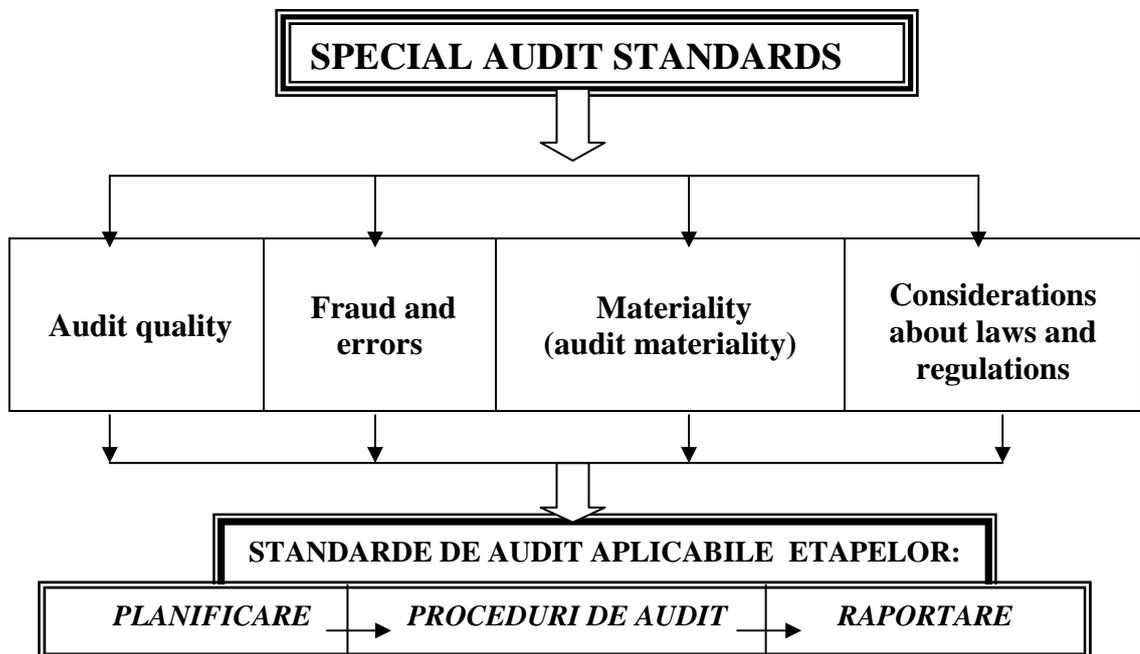


IV. SPECIAL AUDIT STANDARDS

The special audit standards shall specify the essential requirements specific to a type of standards, a certain purpose, and activities related to audit planning, audit procedures and reporting stage.

The following special audit standards shall be established (their list may be continued), which, schematically, are presented as follows:



4.1. Audit quality

The purpose of this standard shall be the establishment of guidelines aimed at ensuring audit quality through some control procedures.

Guidelines and explanations

The audit quality shall include control policies and procedures implemented to ensure the quality of the final result of the audit activity. Controller's awareness of them shall guarantee and ensure his /her accountability during the performance of audit procedures (issuance of conclusions, recommendations, opinion).

The procedures of audit quality control shall determine:

- ❖ the value /importance of audited areas (entities);
- ❖ the objectivity and propriety of controller's opinion;

- ❖ the extent /scope and completeness of actions during the process of audit planning and conduct;

- ❖ the validity of conclusions, propriety of requirements and relevance of other elements presented in the audit reports and other documents;
- ❖ the audit efficiency;
- ❖ the effectiveness of results and the impact achieved.

The control procedures for audit quality delivery shall be applied:

- on the subject of audit (on some of its aspects): on the financial statement, performance, legality, regularity etc. as a result of which the reality and accuracy of findings, conclusions and recommendations included in the audit report shall be determined;
- on the General Audit Plan and Audit Program;
- when assessing the inherent (inevitable) risk and control risk, taking into account the results of tests of control and the changes made in the General Audit Plan and Audit Program upon this assessment;
- on the documentation of audit evidence obtained during the performance of substantive audit procedures and of conclusions thereon.

The quality of audit activity shall be delivered at every audit stage: planning, audit procedures, reporting, in compliance with the requirements of international audit standards.

The activity concerning the control of audit quality delivery shall be coordinated by the Court of Accounts' members and executed at two levels. The first level control shall be delivered at every stage aforementioned by the directors of departments, heads of divisions and territorial offices, leaders of audit teams, depending on their individual competence. The second level shall comprise the quality control of completed audits, aimed at providing reasonable assurance that each audit has been conducted qualitatively in compliance with international audit standards.

