

III. AUDIT STANDARD APPLICABLE AT THE REPORTING STAGE

The goal of the audit standard applicable at the reporting stage is to establish the instructions regarding the form and content of controller's report on the basis of financial audit and performance audit results.

This standard is intended to support, without being substituted, controller's judgment during the process of audit report development.

Guidelines and explanations

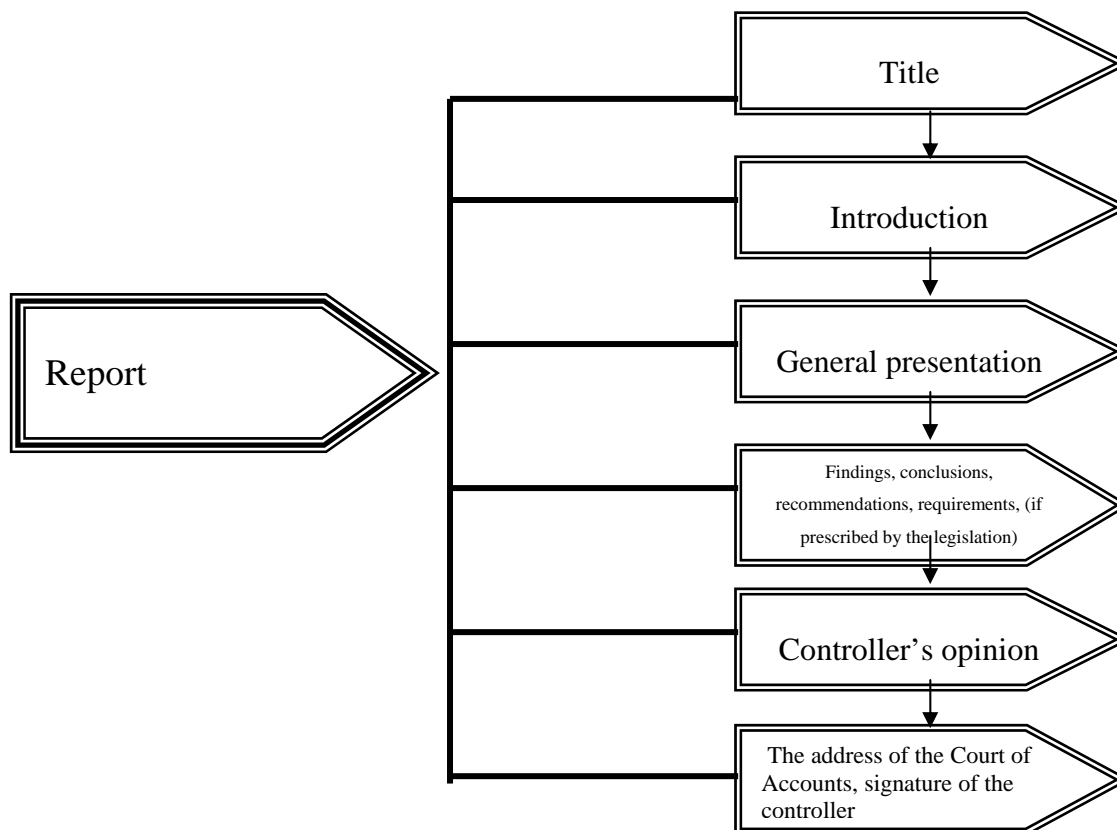
At the end of each financial audit, the controller should draft in writing and in the established form an audit report, where he/she shall state clearly his/her opinion on the audited financial statements.

Each performance audit shall be finished by the controller with an audit report, which would contain findings, conclusions, recommendations of performance audit.

In order to comply with the reporting standard, the audit report of the controller should integrate the following features:

- **accessibility**, that is the use of an utmost clear and simple language to be easily understood by the users. In case of use of technical, specialty terms, abbreviations, these shall be defined in a separate glossary;
- **persuasiveness**, which means an accurate presentation of audit results, and the conclusions, recommendations and requirements (in cases provided for in the law) should be supported by sufficient, justified, and relevant audit evidence;
- **comprehensiveness**, which means the inclusion by the controller of the entire information necessary to ensure the accomplishment of audit objectives;
- **objectivity**, which means drafting the report according to the audit standards in a balanced way, without deviations, not to give rise to suspicions regarding controller's credibility and independence;
- **briefness**, which means the inclusion in the report only of issues that result from audit goal, avoiding useless and insignificant details, formulations, and findings that could affect the report essence and accessibility;
- **competence**, which means drafting the audit report by the controller in a way that would make the report reflect controller's competence and professionalism, as well as the adequate quality of the performed audit.

The form of financial audit report shall cover the following basic components, represented in the scheme below.



- **Title.**

The report title or letterhead is necessary to differentiate it from the reports drafted by other persons (for example, by the audit organization) and shall include: name of audited entity, audit year, and date of report drafting.

- **Introduction.**

This component shall contain a controller's statement, which should reveal that the audit was planned and performed to obtain reasonable assurance that the financial statements of the audited entity offer a fair and true image, do not contain material errors or irregularities, providing, at the same time, an accessible basis for the opinion that will be issued by the controller.

