

# Advancing Audit Quality Assurance Systems: Trends and Opportunities

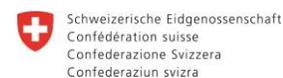
REPUBLIC OF MOLDOVA

*Vienna, 27 April 2018*

*STAREP A&A CoP*



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# Status of Improved Accounting and Financial Reporting Legislation

- » As per the RM-EU Association Agreement, Accounting and Financial Reporting Law No. 287 of 15 December 2017 was drafted and approved by the Parliament of the Republic of Moldova and it will take effect on 1 January 2019
- » The Ministry of Finance drafted the following with the STAREP support:
  - Amendments to the current national accounting standards, including
  - National Accounting Standard on the Presentation of Consolidated Financial Statements
- » The drafts will be approved by an order of the Finance Minister and will take effect on 1 January 2019



## Status of the audit and public oversight legislation (I)

- » As per the RM-EU Association Agreement, Law on Audits of Financial Statements No. 271 of 15 December 2017 was drafted and approved by the Parliament of the Republic of Moldova and it will take effect on 1 January 2019
- » The Ministry of Finance with the STAREP support is currently drafting the Regulation on the Audit Public Oversight Board



## Status of the audit and public oversight legislation (II)

- » As per the current Audit Law, there is Audit Oversight Board in the Republic of Moldova which is engaged in the audit quality assurance and is funded from the state budget, and its office professionals have civil servants status.
- » Pursuant to the new Law, the existing Audit Oversight Board will be reorganized by transformation into the Audit Public Oversight Board effective 1 September which will be a successor of its rights and duties.
- » The reorganized Audit Public Oversight Board will be funded by the profession on an arm's length basis and from the state budget.

## Status of the audit and public oversight legislation (III)

» At the initial stage, as per Law on Audits of Financial Statements No. 271 of 15 December 2017, effective 1 September 2018 the Audit Public Oversight Board will draft regulations in order to perform the audit public oversight function, including:

- Audit Trainees Training Standards
- Auditor Certification Regulation
- Standards for preparing audit quality assurance procedures compliance report
- Standards for preparing transparency report
- Regulation on External Audit Quality Assurance

The Audit Public Oversight Board will apply current audit regulations until new ones are drafted to the extent that they do not contravene the Law on Audits of Financial Statements



# Activities of the Audit Oversight Board

- » Effective 2014, the Audit Oversight Board has been engaged in the audit quality assurance pursuant to the External Audit Engagements Quality Assurance Regulation as approved by the Ministry of Finance.
- » Four audit engagements quality assurances were conducted in 2017.
- » As a result of the assurance, four audit firms and four auditors were sanctioned.

# ADDITIONAL AUDIT QUALITY ASSURANCE SYSTEMS: TRENDS AND OPPORTUNITIES

26-27 April 2018

Vienna, Austria

## RM ACAP Experience With Audit Quality Assurance



*Mr. Viorel DANDARA, PhD in Economics  
Chairman, Board of Directors*



# Legal Framework Governing Professional Activities of the RM ACAP

- Audit Law 61/2007. *New Law on Audits of Financial Statements will take effect on 1 January 2019*
- International Standards on Auditing (ISAs) and the Code of Ethics of Professional Auditors and Accountants applied in Moldova since 2012. *ISAs and the Code of Ethics issued by the IFAC in 2015 have been implemented in the Republic of Moldova since 2017.*
- IFAC Statement of Membership Obligations 1 Quality Assurance, 2012
- The RM ACAP Charter approved in 2010;
- Regulation on Quality Assurance of Audit Engagements and Related Services approved by the ACAP Board of Directors (BoD) in 2012.

## Role of Professional Association

- Represents professional interests of its members
- Cooperates with other associations and line non-governmental organizations within the country and abroad
- Drafts and implements its own professional rules and draft auditor continuing professional development programmes in line with ISAs and the Code of Ethics

### RM ACAP members as of 31 December 2017:

- Natural persons – 1,015, of which auditors – 141, or 47.5 % of the total number (297) of registered auditors:
- Legal entities – 43, or 38 % of the total number (113) of audit firms.

# Obligations of the Professional Association

*under the Audit Law*

## ***The Association is obliged to:***

- Coordinate the activities of its members
  - monitor continuing professional development of its members
  - Act, with consent of all the parties, as an intermediary in the disputes between its members and audited entities
    - Ensure internal oversight over audits conducted by its members.