The first level

At the audit planning level, the control over audit quality assurance shall comprise:

- conviction that the human and financial resources involved in the audit process are reasonable;
- team (or controller) training, taking into account the audit goal /objectives, topic, entity /area specificity etc.;
- control of working documents prepared by the controller (team leader);
- determination if the controllers involved in the audit mission, had obtained sufficient and valuable information during the preliminary study, which will secure adequate performance of the entrusted mission, and had understood clearly and fully the General Audit Plan;
- review if the audit planning actions were executed in accordance with the audit standard of the Court of Accounts, applicable at the planning stage;
- finding out if the controller (or the team) studied the previous audits results, the level of Courts of Account's decision implementation, adopted previously on the basis of these materials, and the legal framework relevant for the envisaged audit.

At the audit procedures stage, the control over audit quality assurance shall comprise:

- conviction that the audit procedures are performed in compliance with the audit policies and standards of the Court of Accounts;
- analysis of audit documents to make sure they justify the audit evidence, which is sufficient to support the conclusions and present the audit report;
- documentary monitoring of audit procedures performance;
- checking of controllers' compliance with the General Audit Plan and Audit Program;
- conviction that the controllers achieved all audit objectives.

At the audit reporting stage, the control over audit quality assurance shall comprise:

- conviction that upon completion of audit work, the audit report of the controller is convincing, comprehensive, objective, competent, and that it includes the findings, conclusions, recommendations, requirements (in cases provided for in the law) and the audit opinion of the controller;
- analysis if, in controller's opinion, entity's financial condition was evaluated accurately, authentically in all significant respects, in accordance with legal regulations;
- checking of propriety of the opinion, given the condition identified by the controller.

Second level

The control over audit quality assurance at this level shall include the assessment of audit report and documents drafted and attached to the report.

This activity shall be performed by an independent body (appraisers team) within the Court of Accounts. The controllers appointed to this body, whose tasks are related to the control over audit quality assurance, shall not be involved in the audits subject to appraisal, shall have the appropriate qualifications and professional experience in implementation of audit procedures, audit and accounting standards, sampling techniques, in the analysis and assessment of conclusions.

The quality control shall cover a sample of audit reports and documents drafted in relation to the completed audits, both by the controllers from Court of Accounts' central office and controllers from territorial offices.

The control over audit quality assurance, based on its independent and objective appraisal, shall include collection of documented data about the fulfillment or non-fulfillment by the controller of some tasks, actions or operations, mandatory in conducting a complete, efficient, and qualitative audit. The appraisal of audit quality shall also imply its practicability, presenting, if needed, audit improvement recommendations.

During the control over performance audit quality assurance, the appraisers team shall see if:

- the performance audit results agree with the criteria of independent and objective assessment within the respective audit, where the audited program, area or entity operate efficiently and effectively by following the economy principle;

- preliminary study has achieved its set objectives;
- performance audit report is objective, practical and prepared in accordance with the audit standards of the Court of Accounts, applicable at the reporting stage;
- findings are relevant;
- recommendations are properly justified and establish preconditions for application of some performance improvement measures.

The results of audit appraisal shall be included in the Report on the control over audit quality assurance, this containing suggestions and recommendations (if needed) with respect to:

- audit improvement;
- improvement of audit procedures and systems of the Court of Accounts when detecting situations where they proved inefficient and /or non-applicable, in order to avoid reoccurrence of deficiencies;
- development of a program for the enhancement of professional training of controllers, intended to remove the detected drawbacks and meet as efficiently, completely and reasonably as possible the requirements /exigencies set to conduct an audit;
- refinement of human resources.

The report on the control over audit quality assurance shall be submitted to Court of Accounts' management.

4.2. Fraud and error

The purpose of this standard shall be the establishment of guidelines regarding controllers' responsibility for the identification of facts that imply frauds and errors or suspicions about their existence in the audit process.

Guidelines and explanations

The responsibility for prevention, identification and investigation of frauds, acts of corruption or any other illegal activities shall be attributed to the audited entity's management and others authorities holding relevant attributions in this area.

The Court of Accounts' controller shall not be held responsible for prevention of fraud and error. At the same time, the conduct of annual external audit may serve as a method for the reduction of fraud and error likelihood.

During the audit planning, audit procedures, as well as the reporting stage, the controller shall consider the risk that the financial statement of the audited entity may be materially misstated, because of the existence of fraud, acts of corruption or any other illegal activities.

When the controller discovers or suspects fraud, acts of corruption or any other illegal activities that affect the financial interests of audited entity, he /she shall undertake the actions established by the Court of Accounts for such situations.

