

# Albania

## Quality assurance inspections sharing results

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## Auditor`s quality assurance system in Albania

- According to Audit law 10091 (03/09), modified by Law 47/2016, statutory Auditors/ audit firms are subject to quality assurance, that provide assurance on their audit quality.
- Quality assurance system consists on:
  - Quality control as part of the internal controls established within audit firms or auditors` practices;
  - Quality assurance in the form of external quality control - carried out by the Public Oversight Board.
- POB may delegate the responsibility for external quality assurance of non PIE auditors to the professional body of statutory auditors (IEKA)
  - However, Quality Control for PIEs is not delegated.

## Auditor`s quality assurance system in Albania

- Quality Control within audit firm/auditors practice comprise:
  - Establishing appropriate internal rules and regulations on reviewing the work performed by engagement team members, based on ISCQ1 and other Guidelines developed by IEKA, prior the audit opinion is issued.
- External quality assurance carried out by POB/IEKA consists on
  - the relevant procedures of reviewing and assessing the professional activity of statutory auditors (sole practitioners and audit partners in audit firms), for their compliance with the Audit law requirements, IEKA statute, as well as ISCQ 1 and other ISAs (ISA 220, etc..).
- External quality assurance review includes (i) audit firm/audit practice`s internal quality controls review as well as audit files review, and consist on:
  - Evaluation of compliance with ISAs requirements;
  - Evaluation of compliance with ethical requirements, including independence;
  - Assessment of the quality and quantity of resources;
  - Evaluation of the appropriateness of audit fees;
  - Evaluation of the design and operation effectiveness of the internal quality controls established by audit firm/audit practice;
  - Other evaluations/assessments.

## Auditor`s quality assurance system in Albania

- Quality assurance is carried out on risk-based
  - At least 3 years for PIEs statutory auditors;
  - Every 6 years for other than PIEs statutory auditors.
- Auditors with less than 5 years experience in exercising audit profession in public practice, are subject of control every 2 years.
- Quality assurance review includes controlling the activity of the statutory auditors in the position of engagement partner or in any other form of engagement as statutory auditor
- Reviewers for quality assurance are selected by the Quality Assurance Committee (QAC) among IEKA members. They must:
  - Be independent and free from any conflict of interest
  - Have knowledge on quality control standards and guidelines
  - Have at least three years experience in auditing
  - Have not been subject to any of disciplinary/administrative sanctions

## Auditor`s quality assurance system in Albania

- **The system of quality assurance review consists on:**
  - Quality assurance review at the level of **audit firm/audit practice**; and
  - Quality assurance review at the level of **audit engagement**
- Quality assurance review at the level of audit firm starts with a questionnaire, that is completed in advance by audit firms/sole practitioners
  - Self assessment questionnaire.
- Quality assurance reviewers (inspectors) study the answers from self assessment questionnaire before they visit on site audit firm/sole practitioner. During these visits they:
  - Verify the questionnaire answers; and
  - At the end of the their review complete a special questionnaire at the firm level, that according to IEKA quality assurance guidelines, is part of the reporting package prepared by quality assurance reviewers (inspectors)

## Auditor`s quality assurance system in Albania

- **Quality assurance at the level of the audit engagement start with** selection of audit files to be reviewed
  - In compliance with IEKA QA Manual;
  - Risk-based procedures;
  - Files selected should be representative of the activities performed by the auditor.
- **Selected files are reviewed at least by two inspectors (team of inspectors)**
  - Audit engagement acceptance/continuance procedures;
  - Auditor`s compliance with Code of Ethics – Independence declaration;
  - Is the audit approach in conformity with ISAs?
  - Is the audit method based on risk assessment?
  - Are relevant audit risks identified and assessed?
  - Has auditor responded properly to assessed risks?
  - Are working papers/audit evidence sufficient and appropriate?
  - Are audit procedures appropriate?
  - Are audit conclusions effectively summarized? Relevance of the audit report and opinion issued?
  - Management letter if any exist
  - Other issues

# Auditor`s quality assurance system in Albania

## ➤ Reporting on quality assurance reviews (QA Reports)

### ➤ Content of the Report to be issued at the end of QA review

- Describe in summarized way how the review was performed, method, time, resources, etc.;
- Provide general information on the organization of the audit firm/auditor`s practice – describe the audit practice internal quality control system
- Describe in more details the audit file as well as make assessment for engagement reports and opinions issued by statutory auditor or audit manager
- List of important failures to comply with rules, regulations and other professional standards, founds during the review
- An assessment on the appropriateness of the audit firm/audit practice resources (material, human, financial), considering the nature and extent of statutory audit procedures;
- Appropriateness of the auditors report opinion;
- Audit Fees evaluations – are they properly determined;
- Recommendation for the next year for statutory auditor under review and IEKA

# Auditor`s quality assurance system in Albania

## ➤ QA reviewers` report and communication

- **Draft report** - QA reviewers` draft report is sent to statutory auditor/audit manager subject to review for any comments
  - Discussion between QA review team and statutory auditors on findings.
- **Final Report** - QA reviewers` final report on quality assurance review signed by reviewers and audit manager/statutory auditors

## ➤ Communication of the report

- **Quality Assurance Committee (QAC)** - Report together with Annexes (QA review Questionnaires) is sent to Quality Assurance Committee (IEKA)
  - QAC evaluate the content of the report, it may organize meetings and listen to the reviewer (inspectors) and the statutory auditors subject to review
  - QAC may check directly some of findings by visiting on site reviewed auditors or audit managers
- **Council of IEKA** - QAC summarize results of all QA reviews and submit a summarized report to the Council for approval
- **Public Oversight Board (POB)** – Council of IEKA send the summarized report to POB for final approval.
- Auditors subject to QA reviews are informed in written on their evaluation results
- Findings are published in IEKA reports (website) in a summarized form (not by firms /or auditors names)



