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COMPARATIVE ANALYSIS OF INTERNAL AUDITING IN LITHUANIA AND POLAND

1. Introduction

In today's global world, where the free movement of capital, labour force and goods is possible, it is very important to have the most detailed information about the law regulating the performance of governmental institutions and private companies in different countries, how accountancy is managed, financial statements are produced, internal control in institutions and enterprises is secured. It is very important for the countries which closely cooperate politically and economically, e.g. Lithuania and Poland which have been very close in political, economic and cultural sectors for many years.

Under such circumstances possibility arises for investigating and taking over the latest and most advanced work methods of neighbours and, on the other hand, inform them about our experience. One of the most important and complicated activities is internal auditing. The internal auditing presents information to the managers and staff about the performance of legal entity, its shortcomings, the state of internal control. On the basis of such information management decisions are made, the activity of entity undergoes the process of improvement. At the same time, internal auditing contributes to the creation of added value and activity development.

The goal of the research is to investigate organization and performance of internal auditing in Lithuania and Poland and define the similarities and differences. Research object – activity of internal auditing in Lithuania and Poland. Research methods – comparative analysis, synthesis.

2. The origin of internal auditing

The origin of internal auditing was influenced by many factors. The most important factor is that all company's employees and people who handle money

and tangible assets, honestly and conscientiously perform their duties, put much effort to achieve company's goals. In the last decades, plundering and frauds became very common, the ways of doing it had become more inventive and intricate and the volume of it is bigger.

International Auditing Company PricewaterhouseCoopers every second year performs global economic crime investigation. In 2007 such report was presented for the fourth time. In the process of investigation 5400 companies' managers participated from 40 countries. It was stated that in the period of two years, 43% of companies suffered from economic crime. In the countries of Central and Eastern Europe this indicator is higher (about 50%). In average, the losses of the companies, which experienced fraud, in two years increased by 40%: from \$1.7 million in 2005 to \$2.7 million in 2007. Complex structure companies like parent companies and subsidiaries, where accountancy is performed under different systems, suffer from frauds more often [*Global economic...* 2007].

The aim of European Anti-Fraud Office (OLAF) is to secure EU interests against fraud, corruption and any other illegal activity, the number of cases decreases, but the amount of repaid money increases all the time [*Protection of the Communities...* 2007]. Data presenting the number of undertaken cases and repaid money in the period from 2003 to 2007 are presented in Table 1.

Table 1. The number of undertaken cases and amount of repaid money in 2003-2007 in EU

	2003	2004	2005	2006	2007	Total
Undertaken cases	308	219	214	195	210	1146
Repaid money (million €)	2,61	198,17	207,40	113,66	203,37	725,21

Source: [*Protection of the Communities...* 2007].

The data presented are very good indicator showing how big and serious the problem is.

Internal control checks the transactions which already had been performed and are still in the process of action, but it does not evaluate the functioning of internal control, that is why it does not predict future negative possibilities and does nothing to avoid them. It is the work of internal auditing. The internal auditing supervises, evaluates internal control and ascertains the weaknesses.

3. The development of internal auditing

The year of 1995 can be considered the beginning of internal auditing in Lithuania. In this year, the Board of the Bank of Lithuania authorised the order of internal auditing service activity of commercial banks ["Dėl komercinių bankų..." 1995] and obligated the commercial banks to establish internal auditing departments. In the authorised regulation, Bank's internal auditing goals are formulated, the

main functions of internal auditing department are defined, the rights and liabilities of internal auditors are presented.

Although these regulations were not perfect and comprehensive, they gave birth to the internal auditing. Later, in the year of 2000, these regulations concerning bank's internal auditing organization were amended and developed, which defined the minimal requirements for performing bank's internal auditing ["Dėl banko vidaus..." 2000]. These new regulations present more explicitly how to organize internal auditing in banks. Commercial banks were proposed to establish auditing committees.