The component shall specify that the drafting and submission of entity's financial reports is the responsibility of its management, and the controller's responsibility is to express an opinion regarding the financial statements checked and analyzed within this audit.

This component should contain the list of entity's financial statements that have been audited, indicating the audit period and the date when they were drafted.

- **General presentation.**

This component should comprise:

- (a) audit scope and objectives;
- (b) name of addressee/user, to whom the report is addressed;
- (c) institutional framework;
- (d) description of objectives of entity's business /state program, subject to audit.
- (e) specification of the financial year and financial statements of the audited entity for this period;
- (f) specification of the total budget allotted to the entity and of total amount of expenditures in the given year;

(g) applicable audit norms and standards, by which the user will be assured that the audit was performed in compliance with to the accepted audit norms and procedures;

This component should contain all controller's assertions regarding the fact that the audit includes:

- 1) examination of evidence that confirms the data from financial statements and disclosure of information;
- 2) assessment of accounting principles used while drafting the financial statements;
- 3) analysis of accounting estimates important for the entity, determined by its management while drafting the financial statements;
- 4) assessment of the financial statements as a whole.

Within this component, the controller should mention the established materiality level; the factors that affected the performance of audit or that caused significant changes in the activity of the audited entity during the previous year; technical difficulties the controller faced during the audit (for example, the lack of accounting records, supporting documents etc.).

▪ **Findings, conclusions, recommendations, requirements (in the cases prescribed by the law)**

The *audit finding* of the controller should reflect the legality principle (*what/how should be in place at the entity in accordance with the legal provisions*); detected facts (*what exists in fact*); consequences/results between "*what should be*" and "*what exists in fact*".

The controller's *conclusions* should be based on the findings and be clearly formulated.

In order to formulate the conclusions, the controller should consider first the material effects of the issues detected, determining the cause-effect relationship. The controller should identify if in the findings the same causes are repeated. It is pointed out that different findings may underlie a conclusion.

The recommendations, requirements (in the cases prescribed by the legislation) should be based logically on findings and conclusions. They should be real, achievable, and possible; therefore, any financial, legal, economic, and social constraints shall be taken into consideration when formulating them.

The recommendations shall be forwarded if the controller identifies possible and efficient solutions for any detected problem or deviation. While attesting the accounts or other financial statements, the recommendations shall point out the main directions of every proposed modification, without detailing them. The recommendations may envisage the development of some department normative acts, plans, programs, etc., as well as initiation, in the established way, of the amendments to the legal framework in place.

The requirements (if prescribed by the legislation) should be practical and focus on the identification and undertaking of significant measures that would envisage the correction of detected negative issues, removal of irregularities, compensation for prejudices, as well as the improvement of the economic-financial condition of the audited entity. These shall specify clearly: the focus of improvement measures to be undertaken, why these measures should be undertaken, in which area, period, as well as the enhancement manner, the persons that will undertake real actions. Altogether, these elements shall improve the monitoring of the way they were implemented.

Within this component, the controller should analyze the reasons of non-settlement of existent problems by budget spenders and managers of the audited entities, as well as the impact of their settlement (or non-settlement) on other areas of entity's activity.

The component in question shall cover the results of the review by the controller of the way the recommendations and requirements from the previous audit have been implemented, presented in a table.

Upon finding illicit facts, the audit report shall be an essential evidence for the establishment of responsibility, by mentioning clearly the person accountable for the breaches allowed. In this case, the contents of this component should agree with the procedure of practical application as prescribed by the Court of Accounts.

▪ **Controller's opinion.**

This component shall be a concise, clear, and explicit statement of the controller, regarding the general conclusions on the audit of financial statements of the audited entity.

By expressing his/her opinion, the controller shall assess if the financial statements are fair, offer a true, authentic, and complete image of all material issues, according to the legal regulations.

In case of certification audit of accounts and legality /regularity audit of transactions, the following types of opinions will be expressed in the audit report:

- **Unqualified opinion (favorable);**
- **Unqualified opinion (favorable) with emphasis of matter paragraph;**
- **Qualified opinion by limiting the audit scope or disagreement;**
- **Adverse opinion;**
- **Disclaimer of opinion.**

The **unqualified opinion** shall be expressed by the controller when he/she reaches the conclusion that:

- (a) the audited financial statements agree with the applicable accounting principles and policies and offer, under all material aspects, a true image of entity's financial transactions;
- (b) the audited financial situation agrees strictly with the financial statement of the entity;
- (c) financial transactions have been conducted according to the legal provisions and regulations;
- (d) the entire information of material importance about the financial situation, is accurately presented.

The unqualified opinion with emphasis of matter paragraph shall be expressed by the controller when he /she finds out the existence of a material uncertainty, whose clearance depends on some events that will happen in the future, these being outside the control of the entity, but which can affect its financial statements. In this case, the controller shall add an emphasis of matter paragraph, directing the user's attention to the stated uncertainty. It is worth mentioning in this case that the "emphasis of matter paragraph" will not inevitably affect the financial statements of the entity.

