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

Reforming Public Audit Oversight Framework in MOLDOVA
OVERALL BACKGROUND

- As per provisions **of the Moldova-EU Association Agreement, Directive 2006/43/EC on Audits** is to be transposed within three years since the effective date of the Agreement, i.e., by **September 1, 2017**, and **Regulation No. 537/2014 on Specific Requirements Regarding Statutory Audit** should be implemented by **September 1, 2016**.

- **The A&A ROSC** updated in 2013 stated that, although most elements of the audit oversight framework as provided for in Directive 2006/43/EC have now been incorporated in the Auditing Law, the system fails to comply with all the requirements of the Directive.

PROPOSED STRUCTURE OF THE OVERSIGHT BODY

Audit Oversight Agency (ASAA)

Audit Oversight Board (CSAA)

Executive Body

Registrarship and Continuous Education

Quality Assurance

Investigations and Sanctions

Administration

Ministry of Finance

All the statutory auditors and audit firms
LEGAL STATUS
The ASAA will be a public institution under the Ministry of Finance and will carry out activities based on the self-governance and self-financing principles under the Auditing Law and the Regulation on ASAA Activities.

ASAA GOAL
The ASAA will engage in public oversight over auditors and audit firms.
The ASAA will have the following responsibilities:

- Auditor certification and registration
- Audit firms registration
- Monitoring continuous education
- Quality assurance
- Investigations and sanctions
- Drafting regulations in order to carry out the public oversight function

Note: The Ministry of Finance will be responsible for audit regulation policy-making and approving related standards (ISAs, Code of Ethics, ISQC1)
The ASAA will be run by the Board composed of seven members as follows:

– Two representatives from the Ministry of Finance
– One representative from the National Bank of Moldova
– Two representatives from the National Commission for Financial Market
– Two representatives from economics universities with a degree in economics appointed by the Ministry of Education, one of whom specialises in auditing and the other, in law
KEY RESPONSIBILITIES OF THE BOARD

The ASAA Board will have the following key responsibilities:

a) Decision-making regarding auditor and audit firm registration/deregistration with the Public Register
b) Decision-making regarding suspension of auditor activities
c) Approval of internal regulations on executive body activities
d) Approval of the annual work plan and the budget
e) Approval and submission to the Ministry of Finance of the ASAA annual report
f) Decision-making regarding audit quality
g) Approval of the executive body structure and staffing table
h) Decision-making regarding penalties
i) Notifying courts of competent jurisdiction about investigation findings
j) Cooperation with the international public audit oversight bodies
k) Review and submission to the Government of the ASAA regulation for approval
l) Decision-making regarding the procedure for cooperation with professional bodies
m) Discussion of other professional issues within the purview of the ASAA
The executive body will be run by a director selected on a competitive basis in compliance with transparent and objective procedures. He/She will represent the ASAA in the exercise of its powers and responsibilities.

General requirements to Director:

• Independent expert with adequate knowledge of auditing;
• Higher education in accounting, auditing, finance, or law;
• Theoretical or practical knowledge of accounting, auditing, finance, or law obtained over at least eight-year period;
• Did not engage in statutory audit, had no voting right in an audit firm, was not a member of an administrative board or management body of an audit firm, was not hired by, or otherwise related to, an audit firm for at least three years prior to their appointment [with the possibility of including temporary provisions on exemption]
• Has no outstanding conviction
• Can provide evidence of lack of kinship or relation in up to the 3rd degree to persons engaged in auditing (founders, auditors)
Director’s activities should be incompatible with:

1. Functions of a member of a management body or oversight body of a PIE or any other entity subject to statutory audit

2. Work and/or membership in a professional accountancy or auditing body of the Republic of Moldova

3. Membership in a political party

4. Any income-generating activities, except for research, academic, and teaching activities
EXECUTIVE BODY: Registration and Continuous Education

THE REGISTRATION AND CONTINUOUS EDUCATION function will be performed by at least 3 staff members and an INDEPENDENT COMMISSION FOR CERTIFICATION of auditors.

Key responsibilities:

✓ Statutory auditor certification and registration
✓ Audit firm registration (will replace the existing licensing procedure)
✓ Organising tests of theoretical knowledge (independent commission)
✓ Monitoring continuous professional development
✓ Monitoring practical training and work with trainees
✓ Maintaining the Public Register (using e-Gov platforms)
✓ Drafting internal regulations regarding respective responsibilities
The **QUALITY ASSURANCE** function will be performed together with the **INVESTIGATIONS AND SANCTIONS** function by at least **4 staff members** (by the same unit).