## ACAP Obligations as Full Member of IFAC since 2004

### **The RM ACAP shall:**

- Ensure introduction of a mandatory quality assurance inspection programme in its member firms which are engaged in the audits of financial statements of at least listed companies
  - Set and publish criteria to establish the need to inspect under the programme other audits of financial statements; any audit engagements which meet the criteria are subject to quality assurance inspections.
- **Quality assurance is carried out at three levels:**
- 1) Audit engagement level, ISA 220;
  - 2) Audit firm level, ISQC 1;
  - 3) RM ACAP as full member of IFAC level.

## Quality Assurance and Monitoring Department

In pursuance of its IFAC membership obligations, the ACAP established the Quality Assurance and Monitoring Department (QAMD) in 2014.

*Key goals of the Department are to:*

- Ensure compliance by its members with the rules governing the profession
- Ensure implementation by the members of their own audit engagements quality assurance system
- Be involved in the identification and consideration of technical issues related to the professional conduct of its members
- Exercise other powers established by the management.

## Objectives of the Quality Assurance Inspections

Quality assurance inspections are conducted as per plan prepared based on the Registry of Legal Entities and an application filed by an audit firm voluntarily.

The inspection objectives as approved by the ACAP BoD and included in the audit quality assurance programme are:

- ✘ Determine the amount of audited financial statements and their compliance with the international standards on auditing.
- ✘ Inspect the activities for consistency with the license data.
- ✘ Inspect fulfillment of the obligations in relation to the continuing development of auditors and attendance of additional courses by the auditors with unsatisfactory quality inspection findings by the Audit Oversight Board.
- ✘ Inspect the implementation of the audit engagements quality assurance system.
- ✘ Assess the quality assurance system for compliance with the ISAs.

## Objectives of the Quality Assurance Inspections (continued)

- ✎ Inspect audit engagements quality assurance procedures applied at an audit firm level typical for public interest entities
- ✎ Inspect the paperwork for selected audit engagements in order to inspect quality assurance and quality assessment:
  - a) Compliance with ISAs and legal and regulatory requirements
  - b) *Compliance with the provisions related to the audits of financial statements.*
- ✎ Inspect compliance with the obligations set by the Law on Prevention of, and Combatting, Money Laundering and Financing of Terrorism.
- ✎ Assess transparency report submitted by an audit firm to the Audit Oversight Board.

## Conducting Quality Assurance Inspections

Quality assurance inspections are conducted as per plan prepared based on the Registry of Legal Entities and an application filed by an audit firm voluntarily.

Quality assurance review procedures are developed by the QAMD in the Audit Quality Inspection Survey format and include the inspection objectives as approved by the ACAP Board of Directors.

Achievement of each objective is assessed as *Yes* or *No* depending on how an audit firm complies with the requirements of the ISAs and Code of Ethics of Professional Auditors and Accountants.

## Quality Assurance Inspection Findings

Depending on the percentage determined by the inspection, A, B, C, or D category is assigned to an audit firm.

Inspection findings are recorded in an Inspection Report prepared in two copies:

- One copy is registered with the ACAP secretariat; and
- Another copy is sent to the audit firm.

Inspected audit firms submit to the QAMD an Action Plan to correct shortcomings in the quality assurance systems.

Audit engagements quality of the audit firms which were assigned B, C, or D category is inspected repeatedly one or two years after the inspection.

The Association only conducts quality assurance inspections with a view to training its members and improving the Quality Inspection Regulation and the inspections do not entail any disciplinary sanctions.

## Inspection Findings (continued)

In 2014-2017, 19 audit firms, or 50% of the total number of member legal entities engaged in audits, were involved in the inspection process.

The number of inspected firms is small because 14 ACAP member audit firms were inspected by the Quality Assurance and Inspection Service under the Audit Oversight Board during the same period.

- The ACAP has been attending quality assurance workshops (QAN) held by the Institute of Chartered Accountants in England and Wales (ICAEW). Participation in the workshops helps to identify challenges which require to improve:
  - Inspection methodology; and
  - Inspection Report outline.

## Challenges

In 2018, ACAP will:

- Continue to hold workshops for auditors
- Improve the inspection process and will focus its efforts on improving the inspection quality by:
  - Developing quality assurance methodology to identify causes for existing weaknesses in the audit engagements quality and obtain expanded risk assessment;
  - Formulating efficient requirements and recommendations in the course of inspections and improving the audit engagements quality assurance system.



**Thank you!**

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