

International experience in setting up audit oversight and quality assurance: funding & staffing

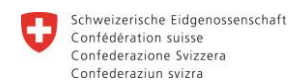
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IMPROVING AUDIT QUALITY THROUGH AUDIT OVERSIGHT AND QUALITY ASSURANCE SYSTEMS



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Objectives

- » Following previous session, to provide an overview of good international experiences with regard to funding and staffing models within various audit oversight and quality assurance systems around the World
- » To discuss the various models and their applicability to participant's country circumstances



Sources Of Funding (1)

- » The most common ways to fund public oversight bodies are through:
 - » General state revenues / public budget (*this source is often associated with limits on spending or rules applicable for public administration – e.g. civil service pay scale*)
 - » Fees or other levies on auditors and/or professional bodies
 - » Fees or other levies on companies or listing authorities
- » Fines and penalties should never go to the body's budget – wrong incentives
- » Funding from general state revenues tends to be unstable – and subjects to additional political pressures

Sources Of Funding (2)

- » The funding arrangements differ between the members of IFIAR:
 - » some - wholly funded by the state's public funds
 - » others - mix of funding from the state, regulated companies (directly or through the relevant listing authority) and audit firms (directly or through the relevant professional body)
- » Smaller and recently established POBs – tendency to rely on funding from the state (either large proportion or entirely)
- » Example – research among 25 EU countries - 4 obtain at least some of their funding from companies and listing authorities, 14 from the state, and 17 from auditors and professional bodies

Sources Of Funding - Examples

» Examples:

- » **Japan**'s POS is 100% state funded
- » POSs in **Slovenia**, **Bulgaria** and **Lithuania** are funded entirely from the state
- » In **Malta**, 50% of the funding comes from the state and 50% from auditors
- » in **Greece**, the POS is funded by audit firms but there is provision for the state to top this up if necessary.
- » The larger IFIAR members, including the **US**, **UK** and **Germany**, tend to receive little or no state funding



Specific Examples Of POS Funding Mechanisms: Malaysia

- » Capital expenditure and all other operational costs of AOB including the cost of inspections are funded by the SC
- » The AOB collects the following fees:
 - » RM5,000 (~1,170 USD) of application for registration of an individual auditor as a registered auditor (new registration)
 - » RM5,000 of existing registered individual auditor who wish to continue to be registered with AOB in the current year
 - » RM5,000 of application for recognition of a foreign audit firm as a recognised auditor



Specific Examples Of POS Funding Mechanisms: Japan

- » The FSA's budget including CPAAOB's expenses is funded by the national budget and is unaffected by any affiliates of the public accounting profession.



Specific Examples Of POS Funding Mechanisms: Australia

- » Government appropriations. From 1 July 2017, ASIC will be funded indirectly by an industry funding model whereby regulated entities will pay non-discretionary levies to government based on ASIC costs
- » ASIC will then be funded by appropriations linked to the industry funding. For auditors, levies will be paid on the share of listed entity audit fees
- » When industry levies are introduced, they will be non-discretionary



Specific Examples Of POS Funding Mechanisms: FRANCE

In 2015, H3C financial resources amounts to €8.9m. This is made up of three sources or components:

- 1) An annual fixed contribution of 10 € per registered statutory auditor;
- 2) A fixed fee for each audit report issued: €1000, €500, or €20 depending on the size of the audited company; and
- 3) a proportional contribution at the expense of the French national professional body of statutory auditors (CNCC), based on the PIE-audit fees invoiced by its members (which was approximately €400m in 2015). The contribution rate is fixed by decree between 0.65% and 1%.



Specific Examples Of POS Funding Mechanisms: POLAND

Funding in 2015 was PLN 2.2m (US\$568,000) which comes from three sources –

- 1) PLN 1.8m from auditors (via the professional body, KIBR - the oversight board is allocated 20% of the registration fees of PIE auditors)
- 2) PLN 0.24m from the state budget
- 3) a specific contribution of PLN 0.7m from the World Bank (through technical assistance project)



Specific Examples Of POS Funding Mechanisms: UK

- » Audit quality review costs were £4.9m in 2015/16 and were funded by levies on the 4 Professional Organizations that register auditors
- » Some related FRC activities (e.g. audit oversight and standard setting) are funded by the general FRC funding, which is shared between PAOs and large companies



Conclusion

- » There is a range of funding sources and funding amounts among audit regulators
- » Within IFIAR the members' funding sources are almost equally split between government funding, levies on auditors and companies and mixes of both
- » As POSs evolve, there is a trend towards less reliance on government funding
- » Funding should be free from undue influence from the profession (if auditors contribute – this should not be at their discretion)
- » Government funding arrangements should address the issues of restrictions on spending to enable attracting qualified staff (i.e. civil service pay restrictions)

» **FIAR's Principle 5:** Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence

Staffing – good practices - competence

- » Quality assurance reviewers should have appropriate professional education and relevant experience in audit and financial reporting combined with specific training on quality assurance reviews
- » The selection of reviewers for quality assurance should be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the reviewers and the statutory auditor/audit firm under review (e.g. reviewing audit firm - former employer)
- » *Additional challenge especially for smaller audit regulators – sectoral experience – e.g. financial sector, airline industry*

Staffing: good practice - selection of reviewers

- » The following criteria shall apply to the selection of reviewers:
 - (a) reviewers shall have appropriate professional education and relevant experience in audit and financial reporting combined with specific training on quality assurance reviews
 - (b) a person shall not be allowed to act as a reviewer in a quality assurance review of a statutory auditor/audit firm until at least 3 years have elapsed since that person ceased to be a partner or an employee of, or otherwise associated with, that statutory auditor/audit firm
 - (c) reviewers shall declare that there are no conflicts of interest between them and the statutory auditor/audit firm to be reviewed



Conclusion

- » Competent staff is key with general audit background and specific industry experience (banking, insurance, etc.)
- » Civil servants status – difficult to attract qualified professionals
- » Typically audit regulators are not able to offer the same level of compensation, but additional considerations still make the job attractive - professional growth, international cooperation, work schedule, etc.



Questions for discussion:

- » What challenges do you see in securing adequate resources and appropriate personnel for public oversight in your country?
- » What challenges do you see in recruiting competent staff (reviewers) for quality assurance engagements?