Key responsibilities:

- Conducting quality control reviews
- Drafting internal regulations on quality control reviews
- Accepting transparency reports, financial statements, and information regarding compliance with audit quality control procedures provided for by the standards on auditing
- Reviewing requests regarding audit engagement quality
CSAA will be able to take at least the following action and impose the following administrative sanctions either by itself or by notifying a court of competent jurisdiction:

- **Penalty in the form of a warning** specifying responsible person and nature of the violation, which is posted on the ASAA’s web-site;
- **Revocation** of auditor **qualification certificate**;
- Auditor and/or audit firm **de-registration** from the Public Register;
- **Temporary prohibition** on conducting statutory audits by an auditor and/or on audit report signature by an auditor for up to three years;
- **Declaration** to the effect that audit report fails to comply with set requirements;
- **Administrative pecuniary sanctions** on natural and legal persons.
Minimum requirements to reviewer:

• Has relevant professional education and experience in conducting audits and preparing financial statements and underwent specialized training in quality control reviews

• It has been at least three years since the person ceased being a partner or employee of the statutory auditor or otherwise related to the statutory auditor or audit firm [with the possibility of including temporary provisions on exemption]

• The person states that he/she and the statutory auditor or audit firm subject to review has no conflict of interest
The ASAA will have combined financing both from the state budget and out of the oversight entities’ funds.

The financing structure may be as follows:

- % from the state budget, but no more than 30% of the ASAA’s annual budget
- % of the audit fees from public interest entities
- % of the audit fees from entities other than public interest entities
- Fees for examination to obtain examination certificate
- Fee for registration with the Public Register
- Annual fee payable by National Bank and National commission on Financial Markets
- Proceeds from penalties
- Other sources (donations and sponsorship) without undue influence on the part of statutory auditors and audit firms

Shares in percent will be set based on the prepared budget in view of responsibilities and audit market size.
DELEGATION OF FUNCTIONS TO PROFESSIONAL BODIES

- At this stage, no delegation to professional bodies is envisaged.
- At the same time, the ASAA will monitor their activities and, should it be established that the professional bodies have respective quality assurance systems in place, for instance, limited procedures could be established for oversight over audits conducted by the auditors which are the associations’ members.
- Should the outcomes be satisfactory, in the long run delegation of functions to professional bodies, except for the oversight over PIE audits, could be discussed.
OTHER MAJOR CHANGES

Implementing the classification of entities as per the Accounting Directive provisions could affect the size of the existing market.

The following should be decided: (i) whether the option of statutory audits for small entities should be transposed; and (ii) exchange rate to convert into Moldovan lei the criteria for classification of entities. As per the Accounting Directive provisions, the exchange rate published in the Official Journal of the EU on the effective date of the Directive should be applied.

As per mandatory requirements of the Accounting Directive, approximately 437 entities, including PIEs, will be subject to statutory audit (see next slide). Should small entities also be subject to audit, the market would grow to approximately 3,870 entities.
### Classification of Entities, Article 3, Directive 2013/34/EU

<table>
<thead>
<tr>
<th>Categories and Criteria (Exchange rate = MDL 17.9697/EUR)</th>
<th>Number of Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MICRO</strong></td>
<td></td>
</tr>
<tr>
<td>1. Total balance sheet ≤ EUR 350,000</td>
<td></td>
</tr>
<tr>
<td>2. Net turnover ≤ EUR 700,000</td>
<td></td>
</tr>
<tr>
<td>3. Average number of employees ≤ 10</td>
<td>48,374</td>
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<tr>
<td><strong>SMALL</strong></td>
<td></td>
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<tr>
<td>1. Total balance sheet ≤ EUR 4,000,000</td>
<td></td>
</tr>
<tr>
<td>2. Net turnover ≤ EUR 8,000,000</td>
<td></td>
</tr>
<tr>
<td>3. Average number of employees ≤ 50</td>
<td>3,435</td>
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<tr>
<td><strong>MEDIUM-SIZED</strong></td>
<td></td>
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<tr>
<td>1. Total balance sheet ≤ EUR 20,000,000</td>
<td></td>
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<tr>
<td>2. Net turnover ≤ EUR 40,000,000</td>
<td></td>
</tr>
<tr>
<td>3. Average number of employees ≤ 250</td>
<td>372</td>
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<tr>
<td><strong>LARGE</strong></td>
<td></td>
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<tr>
<td>1. Total balance sheet ≥ EUR 20,000,000</td>
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<tr>
<td>2. Net turnover ≥ EUR 40,000,000</td>
<td></td>
</tr>
<tr>
<td>3. Average number of employees ≥ 250</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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<td></td>
<td>52,246</td>
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- Official MDL/EUR exchange rate on **21/09/15** = MDL 22.8959
- Official MDL/EUR exchange rate on **19/07/13 (effective date of the Directive)** = MDL 16.9167
1. Would it be appropriate initially for the law to provide just for the delegation of functions to professional bodies and specific requirements to them to be set later in the Board’s regulations?
2. Who will bear ultimate responsibility for approving the ASAA’s annual report before it is published?
3. Would inclusion of temporary provisions which would enable hiring an audit practitioner as the ASAA Director and as a reviewer on the condition that they gave up their practice as of the moment of their employment be welcome?
4. Could the ASAA be funded from donations or sponsorship? What donations could jeopardize the Directive’s provisions regarding the undue influence on the part of statutory auditors or audit firms?
5. Should the optional provision on the audit of small entities be transposed? To what extent are those audits useful to the general public? Would it be appropriate for an accession country to set lower classification criteria for entities (otherwise quite a few entities would fall under the small category)?
6. What is the specific training requirement with regard to audit quality assurance as set to reviewers in Article 29(2) of the Auditing Directive?
7. If an auditor’s qualification certificate has been revoked for a reason, can the auditor seek a reviewer position?