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THE EUROPEAN UNION STRUCTURAL ASSISTANCE AUDIT PLANNING

Summary: Planning is one of the most important and responsible activities in auditing process. The results of an audit, to a large extent, depend on the quality of audit planning. However, the European Union regulations do not provide details on the audit planning of European Union structural assistance and there is a lack of studies on this issue. There is no consensus on the elements of planning: strategy, the structure of an audit plan, and methods are not satisfactory described, not described at all, or identified differently.

Keywords: structural support, audit authority, audit planning.

1. Introduction

The European Union, in order to strengthen its economic and social cohesion, locates efforts to minimize the differences of regional development levels, on the one hand, and the backwardness of the regions with the most unfavourable conditions, on the other. Under the terms of consolidated versions of the Treaty on the European Union and the Treaty on the Functioning of the European Union No. 2010/C 83/01 [2010], it is stated that such activities must be supported by the structural funds and by other existing financial instruments. European Union cohesion policy should promote development, competition, and employment. The principal goals of the European Union structural assistance are the convergence of Member States, regional competitiveness and employment, and territorial co-operation [Council Regulation No. 1083/2006 2006]. Thus, structural support is provided for the implementation of the aforementioned goals.

European Union structural funds are provided for every Member State. In the process of funds distribution, attention is paid to the Member State's GDP *per capita* and to the total number of people residing in the country. Figure 1 presents information about the amount of structural assistance financing for every Member State in the period from 2007 to 2013.

According to the amount of given support, the leader is Poland, which gets more than 20% of the total value of the European Union structural assistance. In the process of employing the European Union structural support funds, some blunders

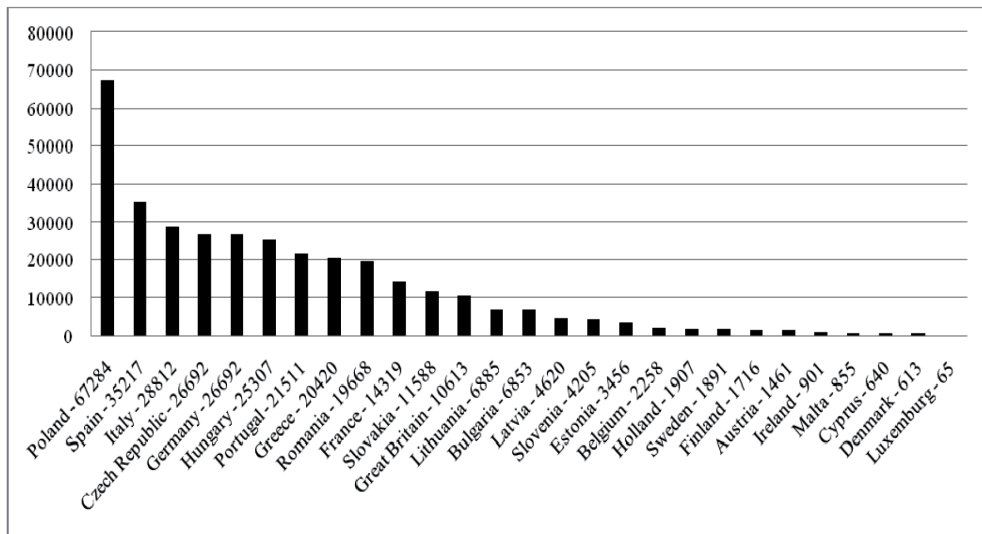


Fig. 1. European Union structural assistance funds distribution among Member States in the period from 2007 to 2013 (million EUR)

Source: [The Control System... 2009].

and misuse of funds are observed. A group of Polish scientists determined the most common violations: document forgery (33%), incorrect expenses (21%), and procurement violations (13%). Moreover, attention is paid to the fact that the main causes of such violations were the following: failure to understand the established order, frequent changes in standard acts, the presentation of fraudulent documents [Ocena... 2009].

The society and politicians from different countries very often criticize the transparency and effectiveness of the usage of the European Union structural assistance. Such doubts could be dispersed if a proper audit is performed. In order to guarantee the quality of an audit, it has to be planned properly.

The aim of investigation: to analyse and critically evaluate the procedure of the European Union structural assistance audit planning and present recommendations for its development.

Tasks:

- to investigate the functions of audit authority of the European Union structural assistance,
- to define the principal elements of audit planning,
- to analyse practical audit planning elements application problems.