Qualified opinion by limiting the audit scope or disagreement shall be expressed by the controller if he/she has doubts and disagrees with one or more items from the significant financial statements, but which do not affect entity's activity.

Limitation of the audit scope:

- may be conditioned by external circumstances (for example, the auditor was assigned to perform the audit after the audited period expired and had no possibility to take part in the inventory of merchandise and material stocks);
- may be imposed by the entity itself, situation when the auditor delegated legally to conduct the audit shall not accept performance of audit, informing the Court of Accounts management about this situation;
- may be determined by the fact that, according to controller's opinion, the accounting records of the entity are not adequate.

The controller may state his /her disagreement with entity's management regarding some aspects, like the reasonable nature of the accounting policy chosen, its application or adequate information development in the financial statements.

The adverse opinion shall be expressed by the controller if the financial statements:

- do not comply with the applicable standards and regulations;
- do not offer a true and fair image;

- show such a significant and essential discrepancy that the financial statements, as a whole, seem to be misstated.

The disclaimer of opinion shall be expressed by the controller when the potential influence of the audit scope limitation is so significant that the controller can not obtain sufficient and adequate audit evidence and so cannot express his/her opinion on the financial statements.

- **The Court of Accounts address, controller's signature.**

In this component, the controller shall point out the date of audit completion that attests the fact that the controller took into account the events and transactions that have happened and examined them up to this date.

The controller shall not state the date in the report before signing or approval of financial statements by the entity, because he/she shall be responsible for the drafting of the report on the financial statements prepared by entity's management.

The audit report signed by the audit team members shall include the registered office address of the Court of Accounts.

The facts and findings from the draft audit report shall be discussed with the audited entity in order to be clearly understood and, if needed, check their correctness.

The entity's management, if necessary, shall analyze and provide additional verbal explanations. The controller, in his /her turn, shall take into account their impact on the findings in the report.

The performance audit report has no pre-established form and may contain the following components:

- title of the report;
- synthetic presentation of the framework against which the activities to be audited take place, including the institutional framework;
- description of the business objectives of the audited entity and analysis of the perspective from efficiency, effectiveness, and economy points of view; also, necessary details to support the audit objectives;
- description of methodologies used for the collection and analysis of audit evidence, by specifying their sources;
- presentation of the criteria used for performance assessment;
- audit findings thought relevant for the report addressees or users;
- conclusions on audit objectives;
- recommendations, as a logical result of the conclusions.

Performance audit report should be objective, correct, and practical, and that's why the controllers shall:

- present clearly the conclusions, recommendations;
- explain the facts using neutral terms;
- include all relevant findings;
- also present positive findings.

While drafting the performance audit report, it is recommended to take into account the following issues:

- inclusion in the report of most recent information, and when referring to the costs from previous years, these should be expressed in updated values;
- the complex events need to be presented in their chronological order;
- the report appendices should contain, among other things, the sources of audit evidence, names of external consultants /experts involved, techniques and procedures used to analyze the information that underlie the report.

Taking into account that the Court of Accounts' controllers draft performance audit reports for the users the reports are addressed to, the former, before drafting the report, shall identify accurately the addressee of the report. The draft performance audit report shall be coordinated with the audited entity.

The audit reports shall be examined by the Court of Accounts under the law at its plenary meeting, in the presence of officials that represent the audited entities.

The audit reports and Court of Accounts' decisions on them shall be submitted to the audited entities.

The Court of Accounts shall report yearly to the Parliament on public financial resources management, offences, and undertaken measures.

The Court of Accounts, through its structures, should perform on a regular basis a verification of the way the recommendations and requirements are implemented (in the cases foreseen by legislation).

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

GLOSSARY

- **Addressee/user of the audit report** – the person to which the reports are addressed for use.
- **Subsequent events** – financial actions performed after the closing of the balance and signing of accounts due to some significant problems occurred within the entity.
- **Audit report form** – summary of elements that form the contents of an audit report.
- **Audit opinion** – short, clear and explicit, statement of the controller, regarding the general conclusions on the audit of entity's financial statements.
- **Emphasis of matter paragraph** - supplement to report, by which the attention of entity's management is directed to the information that influences or can influence the financial reports and which is included in appendices to the report.
- **Annual report** - document submitted every year by the entity that includes its financial statements, report of the Court of Accounts' controller, of independent auditors, as well as other financial or non-financial information (in compliance with the legal requirements or with the general established practice).
- **Audit report** – written opinion of the controller on the audited financial statements.
- **Financial statement** – summarizing report that includes entity's balance sheet, income statement, own equity and cash flow statement, as well as the appendices and informative notes to this.
- **Audit risk** – risk of stating an inadequate audit opinion by the Court of Accounts' controller, when the financial statements contain material misstatements.
- **Capitalization of audit report** - the measures that are to be undertaken in relation with the audited financial statements.