"Audit profession in Moldova: Challenges and Perspectives

The Role of professional bodies and their contribution to the system of public oversight under the EU *acquis communautaire*

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» Statutory Audit Directive (SAD)

» “Generic" model and Challenges in SAD implementation

» Role of the professional bodies
The Directive applies to all audits of accounts required by Community law (article 2.1): that is, audits of company accounts and the accounts of certain partnerships, insurers and credit institutions.

The Directive sets requirements for:

- auditors’ qualifications (articles 3-13);
- registration of auditors (articles 15-20);
- auditors’ professional ethics (articles 21-24);
- auditing standards (article 26);
- aspects of the audit process (articles 25, 27, 28);
The Directive sets requirements for:

- monitoring and investigation of auditors (articles 29-30);
- oversight of auditors by competent authorities (articles 32-36, 47); and
- regulation of third country auditors (articles 45-46).

There are also some obligations in the Directive on audited entities, relating to:

- appointment of auditors (article 37);
- dismissal of auditors (article 38); and
- establishment of an audit committee (article 41).
Key articles:

» Professional Oversight Systems (Paragraph 20, Article 32)

» Quality Assurance Systems (Paragraph 17, Articles 29, 43)
Para 20: Member States should organise an effective system of public oversight for statutory auditors and audit firms

The POS should be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit. These non-practitioners may be specialists who have never been linked with the audit profession or former practitioners who have left the profession. Member States may, however, allow a minority of practitioners to be involved in the governance of the public oversight system.
POS - Public Oversight System

Art 32: The system of public oversight shall have the ultimate responsibility for the oversight of:

(a) the approval and registration of statutory auditors and audit firms;

(b) the adoption of standards on professional ethics, internal quality control of audit firms and auditing,

(c) continuing education, quality assurance and investigative and disciplinary systems.
Para 17: Regular inspections are a good means of achieving a consistently high quality in statutory audits.

Statutory auditors and audit firms - subject to a system of QA that independent from the reviewed statutory auditors and audit firms.

Each individual auditor is to be subject to a QA review at least every six years. In this respect, the funding for the quality assurance system should be free from undue influence.
QAS – Quality Assurance System

Article 29: Quality assurance should meet the following criteria:

- quality assurance reviewers shall have appropriate professional education and relevant experience in statutory audit and financial reporting combined with specific training on quality assurance reviews;
- the selection of reviewers shall be so that there are no conflicts of interest;
- quality assurance reviews shall take place at least every six years.
QAS – Quality Assurance System

Art 43: The quality assurance review referred to in Article 29 shall be carried out at least every three years for statutory auditors or audit firms that carry out statutory audits of public-interest entities.
"Generic" model

1. POS – indirect inspection (for all audits) and sanctions

2. QAS – direct (for all audits) and sanctions

3. POS – direct inspection (for high risk audits incl. PIEs) and sanctions

4. QAS – indirect (for all audits) and sanctions

5. QAS – indirect (for all audits) and sanctions

Public oversight body

Judicial and law enforcement authorities

Professional bodies

Peer reviewers, consultants

Audit firms of statutory auditors

For criminal issues
Oversight by a dedicated institution or as part of another body
- Private sector or government department
- Credibility
- Economy and efficiency
- Regulatory cooperation
- Administrative law expertise
- Focused expertise
- Funding the start-up phase
Challenges in SAD implementation

Composition of oversight body

- Involvement of practitioners
  - Professional expertise
  - Conflicts of interest
  - International credibility

- Availability of appropriate expertise
  - Size of oversight body
  - Role of individuals
  - Appointment and removal processes
Adequate and secure funding of oversight body

- Government budget
- Audit profession
- Multiple sources
Challenges in SAD implementation

Oversight or direct inspection
- Public interest entities
- Non-public interest entities

Implications
- Staffing numbers and expertise
- Level of funding required
- Sharing of resources
Balancing of powers between oversight body and professional body