The object of investigation: the elements of the European Union structural assistance audit planning.

Methods of investigation: the analysis of the European Union regulations, the investigation, and the critical evaluation of European Union audit authority functions in the course of audit planning.

2. The main functions of the audit authority

The most important legal act which defines the granting and the requirements of the administration of the structural funds is stated in European Union Regulation No. 1083/2006 from 11 July 2006. Management and control system is defined therein. In compliance with the claims of the regulation, the management and control system consists of:

- managing authority – it is a national, regional, or local institution, governmental or a private institution which is appointed by a Member State to manage a concrete programme of activities (operations);
- certifying authority – it is a national, regional, or local governmental institution or organization which is appointed by a Member State to authorize expenditure statements and applications for grants before posting them to the European Commission;
- audit authority – it is a national, regional, or local governmental institution or an organization which is functionally independent from management or certifying authority, which is appointed by a Member State to supervise activities (operations) programme and which has the right to evaluate the effectiveness of the processes of management and control system.

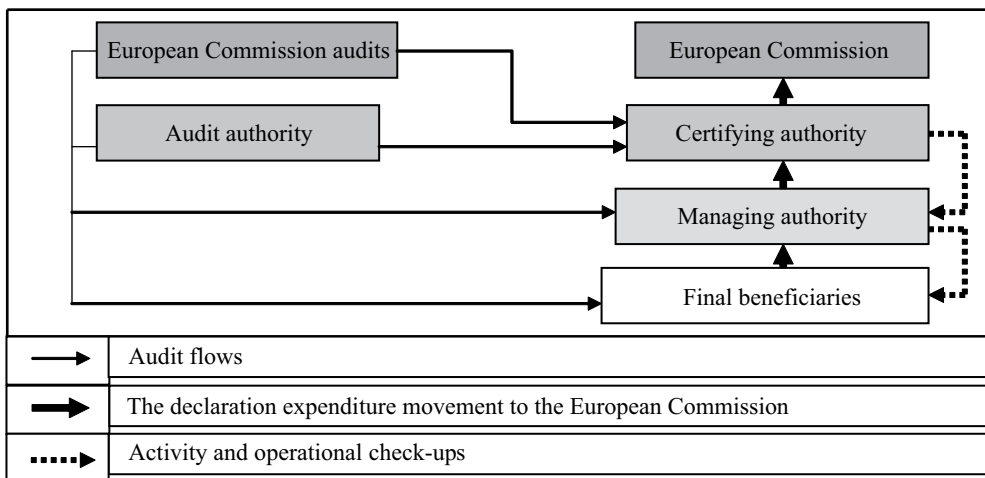


Fig. 2. The European Union assistance co-ordination at the national and European Union level

Source: [The Control System... 2009].

The European Commission also controls the European Union assistance administration within Member States. The co-ordination of control activity is presented in Figure 2.

Quite often auditing is understood as the process of controlling financial entries, though many different types of an audit exist in the world and not a single representative would agree that an audit performed by somebody is much more important than an ordinary audit [Gupta 2005]. The European Union structural assistance auditing is considered to be not a typical auditing process.

In compliance with the appendix to Regulation No. 1828/2006, audit authority has an obligation to present opinion about whether management and control system complied with the applicable requirements and functioned effectively so as to provide reasonable assurance that the statements of expenditure presented to the European Commission are correct and, as a consequence, that the underlying transactions are legal and regular.

3. The elements of audit planning

European Union regulations state only general requirements which are necessary to perform an audit. Audit authority must plan and perform auditing in order to get sufficient reliability on the proper employment of funds.

Different authors present different opinions about what elements should make the core of audit planning. Table 1 presents the opinions of various authors.

Table 1. The comparison of audit planning elements

Elements	International audit standards	Puttick (2007)	Daujotaitė (2006)	Mackevičius (2009)	Lakis (2007)
Strategy	Stated	Stated	Not in the planning period	Not in the planning period	Not stated
Plan	Stated	Stated	Stated	Stated	Stated
Programmes	Audit plan presents subsequent audit procedures	Not stated	Stated	Stated	Stated

Source: prepared by the authors on the basis of ISA No. 300 [2011]; Puttick [2007]; Daujotaitė [2006]; Mackevičius [2009]; Lakis [2007].