Fraud and error may cause material misstatements of the financial statements, as a result of the following actions undertaken by officials of audited entities or third parties:

- illegal use of assets;
- destruction of accounting records or omission to record in the accounting books transaction results;
- recording of transactions not conducted in fact;
- recording in the accounting, fiscal or financial documents of some obviously misstated data regarding revenues and expenditures;
- violation of cash settlement rules;
- violation of record keeping method;
- non-drafting of primary documents and non-observance of requirements for verification of the operations recorded on the basis of standardized primary documents for strict record keeping;
- non-compliance with financial report drafting method;
- damage, loss, destruction of accounting documents before the expiry of their custody period, established by legislation;
- allowance of written arithmetical errors (involuntary mistakes) in the primary documents, primary records, accounting registers etc.;
- wrong interpretation of facts related to the economic and financial activity of the entity.

During the audit the controller may identify other situations and circumstances which increase the risk of fraud and error, such as:

- the matters concerning the responsibility or competence of entity's officials (for example, systematical neglect of recommendations to correct significant flaws in internal control, provided these corrections are adequate);
- unusual, internal or external circumstances /situations, which affect entity's activity (for example, the business area is declining and the number of insolvent enterprises increases; the entity (economic unit) holds significant investments in a business sector or production technology subject to quick changes);
- unusual transactions (for example, complex accounting operations or methods; excessive pays for service supply);
- problems with collection of sufficient appropriate audit evidence (for example, lack of proper authorizations for transaction conclusion; non-submission of justifying documents; great discrepancies between the accounting records and the confirmations /explanations of third parties; inexplicable modifications in indicators which mark entity's economic and financial activity; evasive or unjustified answers from the management and other officials offered at controller's request; impossibility to collect information from computer files due to absence or non-updating of the database; disagreement between the database elements and the main data in financial statements).

Controller's mission shall be to contribute to minimization /reduction of the risk of fraud and error occurring in entity's activity. To this end, the controller, relying on risk assessment, shall initiate and perform the audit procedures, which will enable provision of reasonable assurance that there are identified the misstatements caused by instances of fraud and error that are material for the financial statements.

The procedures performed by the controller for detection of fraud and error shall comprise:

- request of Court of Accounts' jurist's assistance;
- deep analysis of the situation to avoid erroneous, hasty and premature conclusions;
- operative communication of these facts to entity's management;
- keeping the confidentiality of the information learned.

4.3. Materiality (audit materiality)

The purpose of this standard shall be to establish the significant nature of audit (materiality), its level and relation to audit risk.

Guidelines and explanations

Materiality defines the significant nature of an economic-financial operation out of all operations carried out by the audited entity, which can influence significantly entity's financial statement, by omitting the recording, wrong recording of data in the financial and accounting documents or recording the data by infringing the accounting legislation.

Materiality shows the maximum tolerable level of acceptable error enabling to decide whether the accounts are correct or incorrect, whether the transactions are legal or illegal. This level is called *materiality level (significance threshold)*.

The significance threshold in the audit of financial statements of the entities that use public money and manage public property, shall be established to 2% of expenditures, 2% of income and 4% of the total amount of public property.

During the audit the controller shall consider the materiality (significant nature of audit) and its relation to the audit risk.

The controllers shall represent the errors, fraud or other illegal actions in entity's financial statement as material when there is likelihood that the audit report users will make conclusions and decisions knowing about the existence of fraud and error. Moreover, the controller shall determine and analyze the cause of the material misstatement of entity's financial statement, establishing certain criteria to determine fraud and error materiality and give possibility to mitigate audit risk to the acceptable level (for example, the controller shall expand audit procedures extent or request the entity management to correct the financial statement; he /she shall examine the significant nature both at the level of financial statement as a whole and at the level of individual account balances, account areas, annexes to the financial statement etc.).

The assessment by the controller of materiality of balances of certain accounts and account areas shall help the controller decide the indicators to focus on and if he /she shall perform sampling and /or analytical procedures.

In order to decrease the probability of undiscovered misstatements, during the audit planning the controller may establish a lower level of materiality than the one supposed to be used for the assessment of audit results.

During the assessment of authenticity of submitted financial statements, the controller shall determine if the totality of discovered and uncorrected misstatements is of a significant nature.

The totality of uncorrected misstatements shall comprise:

- misstatements discovered by the controller, including the net effect of uncorrected misstatements, identified during the audit of financial statements from the previous period;
- assessment by the controller of other misstatements, which cannot be identified separately (for example, the assumed error level).

The controller shall establish the criteria for materiality determination on the basis of his /her professional judgment, of factors affecting entity's financial statement, as well as the information that influences or can influence the audit report users.

