the internal control, the controller will not discover any errors in the sample and will conclude that the control risk is low, while in reality, the error rate within the population is
rather high (sampling risk). There can appear the opposite situation when there are errors in the sample that cannot be recognized by the controller (non-sampling risk).

**The present standard needs to be applied in financial and performance audits.**

Audit sampling can be applied both for selecting the audited entity, topic, and domain and for selecting a sample from the operations and documents sets that are subject to the audit process.

A sample can be selected through statistical and non-statistical methods; through computer-based programs or tables with random figures; through systematic or non-systematic selection.

The decision to use one of these methods belongs to the controller according to his/her professional assessment of real circumstances. For instance, in the case of the internal control testing, the analysis of the errors nature and causes will be much more important than the statistical analysis of the error presence or absence. In this case, the non-statistical sample can be the most appropriate.

### 1.6. General Audit Plan and Audit Program

**The purpose of this standard is to offer guidelines regarding the documentary development of the General Audit Plan and Audit Program.**

*Guidelines and explanations*

The General Audit Plan and Audit Program, developed and documentarily processed by the controller, shall describe the audit scope and application methods, being a fully detailed document that will serve as the basis for the controller during the preparation and performance of a potential audit program.

While developing and documenting the General audit Plan, in order to ensure the audit efficiency and effectiveness, as well as to coordinate the audit procedures with the working program of the audited entity’s staff, there is allowed the discussion about the plan elements and some audit procedures with the audited entity’s management. At the same time, **both the General Audit Plan and the audit programs are controller’s responsibility.**

While documenting the General Audit Plan, the controller shall consider the following aspects:

- general and particular economic conditions within the domain the audited entity operates, stressing the peculiarities, policies and procedures applied by the entity for the achievement of its objectives;
- understanding the accounting and internal control systems in order to be able to assess the efficiency and effectiveness of their functioning;
- audit risk that can be specified by: preliminary assessment of inherent and control risks, establishment of the audit significant areas and the
identification of key-problems; identification of complex transactions, including financial situations that imply accounting estimates;

- coordination, guidelines, and revision of the audit mission by the team leader, head of the Division and / or Department;
- other elements regarding the observance of the audit activity continuity, time limit for the audit; the time for submitting the audit report.

In the General Audit Plan the controller shall include:

- the goals and objectives of the audit and the way they will be achieved;
- the key-questions the audit shall answer;
- the nature of the audit evidence that has to be obtained and the methods used for this, as well as the bases for its assessment;
- risk level assessment;
- summing up the results of the analytical procedures applied (analytical study).

The format and the contents of the General Audit Plan can vary depending on the complexity of the audited domain, institutional structure and the amount of the audited entity’s activity, on the audit complexity, on the methodology and technical procedures applied during the audit process.

In the case of performance audit, the General Audit Plan is developed starting with the Report on the preliminary study, approved by the President of the Court of Accounts; this procedure is also applicable in the case of the financial audit within a complex and large domain.

On the basis of the General Audit Plan, the controllers shall develop and document the audit programs, which establish the nature and the duration of the audit procedures.

*The audit program consists of a set of guidelines on the adequate execution of the audit activities.*

While documenting the audit program, the controller shall consider the following aspects:

- assessment of the inherent and control risks;
- the results of the control tests and procedures of coordinating with the audited entity;
- the possibility / opportunity to involve the specialists (experts) in the field.

Within the audit program, the controller shall include the time needed for performing the audit; the audit objectives; he / she shall specify the time limits for carrying out the activities within each domain or the separate audit procedures, and other elements necessary for adequate audit performance.

The audit programs are the communication documents of the audit team with the team leader, head of the Division, Department and / or the member of the Board, who manage and monitor the audit process.

The General Audit Plan and the audit programs shall be revised during the audit process whenever necessary. The reasons for important changes shall be documented by the controllers.
The General audit Plan and the audit programs, developed and documented by the controllers, are approved by the heads of the Division and the Department who carry out the audit (within the territorial structure – the head of the Office), followed by subsequent coordination with the member of the Board responsible for the respective Department.

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- The audit standards shall be approved by the Court of Accounts and published in a special booklet.

- The present audit standards are meant for internal use, and shall be completed further on, and amended depending on the requirements that may occur in a year after their application into practice.

Approved through
Court of Accounts Decision

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