Following the international audit standards [ISA No. 300 2011] in the process of audit planning, a common strategy on auditing is fixed and auditing plan is prepared in order to minimize audit risk to the lowest acceptable level. Foreign authors usually follow the standards [Ghosh 2005; Gupta 2005]. In contrast to other authors, G. Puttick in the stage of audit planning does not indicate the creation of audit programmes.

While preparing audit strategy, plan, and programmes, much attention is paid to the importance of an audit. Depending on the complexity of audit planning and extent, audit strategy and audit planning can be combined into a common document.

4. The audit strategy reasoning under the Regulation of the European Union and international audit standards

Audit strategy is a document where audit authority must plan its work in such a way as to give sufficient and proper evidence in order to present a reliable opinion. Audit authority relies on two specific documents: regulations devoted to 2007-2013 European Union structural support and international audit standards.

Having analysed the requirements for audit strategy which are stated in the regulations and audit standards, some inadequacies can be observed. The most important are presented in Table 2.

Table 2. Differences in audit strategies

No.	Element	Regulation requirement	International audit standard requirement
1	Strategic goal	To define concrete auditing procedures	To help the audit group to plan their resources
2	The number of audits which are performed according to a concrete strategy	Systems audit, activities audit for nine financial years	One
3	Connection with the audit plan	It is not stated	Related to a specific audit plan

Source: prepared by the authors on the basis of ISA No. 300 [2011]; Council Regulation No. 1083/2006 [2006].

International audit standards comprise time, management, and supervision. Under the requirements of regulations, attention should be paid to audit results.

Another difference connected with regulations and international audit standards lies in the number of audits performed. According to Regulation No. 1083/2006, audit strategy must cover the period from 2007 to 2013. During this period of time, an audit institution must perform system audits and audits of operation, thus the audit regulation requires to fix the strategy of a forthcoming audit. On the other hand, international audit standards clearly define that an auditor must establish a common audit strategy for a concrete audit [ISA No. 300 2011]. Due to this difference, a third difference occurs. On the basis of the standards, an auditor must produce a common auditing strategy and auditing plan while performing an audit. The regulation does not specify any concrete indications how the auditing plan must be prepared, i.e. it is not clear how many audit plans must be prepared by an audit institution – one plan for the whole period of time or a separate auditing plan for every audit.

Scientific literature indicates [Arens *et al.* 2003] that an audit strategy identifies the primary risk areas and considers such matters as the indications of:

- management tendency to alter financial statements;
- the reliability of accounting estimates;
- the efficiency in operating, accounting or data processing;
- the adequacy of over data assets.

To sum up, it is worth noticing that even though Regulation No. 1083/2006 requires following the international auditing standards, general audit strategy preparation not always complies with the international audit standards regulations.

5. Auditing plan

According to the international audit standards [ISA No. 300 2011], an auditor must prepare an audit plan for specific auditing in order to minimize risk level to an acceptably low level. Many authors, who investigate audit, write about audit plan preparation [Mackevičius 2009, Ghosh 2005]. However, their proposals are more suitable for a financial audit plan, because the European Union structural assistance audit plan ought to be different. In the process of auditing financial statements, much attention is paid to the examination of documents and entries. On the other hand, performing the European Union structural assistance funds audit, in compliance with

Table 3. The elements of European Union structural assistance audit plan

No.	European Union structural support audit plan elements	Description of prospective operations
1	Activities under auditing and applied methods	Legal audit principle is presented, audit institution functions, annual audit goals are defined, and taking into account audit strategy and processes of the institution under audit, a date for performing an audit is fixed
2	Audit processing (performance)	Information about an audit object, defining the volume of an audit, description of audit methodology, reliability, importance, the identification of risk estimation, internal control evaluation and selection planning
3	Activities under auditing and applied methods	Reference to an audit plan, which implements an audit programme, volume information
4	Audit organization and mapping	Defining an audit team, the requirements for producing auditing work documents, audit supervision, examination and co-ordination mechanism, co-operation with the units under auditing, the presentation of a detailed audit process mapping
5	Auditing results	The presentation of annual implication and control statement, information about possible changes of audit strategy, covering the period from 2007 to 2013

Source: authors' own study.

the regulation, it is required that the systems must be estimated (evaluated) (or internal control evaluation performed) and project examination processed (examination of the expenditures made). Table 3 presents the audit plan structure of the European Union structural assistance funds presented by the authors.