The controller shall take into account the factors below, the list of which is not exhaustive:

- use of money and public property for other activities /purposes than intended;
- provisions of regulatory and legislative acts;
- situation of individual balances reflected in the financial statements and their interdependence;
- lack of records in audited entity's documents, of data underlying certain significant decisions taken by entity's management;
- provision of some wrong information or non-transfer /non-submission of necessary information to the authorities, which, according to competence, adopt decisions on the appropriation of financial means.

4.4. Considerations about laws and regulations

The purpose of this standard shall be to establish the guidelines governing controller's responsibility when considering audited entity's compliance with the legal framework.

Guidelines and explanations

The Court of Accounts' controller shall not be held responsible for the prevention of infringement of legal regulations by the audited entity's management. At the same time, the conduct of audit in such circumstances may bear a preventive character.

Instances of non-compliance with legislative and regulatory acts, detected by the controller during the audit, shall be subject to legal assistance under the Regulations on legal assistance in Court of Accounts' activity.

The assertion that a given action implies or may imply infringement of legislation by entity's officials usually shall be based on jurist's opinion.

The actions to be undertaken by the controller upon identification of frauds and errors during the audit process, are presented in Standard No 4.2 "Fraud and error".

During the planning, audit procedures, and reporting stages, the controller shall take into account entity's non-compliance with legal stipulations may influence materially entity's financial settlement. In this respect, the controller shall undertake the following actions:

- *at the planning stage and during the audit procedures:*

- ❖ thorough review of regulatory and legal framework, which governs the activity of the audited entity and area /sector;
- ❖ identification of regulatory and legal acts, which may influence significantly /fundamentally entity's activity, while their non-observance may lead to business termination or question the principle of business continuity (for example, in case of neglect of requirements for license obtaining (prolongation); non-submission of accounting, fiscal and statistical reports on entity's activity for a period exceeding a year, on the date set by tax authorities etc.);
- ❖ reception and review of information about the policy and procedures applied by the entity to ensure compliance with legal stipulations;
- ❖ study of procedures established at the entity for record keeping of legal actions (litigations) in which the entity is involved and of sanctions applied to it;
- ❖ collection of sufficient appropriate audit evidence on the compliance with the regulatory and legal acts, on which, in controller's opinion, depends the determination of qualitative aspects of the financial statement;
- ❖ request for and review of the information about the number of petitions, detailed testing of transactions and account balances in order to track down the causes /instances of potential infringement of regulatory and legal acts;
- ❖ reception of written statement /explanations from entity's management (if needed, from the persons responsible for the respective sectors) that they had disclosed /submitted to the controller all known facts about the infringement of regulatory and legal acts, the consequences of which shall be taken into account when preparing the financial statement;
- *for the identification of infringements of the regulatory and legal acts by the audited entity:*
 - ❖ examination of situations generating potential financial consequences (for example, sanctions, recovery of prejudice, intention for legal seizure /confiscation of property; account block; forced suspension of activity, etc.);
 - ❖ documentation and discussion with entity's management or other responsible persons about the violation of legal stipulations by the entity. Fact documentation shall be supported by copies of respective documents, records, and registers; if needed, it is also recommended to draft minutes of the discussions;
 - ❖ obligatory hearing of entity's jurist, if needed, with the participation of Court of Accounts' jurist, responsible for audit legal assistance, with respect to violation of legal stipulations, legal consequences (real and eventual), as well as further actions of controller (if needed);
 - ❖ re-examination of audit risk assessment, as well as the credibility of statements /explanations of entity's management, when the violation of legal stipulations has not been identified by the internal control system, or has not been disclosed /explained by the management or other responsible persons from the entity;
- *at the reporting stage:*
 - ❖ request for the assistance of Court of Accounts' jurist, responsible for audit legal assistance, if there is reason to assume that the violation of the legal

framework, bearing significant consequences for entity's financial statement involves its management;

- ❖ operative notification of entity's manager /management, if he /she thinks that the discovered violation of the legal framework is significant and committed deliberately;
- ❖ provision of an adverse opinion, if the violation of regulatory and legal acts has a significant influence on entity's financial statement, so that it seems to be misstated;
- ❖ provision of a qualified opinion or disclaimer of opinion, if entity's management prevents or slows down the collection of sufficient appropriate audit evidence to identify facts that the violation of regulatory and legal acts may influence significantly entity's financial statement and that they have occurred in fact or are possible in the future;
- ❖ determination and analysis of the situation when violation of regulatory and legal acts was caused by circumstances generated /occurred, which do not depend on the entity, and taking into account this fact when drafting the audit report.

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- **The audit standards shall be approved by the Court of Accounts and published in a special booklet.**
- **These audit standards shall be meant for internal use, and shall be completed further on, and amended depending on the requirements that may arise in a year after their application in practice.**