

**STAREP**

**Accounting and Auditing Standards  
Community of Practice (A&A CoP)**

**Public Oversight and Quality Assurance  
in Armenia: Current Status**

# Background – Auditing Market Condition

*Number of auditors:* 309 persons obtained auditor certificates from the Ministry of Finance of Armenia.

138 auditors obtained certificates from the Association of Auditors and Accountants of Armenia.

*Number of auditing firms:* 35

*Number of undertakings subject to statutory audit:* approximately 300 undertakings

What undertakings are subject to audit under local legislation?

Financial institutions, open joint-stock companies, and gambling establishments are subject to statutory audit. Various laws also provide for statutory audit for some types of non-profit entities.

# Legal Framework

- Law on Auditing, passed on December 12, 2002
- Under the Law on Auditing, International Standards on Auditing (ISAs) are applied in Armenia
- The Government approved the ISAs by its resolution on December 29, 2011 and promulgated them
- Resolution of the Government of the Republic of Armenia of March 4, 2010 on Approval of the Audit Supervisory Inspectorate under the Ministry of Finance of the Republic of Armenia
- Resolution of the Government of the Republic of Armenia of March 22, 2012 on Audit Services Licensing Procedure
- Resolution of the Government of the Republic of Armenia of February 7, 2013 on Approval of General Definitions for Indicators for Determining Criteria and Methodology for Risk-Based Inspections

# Legal Framework (*continued*)

- Resolution of the Government of the Republic of Armenia of February 7, 2013 on Approval of Checklist Used to Enforce the Requirements of Audit Regulations by the Ministry of Finance Audit Supervisory Inspectorate
- Order of the Ministry of Finance of the Republic of Armenia of March 1, 2013 on Approval of Risk Assessment Procedure to Select Auditing Entities Subject to Inspection

# Public Oversight Body (1)

- The Ministry of Finance of the Republic of Armenia is the official auditing regulator.
- The Association of Auditors and Accountants of Armenia (AAAA) introduced the audit quality monitoring (AQM) mechanism in 2013.
- AQM:
  - Voluntary participation for all the auditing firms willing to participate
  - Criteria-based selection and invitation of an independent expert auditor to Armenia
  - Phased expansion of business areas of companies financial statements of which are selected to be monitored
  - Phased deepening of coverage and sample
  - Monitoring budget is funded by the auditing firms themselves and partly by the AAAA

# Public Oversight Body (2)

*What is the composition and functions of the public oversight body?*

## **Inspectorate of the Ministry of Finance of the Republic of Armenia:**

- Nine staff members
- Operates under the law on inspections and legislative acts governing auditing and other regulations
- Responsible for supervision over application of ISAs and regulatory requirements by auditing entities

## **Responsible group of the AAAA AQM:**

- Chairperson of the AAAA Board, group member who is a recognized independent auditor
- The group is responsible for preparing all the governing documents, organizing the monitoring process itself, and organizing debates during appeals.

## **Public Oversight Body (3)**

***Audit Supervisory Inspectorate of the Ministry of Finance of the Republic of Armenia:***

*Implements inspection program and assesses extent of compliance by auditing firms with respective auditing standards and regulations.*

*Imposes penalties for non-compliance under the law: warnings, fines, termination or suspension of auditing license.*

*The inspectorate being a part of the Ministry of Finance is accountable to the general public. The law does not provide for any other special report forms to report to the general public.*

# Public Oversight Body (4)

## *Responsible group of the AAAA AQM:*

- *Implements inspection program and assesses extent of compliance by auditing firms with ISAs.*
- *May not impose penalties under the law because participation in the AQM is voluntary*
- *Following the AQM, AAAA announces names of auditing entities which have successfully passed the AAAA monitoring*
- *Auditing profession and other general public is informed through internet and other mass events held by the AAAA.*

# Quality Assurance System (1)

*If there is quality review system in your country, could you specify:*

1. *What body is in charge of the quality assurance system?* Formally, it is the Ministry of Finance of the Republic of Armenia. AAAA is engaged in voluntary AQM.