The common auditing strategy differs from an auditing plan which is the internal audit authority document; therefore, the appropriate preparation of it is the consequence of proper audit institution operation. An audit plan must be prepared in such a way that its implementation, i.e. producing an audit programme, the main goal of audit institution, should be achieved – to express one’s opinion about management and control system effective performance, trustworthiness, and the legality of declared expenditures.

6. Audit programmes

Developing common audit plan, an auditor must produce audit programmes, which ensure the achievement of the goals set in a plan. However, there is no common opinion about audit programme structure and content. The Polish author, Wyciśłok [2004] recommends the following issues which have to be considered in the audit programme:

- control volume and goals;
- fund management and methods of control audit;
- people, responsible for auditing;
- audit selection;
- the terms of work performed and closing auditing date.

Table 4. Regulation No. 1083/2006 indicates audit connections with international audit standards

Regulation article	Indicated process	International audit standard statute	Definition
Regulation No. 1083/2006, Article 60, Part A	System audit	Control tests	Auditor must perform control tests, while in the process of evaluating the risk factor he or she also evaluates control procedure efficiency or when sufficient and proper audit proof cannot be obtained, while applying only detailed auditing procedure
Regulation No. 1083/2006, Article 60, Part B	Audit of operations	Detailed procedures	Detailed procedures are necessary in order to define important distortions at the affirmative level. Applying detailed procedures, economic operations, the balances of accounts disclosing information are checked and detailed analytical procedures are applied

Source: prepared by the authors on the basis of Council Regulation No. 1083/2006 [2006]; 330 ISA [2010].

Other Polish authors [Wojdylak-Sputowska, Sputowski 2009] recommend producing questionnaires for every audit. Robertson [1990] distinguishes two types of audit programmes:

- control tests – the aim of which is to produce facts about company's internal control;
- balances of accounts – the aim of which is to produce direct audit evidence and the balances of accounts.

Such an audit programme choice complies with the regulations of international audit standards and the necessity to apply audit assurance model by every audit institution. The connection between international audit standards and Regulation No. 1083/2006 audit is presented in Table 4. Detailed testing must be planned, to produce no less than 60%.

7. Conclusions

One of the most important stages of auditing is planning. Audit authority must plan and perform auditing in such a way that the reliability and efficiency of assistance used must be achieved. The literature and audit standards define the elements of audit planning differently. European Union regulations present only general requirements. Three planning elements are as follows: strategy, plan, and programmes. A strategy to choose depends on the European Union regulation and international audit standards. However, the regulations, which are connected with common audit strategy preparation, does not fully comply with the international audit standards statute. These differences relate to the audit strategy and connection between an audit strategy and plan. In order to comply with the article of these documents, there exists a proposal to produce one document which will embrace an audit strategy and plan, and produce them for the period from 2007 to 2013.

Differently from a common audit strategy, a plan is an internal audit institution document; therefore, its proper preparation is necessary for audit institution activity. An audit plan must be produced in such a way that, in the process of implementation, the main goal of audit authority should be achieved – to indicate facts about management and control system effective performance, trustworthiness, and the legality of declared expenditure. Therefore, an audit plan must be produced to meet the requirements of auditor's operation specifics and the achieved goal of an audit.

Audit programmes should be of two types: one for system evaluation, the other for operations auditing. The European Union structural support administrative system has many participants and only some of them perform the same functions; therefore, audit programmes must be applied in every operation. Such a type of applied programmes will help achieving the necessary audit reliability.

Audit programmes should foresee enough time to perform a detailed testing. Having assessed it, that for operation audit the highest level of reliability is achieved, it is proposed that, while producing a detailed testing, audit programmes should

cover more items of checking. If inadequate or incomplete assessment is done, audit assurance model can be destroyed.

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PLANOWANIE AUDYTU POMOCY STRUKTURALNEJ UNII EUROPEJSKIEJ

Streszczenie: Planowanie audytu jest jednym z najważniejszych oraz najbardziej odpowiedzialnych działań, od których jakości w dużej mierze zależy kontrola całego procesu oraz jego wyniki. Jednakże przepisy Unii Europejskiej nie podają informacji na temat planowania kontroli pomocy strukturalnej Unii Europejskiej, brak również badań związanych z powyższą tematyką. Nie ma zgody co do elementów planowania, strategii, struktury planu audytu oraz metod. Planowanie audytu, programów kontroli oraz przygotowania tych elementów są także różnie interpretowane.