# Auditor`s quality assurance system in Albania

## ➤ Evaluation Results:

### ➤ Three levels:

- **L.1 - Pass without any weakness** - No further action
- **L.2 - Pass with some weakness** - Recommendation and follow up actions, including decision for reviewing again the statutory auditors in the next year quality assurance review
- **L.3 - Fail** – Further disciplinary actions/ Investigation and then sanctions

## Auditor`s quality assurance system in Albania

- I. Findings from **IEKA quality assurance reviews**
- (a) Related with QA review **at the level of audit firm/audit practice**
  - Human resources not sufficient to deal with various types of audit engagements
  - Lack of skills and competences needed to carry out special audit and assurance engagements
    - 6 audit firms/ audit practices (10% of the total firms reviewed in 2016) carried out from 18-25 statutory audit engagements each, while have as average 2 employees
    - 4 sole practitioners carried out up to 15 statutory audit engagements without any other additional employee.
    - Most of them have got recommendation by the Council and were included in the next year review (2017)

# Auditor`s quality assurance system in Albania

- (b) Related with quality assurance reviews **at the level of audit engagement**
  - Permanent part of audit file not updated properly
  - Current file issues
    - Auditors has to follow the Simplified Guide templates prepared by IEKA on auditing SMEs
  - Documentation issues
    - Missing evidence on compliance with ethical requirements during the engagement acceptance/continuance procedures, and also during performing the audit.
    - Internal control checklists on evaluation of the design and functioning of internal controls
    - Determining and applying audit procedures such as third party confirmation requests, alternative audit procedures,.
    - Incomplete information on fees calculation.
    - Others
  - Materiality calculation (specific and performance materiality), incomplete information.
  - Audit procedures on testing Inventory, Debtors, Creditors.
  - Sampling issues

# Auditor`s quality assurance system in Albania

## ➤ II. Findings from **POB quality assurance reviews**

- System of QA review used by POB was similar with that used by IEKA:
- **(a) Findings from the Quality Assurance reviews** carried out on audit firms/auditors of PIEs by POB **at the level of audit engagements**
  - No testing on IT systems, when information processing was made by using specific software (telecommunication, insurance companies, banking, utilities, etc.) – No evaluations of the IT system and IT environment in general
  - High risk on revenue recognition, especially in the telecommunication entities
  - Unqualified opinion - not justified with the audit evidence found in the audit file.
  - Use of test of details only - not sufficient to provide assurance on the revenue recognition as far as no assurance was given on the reliability of data processing.

## Auditor`s quality assurance system in Albania

- **(b) Findings from the Quality Assurance reviews** carried out on audit firms/auditors of PIEs by POB **at the level of audit firms**
  - Staff evaluation procedures
  - Professional indemnity insurances
  - Joint audits – work performed not clearly divided between different auditors
  - Sampling – Sampling method not properly documented and not linked with risks and materiality (Intangible assets, inventory, revenues and expenditures, etc.)
  - IFRSs application - not complete testing and no opinion given on any departure from IFRSs
  - Latest IFRSs requirements not considered in IFRSs statements and auditors didn't mention anything on this
  - Audit procedures not sufficient to provide assurance that the financial statements were in compliance with legal requirements and applicable financial reporting framework
  - Use of external experts issues - Audit firms use the work of external experts, (actuary, valuers, etc.)
    - Insufficient financial resources - use of experts just formally (paying with lower amounts)
    - No procedures on confirming their skills, competence and independence.

## Auditor`s quality assurance system in Albania

### ➤ Other POB findings on PIEs auditors

- Transparency report publication - missing
- Non-compliance with legal requirements
  - Audit partners names not included in the Public Register of Albanian Statutory Auditors
  - Other people from other network firms working in the capacity of audit managers found, while not being recognized in Albania as statutory auditors
- Documentation issues – CPD, Independence.
- No data update with IEKA and POB.

## Public Oversight Board of Albania (fast facts and future developments)

- The POB is composed by 5 members.
- Two inspectors/experts part of the POB technical secretariat ( with the support of the WB)
- Support by International Consultant (PKF Italy)
- The POB Technical Secretariat is in process of reorganization including a permanent administration composed of :
  - Key Inspectors
  - Other Administration
  - Committees & Commissions

# Public Oversight Board of Albania

## (fast facts and future developments)

- Regulations in process
  - Quality Assurance Regulation
  - Discipline & Investigation Regulation
  - Anti-Money Laundering Regulation
  - Other regulations
- Regulation drafted in process of being approved
  - Professional Exams Commission Regulation
  - POB Technical Secretariat
- Regulation Approved and other achievement
  - POB financing
  - POB statute
  - POB Registration



# Auditor`s quality assurance system in Albania

## ➤ Future developments

- Selection of 15 engagements subject to Inspection
- CMD over the specification of other PIE interests
- Initiation of QA by the International Consultant
- Possibility of delegation by POB to IEKA of non PIE Auditors quality assurance
- **Moving quickly from the existing Peer Review, to a system of external review performed by Inspectors employed by IEKA**
- Coordination of efforts between IEKA and POB on Quality assurance
- Improving education of auditors and QA inspectors
- Strengthening CPD requirements

**Thank you for your attention**