The Association of Internal Auditing greatly influenced the development of audit in Lithuania. The Association was established in 1997. In the year of 2000 it joined The Institute of Internal Auditing (IIA), and in 2005 in July it became a member of the European Internal Auditing Confederation.

The establishment of internal auditing in governmental institutions, offices and enterprises took place in the year of 2000. In 2000, February 7, the government issued a regulation "Internal Auditing in Governmental Institutions and Enterprises" ["Dėl valstybės įmonių..." 2000].

The above mentioned regulations did not solve all the problems connected with organization and execution of internal auditing and for several times they underwent improvement.

The problem of establishing the internal auditing in public sector was solved finally when the law on internal control and internal auditing was passed in Lithuania ["Lietuvos Respublikos..." 2002]. The law defines the tasks, goals of internal auditing, the circumstances of establishing it and the ways how to ensure its independence.

In Poland the formation of internal auditing followed different steps. Though it was considered that internal auditing is the company's priority, but in May 23, 1983 in the regulations of The Council of Ministers "The performance of control in the governmental administration" ["Uchwała nr 57..." 1983] the internal auditing was separated, which earlier was executed by company's organizational system, from institutional control. Under this regulation all managers of enterprises and institutions had the right to establish internal control department which in its turn had the right to control other departments. At the same time, functional control which was performed by entity's organizational system was separated from institutional control which was executed by the departments of internal control [Kuc 2002, p. 25]. This can be considered the first step of internal auditing.

In Poland, in the institutions of public financial sectors, the internal auditing has been implemented since 2002 [Winiarska 2005, p. 7]. In June 30, 2005 a law on Public finance was passed ["Ustawa z dnia 30 czerwca..." 2005]. The new law provides a wider description on internal auditing. The law which was passed earlier declared that internal auditing provides objective and independent evaluation to the manager on such issues as credibility, economic situation, accuracy and coherence.

The new law describes consulting activity as well. Since that time, the definition of auditing corresponded to the definition of internal auditing provided by the international auditing standards. The changes in legal acts issued later regulating internal auditing are the issues of precision.

The practical aspects of organization and execution of internal auditing are regulated differently in both countries. In Lithuania the most important legal acts are: internal auditing service exemplary regulations, exemplary methodology of internal auditing, internal auditors' professional rules of ethics and internal auditing recommendations. These legal acts are applied as Internal Auditing Standards. Internal auditing service exemplary regulations were approved by the government ["Vidaus audito..." 2003]. The regulations define goals, tasks, functions and rights. Internal auditing methodology and internal auditors' professional rules of ethics were approved by the Minister of Finance ["Pavyzdinė vidaus..." 2003; "Viešojo juridinio..." 2003]. The most comprehensive document is *Internal Auditing Recommendations* [<http://www.finmin.lt>] which were approved by consistent commission. They supplement and give wider explanation of internal auditing methodology. Recommendations can be used as supplementary material by internal auditors.

In Poland internal auditing standards were applied ["Komunikat nr 2..." 2003; "Komunikat nr 11..." 2006]. The aim of the internal auditing standards is to ensure proper quality of internal auditing and homogeneous performance practice [Kiziukiewicz 2007, p. 48]. Standards consist of 3 parts: common standards, detailed standards – basics of auditing or ethical requirements, detailed standards – auditing organization and execution.

In the part of detailed standards, the most important requirements are presented, like independence and objectivity, honesty (fairness), professional skills, quality and efficiency, and the rules observing the standards. In the part of detailed standards, internal auditing organization and execution issues are defined, the management of internal auditing is analysed, the functions and extent of auditing, supervision and execution of it, the presentation of report, the control of eliminated drawbacks during the execution of internal auditing are presented. The code of ethics of internal auditors ["Komunikat nr 6..." 2004] and other legal acts, regulating the organization and execution of internal auditing in public sector, were approved by the Minister of Finance.