- Strong effective profession matters
- Strong effective oversight matters
- Clear allocation of responsibilities essential
- Mutually supportive
Professional Accounting Body

» The Institute of Chartered Accountants of Scotland (ICAS) received its Royal Charter in 1854; first to adopt the designation "Chartered Accountant" and the letters "CA“

» International Federation of Accountants (IFAC) - founded on October 7, 1977 in Munich, Germany at the 11th World Congress of Accountants; headquartered in New York since its founding; sixty three bodies from 51 countries signed IFAC's first Constitution; currently 158 members and associates in 122 countries representing 2.5 million accountants

» Accountant vs. auditor – chambers, institutes, associations
Full self-regulation considered not appropriate

Varying levels of supervised regulation
- EU 8th Directive – “ultimate responsibility” for the oversight of:
  - approval and registration of statutory auditors and audit firms
  - adoption of standards on professional ethics, internal quality control of audit firms and auditing
  - continuing education, quality assurance and investigative and disciplinary systems

Varying interpretations of “ultimate responsibility”

Two basic approaches
- Oversight body performs all functions (professional body becomes a voluntary association)
- Professional body performs all functions and is accountable to oversight

Third approach – a combination of both
Role of the professional bodies

Moldova - background:


» New Auditing Law in force starting with 01 January 2008, which was developed based on ROSC policy recommendations;

» Action Plan for accounting and auditing development, 2009-2014 (CAP) which stresses the need to straighten the capacity of the Council for Oversight of Auditing

» South-South Experience Exchange between Practitioners (Slovakian and Slovenian models were studied);

» Road to Europe: Program of Accounting Reform and Institutional Strengthening – learning through community of practice
Role of the professional bodies

What is needed?

» To create the balanced oversight of statutory auditors and audits required by law

» Capacity and incentives for compliance by auditors
Establishment of the foundation for an Audit Oversight System would contribute to:

- Strengthen clarity of mission of audit oversight council and professional bodies;
- Improve incentives for compliance with the public audit oversight system, ISAs and Code of Ethics;
- Strengthen operational efficiency of new oversight system (COA, Chamber of Auditors/professional bodies and auditors to be able to fulfill its new mandate including auditing standards and quality assurance)
Which options could be considered in Moldova?

» Establishment of the Chamber of Auditors with mandatory membership for all auditors;

» Mixed approached, when some functions are delegated to professional bodies (similar to Generic Model), and compulsory membership by auditors in any accepted professional body
Role of the professional bodies

Chamber of Auditors:

» Mandatory membership for all auditors and subject of oversight

» The Chamber would play a significant regulatory role and its creation will help to unify the audit profession

» The main functions could be education, continuous professional training for auditors, quality control in respect of audit firms and individual auditors, professional development

» The aim would be that this body will satisfy all the requirements of IFAC Statement of Membership Obligations (SMOs)
Main challenges:

» Adequate financing;

» Good people and experts for performing adequate quality assurance;

» Existing capacity creating over the years under the existing professional bodies could be lost, including those attributable to IFAC membership
“Mixed” model (similar to Generic Model above) - regulatory regime with several recognized professional bodies, subject to oversight.

Main challenges under this option:

» To identify and establish the system for accreditation/acceptance of the professional bodies (criteria – based on IFAC SMOs)

» Auditors should be required by law to be members of one of the accredited professional body

» Existing professional bodies could develop and improve their achievements and will keep their members
Role of the professional bodies

Issues:

» Auditors will not have the majority since members of the association could be accountants as well and as result the control under the auditing profession could be diluted

» Limited and diluted cope of regulation (small number of auditors members of the professional body; small number of audits of PIEs)

» Fragmentation of auditing profession
Policy decision needs to be taken and legislation adjusted accordingly

Actual implementation – significant challenge

The WB may be able to mobilize some support for national reforms – the work on this is ongoing
Thank you for your attention.

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Questions?