2. *What is the total number of dedicated staff engaged in audit inspections? What is their professional experience, and for how many years on average the staff have been dealing with audit inspection issues?* The Inspectorate under the Ministry of Finance of the Republic of Armenia has nine staff members employed since the entity was founded in 2010.

AAAA – two independent statutory auditors, responsible group appointed by the AAAA Board. Specifically selected experienced professionals.

3. *On what basis are entities selected for inspection (e.g. randomly, systematically, based on annual reporting data, based on risk assessment, etc.)?* Selection is done based on risk assessment. The selection methodology has been approved by the Government of the Republic of Armenia.

In the event of the AAAA AQM, inspections are voluntary with rotation principle introduced effective 2014.

4. *Is there a referral mechanism in the analysis process (e.g. can a unit in charge of disciplinary issues within a professional body regulating accounting recommend any issues for inspection)? Who conducts such inspections?*

The Inspectorate under the Ministry of Finance of the Republic of Armenia conducts inspections as per multi-faceted questionnaire. It has been approved by the Government of the Republic of Armenia and it cannot be modified; no issues outside of the questionnaire can be considered.

AAAA – the questionnaire is discussed tentatively in public with prospective inspectees. Coordination is carried out through the AAAA Responsible Group.

## Quality Assurance System (2)

*4. Could you please describe how quality review is conducted, i.e. mostly through desk inspections or field inspections or combination of both approaches?*

Combination of both approaches.

*5. What is the average duration of inspection (please specify for sole practitioners, medium-sized auditing firms, and large auditing firms)?*

The Inspectorate under the Ministry of Finance of the Republic of Armenia – fifteen business days for auditing firms.

AAAA AQM – two days.

*6. What do inspections focus on (e.g. efficiency of in-house quality control systems, auditor participation in specific audit inspections, etc.)?*

On compliance with ISAs. The Ministry of Finance inspectorate, also on compliance with requirements governing auditing and other relevant regulations of the Republic of Armenia.

# Quality Assurance System (3)

7. *On what basis are audit engagements selected for inspection?* Completeness of coverage, types of audit, audited company size.

8. *Could you please describe briefly the availability and quality of resources necessary to carry out the activities.*

See slide 9.

9. *Are inspection findings published or made publicly available otherwise?*

No. The Ministry of Finance only publishes information regarding the auditing entities violations have been detected with; and the AAAA, regarding the auditing companies which stand out. The AAAA circulates an annual general professional monitoring review to all the companies.

10. *Could you please specify some main departures from the requirements inspectors detected. Could you please also provide information regarding penalties imposed by a regulator or another body concerned following the detection of the departures (with specific examples).* Inspections conducted by the Ministry of Finance Inspectorate detected violations of some requirements of the law on auditing and of the ISAs.

AAAA AQM – Difficult for companies to comply with quality control requirements – ISQC 1.; ISAs 210, 230, 240, 315, 330, 500, 501, 505, 520, 570, 700, human resources and professional ethics matters.

# Relationship between Public Oversight Bodies and Other Financial Sector Regulators

*Could you please describe relationship between the public oversight body and other financial sector regulators in your country.*

The AAAA's cooperation with the Ministry of Finance of the Republic of Armenia was marked in 2013 by the state recognizing the auditor qualification system and cooperating in the AAAA AQM implementation.

The AAAA also made available the general professional monitoring review to the Ministry of Finance of the Republic of Armenia.

A member of the AAAA AQM responsible group works at the Central Bank of Armenia.

# Conclusions

*Could you please describe major challenges related to the creation and implementation of public oversight and quality assurance system in your country.*

By our estimates, currently there are deficiencies related to legislation and practical issues with the oversight concerned as regards implementation of the public oversight and quality assurance system in the Republic of Armenia.

The Ministry of Finance is reviewing draft law on the establishment of the professional chamber of auditors and public oversight body. When the laws are adopted, other related laws will also have to be amended.

As a result, monitoring and quality control will be taken over by the professional chamber and dedicated public oversight body with broad participation of the state. The system also provides for transfer to a professional body of auditor training/qualification functions , translation and publication of the IFRSs and ISAs, and monitoring professional ethics rules.

We envisage that the new chamber will be created on the basis of the AAAA, the only IFAC member in Armenia. This would ensure consistency of auditing profession development in the country.