4. Regulation of internal auditing in public sector

Both countries do not follow unified organizational system while performing internal auditing in public sector. Internal auditing departments in different institutions work independently, and their execution is supervised by the Ministry of Finance. In Lithuania, such procedure is indicated in the law on internal control and internal auditing ["Lietuvos Respublikos..." 2002]. This law explains that Ministry of Finance

methodically manages financial control and internal auditing matters, evaluates and, in case of need, checks if the internal auditing activity complies with defined requirements.

In Poland such authorization rights are given to the Minister of Finance by public finance law [“Ustawa z dnia 30 czerwca...” 2005]. The law gives the right to the Minister of Finance to approve and announce standards of internal auditing which correspond (conform) to the standard requirements acknowledged publicly, and at the same time collect, store and analyse information and take up measures with the help of which internal auditing in public sector might be improved.

The above mentioned laws regulate the auditing department establishment procedure in public sector, its position, the main comparison of regulating the organization and performance of internal auditing in Lithuania and Poland. This information is presented in Table 2.

As it can be seen from the table, in both countries the laws regulate the fundamentals of establishing internal control services, their status, planning and execution (performance) of auditing, requirements which have to be followed by the internal auditors, the supervision of internal auditing department. It follows that common procedures of organizing and executing internal auditing are very similar in Lithuania and in Poland. However, some differences can be observed. Both in Lithuania and in Poland, internal auditing departments are established in main governmental and other institutions. But, on the other hand, the establishment procedures of internal auditing department in some other public enterprises are different. In Lithuania, internal auditing department is established in the institutions where the number of employees is not smaller than 200 people. In Poland, internal auditing departments are established in the institutions where funds are big. The amount of such funds is 40 million złotych [Winiarska 2007, p. 59].

Internal auditing service is within the jurisdiction of the institution manager. Some differences concerning the dismissal from the post of the head (manager) of internal auditing can be observed. In Lithuania, the institution managers, before dismissing the internal auditing department manager or breaching off a contract with him, must inform the Ministry of Finance, stating the reason of such action. If the internal auditing department manager breaches off a labour contract on his own will, then the manager of the institution does not have to inform the Ministry of Finance about his dismissal and the reasons for taking up such steps. In Poland, the internal auditor can be made redundant having received the approval of the Minister of Finance. Internal auditing is performed in accordance with annual plans, under the agreement of the institution manager. In Lithuania, internal auditors work independently within the limits of the annual plan. In the case of some unexpected requirements to execute internal auditing it is important to have a written permission from the management. In Poland, in all cases internal auditing can be performed if the institution manager obligated to do that.

Table 2. Regulation of internal auditing in Lithuania and Poland

Characteristics	Lithuania	Poland
The establishment of internal auditing	Internal control and internal auditing law is valid in institutions and other organizations where the number of staff is not less than 200.	Public finance law which defines institutions and other organizations which have at their disposal money, amount of which is fixed by the Minister.
Subordination	Internal auditing department is within the jurisdiction of the management.	The internal auditor is within the jurisdiction of institutional management.
Status	The manager of the institution has to inform the Ministry of Finance about the reasons why the internal auditing manager was made redundant. Such information is not necessary if the manager of internal auditing breaches off the contract on his/her own will.	Internal auditor can be made redundant if the Minister of Finance agrees.
Planning	Internal auditing is executed (performed) in compliance with annual plans, which are prepared by the internal auditing manager, presenting the information in written to the institution manager.	Internal auditing is executed in compliance with the annual plans which are prepared by an internal auditor conformed by the manager.
		Auditing plan structure is regulated.
		Internal auditing plans and reports (statements) about their execution are presented to the institution management and Minister of Finance.
		Internal auditing is performed under the obligation of the institution manager.
		If during two months period after the auditing procedure the faults are not eliminated, then the top managers of the institution inform the Minister of Finance and the auditor.
		Internal auditor can be a person who conforms to the requirements stated in the law.
		Ministry of Finance authorizes the standards of internal auditing.
Plan structure	Not regulated.	Not regulated.
Accountability	The manager of internal auditing department presents annual auditing performance report to the Ministry of Finance, the institution management or to the founder (establisher) of organization.	
Influence of institution manager	If the internal auditing is not planned, it can be executed under the decision made by the internal auditing department manager in a written form conforming it with the management of the institution.	
Elimination of defined faults	Not regulated.	
Requirements for the internal auditing manager	The manager of internal auditing department can be a person who corresponds to the requirements stated by law.	
Methodical management	The Minister of Finance methodically manages the internal auditing.	
The competences of internal auditors	The law describes the functions of a manager of internal auditing department and the competences of internal auditors.	

