Quality Control System in Croatia

Vienna, 24-25 March 2011
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Legal framework

- **Audit Act** (Official Gazette No 146/05)
- **EU Directive No 2006/43/EC**
- **Amendments of the Audit Act** (Official Gazette No 139/08), regulate:
  - carrying out of public oversight
  - establishment and operation of the Audit Public Oversight Committee (APOC),
  - additional provision about quality assurance review of audit firms and independent auditors and certified auditors,
  - international cooperation.
Croatian Audit Chamber (CAC)

- role, characteristics and competence of CAC
  - as professional organisation
  - as protector of public interest
- cooperation with other audit and related professional organisations and with competent authorities
  - competent authorities in the Republic of Croatia (CNB, HANFA, MoF – Office of AML, Tax Department),
  - professional related organization (HZRIFD)
  - audit professional institutions in the region (EU and no-EU members)

- CAC is the associated member of IFAC and FEE, since 2010
Organization chart of CAC

The Croatian Audit Chamber

The Assembly of CAC
- Members are all certified auditors

The Committee for Supervising Financial Operation of CAC (3 members)

The President of CAC

The Disciplinary Council (3 members)

The Governing Board (7 members)

The Secretary of CAC

Quality Assurance Department

Department for Legal, Financial and General Affairs
Relation between CAC with APOC

Ministry of Finance of the Republic of Croatia

Audit Public Oversight Committee
Public oversight of the Croatian Audit Chamber according to the Audit Law, the Rules of Procedure and the Memorandum of Understanding

Foreign Public Oversight Authorities
Foreign Audit Authorities

Croatian Audit Chamber

Public oversight and right to instruction

hearing of the APOC before amending professional rules
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Framework of QC system

• legal provisions:
  – the Audit Act
  – the Statute of the CAC
  – the Ordinance of carrying out inspection and quality assurance reviews of audit firms, independent auditors and certified auditors

• professional requirements:
  – methodology of carrying out quality assurance reviews (exp. approach initial review)
  – audit rules (ISQC1, ISAs and other professional rules, Code of Professional Ethics)

• additional specific requirements:
  – provisions of the General Administrative Procedure Act (when is needed)
  – provisions of the Data Protection Act
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Organization of QC function

- **Quality Assurance Department** – professional service unit within CAC
- **Reviewers** – persons conducting inspection and quality control reviews are employees of the CAC in the QAD
- reviewer has to be:
  - certified auditor with minimum 5 years audit experience,
  - Independent person, with no conflict of interest,
  - additional trained for carrying out inspections and QARs according to the CAC programme (ICAEW engagement),
  - involved in CPD (audit legal framework, audit rules, other related regulations eg. IFRS, disclosure of FS, additional requirements of the supervisors to the external auditors)
- **QAD activities** *(prior approval and subject of the oversight by the APOC)*
  - QC reviews,
  - education of reviewers,
  - CAC funds earmarked especially for planned QAD activities
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Background and CAC´s approach

- authorised subjects:
  - audit firms (271)
  - individual auditors (2)
- CAC´s - QAD human recourses:
  - reviewers (3)
- CAC´s QA practice:
  - till 01.01.2010., no previous practice
- ICAEW experience, suggestions and support

- decision → initial visit with educational character
- initial visits include all audit firms and individual auditors over short timescale (during 6 months period of 2010)
- CAC announcement about initial visit activities, February 2010
CAC’s approach (why initial assessment review?)

- purposes of initial visits:
  - introduce and educate all audit firms about CAC’s QC function
  - scan of audit market
  - find out fundamental gaps in knowledge, skills and in carrying out audit services
  - sensitive and educative action - support and encourage audit firms on improvement and implementation of professional audit rules (ISAs, ISQC1)
  - findings of visits use for:
    - planning of QC in “full review programme” (focus on high risk audit firms),
    - improving CPD programme for auditors and developing technical support for audit firms,
    - initiating disciplinary actions against audit firms with irregularities (regarding the Audit Act, Code of Professional Ethics)

- initial visits are carried out as initial assessment reviews
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IAR activities

• Previous:
  ▪ additional education of reviewers (detailed about IAQ and IAR)
  ▪ IAQ_2009
  ▪ IAR plan (detailed territorial and timing schedule, IAR program, estimated costs)

• Carrying out IAR

• Final:
  ▪ analysis of IAR findings
  ▪ reporting (to GB, APOC, CAC web)
  ▪ QAD proposal for initiation disciplinary action against audit firms with irregularities
QUESTIONS ?