Source: The table presents information on internal control and internal auditing following the law of the Republic of Lithuania and Public Finance law of the Republic of Poland.

In Lithuania, the manager of internal auditing department can be a person, having tertiary economic, management, public administration or legal education, not less than 2 years experience in auditing or internal auditing sector. Greater requirements are presented to auditors in Poland. An auditor can be a person, who has tertiary education, international professional or auditing accountancy organizations granted certificates or a person (individual) who has passed controller's examination which is performed by the state auditing institution or having passed tax inspectorate examination or has acquired the independent auditor's qualification.

Not every issue on audit organization and performing it is equally regulated by laws, e.g. in the law on internal control and auditing in Lithuania, the structure of annual plan is not regulated and the period when the shortcomings must be eliminated is not fixed. In Poland, faults under the law of public finance must be stated, annual internal auditing plan must present risk analysis, the subject of internal auditing, calendar plan, the activity spheres, which will have to be audited in later years, must be clarified. It is foreseen also that if during two months after the auditing has been completed and the faults are not eliminated, then the institution manager must inform the Minister of Finance and the internal auditor.

The Lithuanian internal control and auditing law foresees the functions of the manager of internal auditing department. The tendencies of internal auditing are very similar both in Lithuania and in Poland. The authors from both countries [Lakis 2007, p. 167; Knedler, Stasik 2005, p. 13] indicate that internal auditing render consulting services and prognosis, evaluates systems. The results of internal auditing firstly are discussed with the entities under auditing and only after that the final auditing report is presented. Much effort is put in trying to encourage the enterprises under auditing to actively participate in evaluating internal auditing results and preparing common proposals for both parties how to rectify mistakes in order to avoid making them in the future. It is a positive tendency, because the participation of audited entities allows not only to avoid erroneous fact evaluation, but to prepare a realistic plan of measures to improve the situation which is accepted by performers.

5. Conclusions

In Lithuania, the internal auditing started to function 4 years after the transition to market economy. In Poland, this process came into being earlier, under the conditions of administrative command economy when the internal auditing took over the functions of Ministries. In Lithuania, under the conditions of administrative command economy departmental control functioned, but in 1990 it was abolished when the country moved towards the market economy, and the commencement of internal auditing can be considered the year 1995.

The internal auditing in public sector was established at the same time in both countries. The first, but not very successful steps were made in 2000 in Lithuania

and correspondingly in Poland in 2001. In both countries the internal auditing developed gradually, laws and other legal acts underwent amendment paying attention to the accumulated experience and EU legal acts requirements.

Both countries lack unanimous (common) organizational system in performing internal auditing in public sector. Internal auditing departments in different institutions act independently under supervision of financial institutions. The establishment of fundamentals of internal auditing, its status, planning and execution of it, requirements for internal auditors and supervision of internal auditing departments are regulated by the laws. The establishment of internal auditing departments in governmental and other institutions are different. The process of making the manager of the internal auditing department redundant is different too. Diverse are qualification requirements and planning procedures for managers of internal auditing departments.

The recent tendencies of internal auditing are very similar in both countries. Internal auditors provide consulting services, give forecasts, evaluate systems. Close cooperation between auditors and audited entities is observed in preparing recommendations how to eliminate deficiency and improve work performance.

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