



ASEAN Audit Regulatory Group (AARG) non-members Community of Practice (CoP)

**Audit oversight and quality
assurance in Laos: current status**

Background information – state of audit market

- Number of auditors: 60 (*Accountants and auditors are allowed to work in public practice only on behalf of a legal entity*)
- Number of audit firms: 50
- Number of Public Interest Entities: 70
- Main Entities subjected to statutory audit: 359
 - Banks and other financial institutions under supervision of the Bank of Lao PDR :42 + 112
 - Insurance companies: 24
 - Listed companies, securities companies, and public companies: 5 + 3 + 23
 - State-owned enterprises: 150

Legal framework

- ▶ State Audit Law (2012)
- ▶ Independent Audit Law (22 July 2014)-developed for private sector
 - ▶ obliges audit firms to be complied with following rules:
 - ▶ Code of Ethics
 - ▶ Professional Standards on Auditing
 - ▶ Quality control assurance within its firm
 - ▶ Professional indemnity insurance
 - ▶ Continuing Professional Development
 - ▶ defines requirements to become CPA and statutory auditors
- ▶ Code of Ethics (October 2016)
- ▶ Notification on adoption of ISA, ISQC1 (20 March 2017)
- ▶ In progress: Draft Instruction on the Lao Audit Quality Assurance System.

Public Oversight Authority (1)

- ▶ The Public Oversight Authority: The Accounting Department, Ministry of Finance (AD-MoF) is the National Audit Supervising and Inspection Authority and shall coordinate with other concerned parties to carry out its duties.

Its coordinating parties: Consulting Advisory Panel (CAP)– BoL, SECO, MoF, SAO, LCPAA

Its expected financing: collection of fixed annual fee paid by the audit clients through audit firms for each audit engagement performed during the year. The amounts of these fees collected by the audit firms shall be paid to the LCPAA, which by delegation of the Ministry of Finance is responsible for their collection and management.

- ▶ Expected Role of LCPAA in public oversight system: Be part of the Consulting Advisory Panel and support the public oversight system by conducting coaching program and manage the audit quality assurance system fund.

Public Oversight Authority (2)

The scope and objectives of AD-MoF - the audit regulatory body:

to conduct the supervision on independent audit operations done by statutory auditors of PIEs and non-PIES to enhance the compliance of independent audit with defined professional standards and audit regulations.

The oversight duties of AD-MoF :

- ▶ Coordinating the regulators' activities regarding independent audit in Lao PDR in accordance with their assignment of jurisdiction through the Consulting Advisory Panel;
- ▶ Identifying and improving factors contributing to audit quality in Lao PDR; and
- ▶ Ensuring the quality of statutory auditors' and audit firms' work through the performance of a Multi-Year Monitoring Program.

The expected composition (membership) of the oversight body:

- ▶ Trained technical staff of the Audit Division and Legislation Division of AD-MoF
- ▶ Engaged expertized reviewer/s

The powers of the oversight body – AD-MoF:

- ▶ AD-MoF has the direct authority to coordinate with other concerned authorities to conduct inspection and punish the offender of audit legislations as stated in the Independent Audit Law.

Public Oversight Authority (3)

Operative activities of implementation of the Audit Quality Multi-Year Monitoring Program: The Accounting Department of the Ministry of Finance is conducting inspections to assess the degree of compliance of each audit firm with audit regulation, Code of Ethics and professional standards by performing:

- ▶ Desktop Surveillance Program (through developed audit firm annual report questionnaire based on audit quality indicators).
- ▶ Preparation of Multi-year Monitoring Program
- ▶ Quality Assurance Review

Sanctions for non-compliance:

- ▶ Coaching program
- ▶ disciplinary sanctions
- ▶ fines or penal sanctions according to the seriousness of the violations

Accountability of the audit oversight body:

- ▶ Prepare the Multi-year Monitoring Program Report and submit for approval to the Vice Minister of Finance
- ▶ Publish on the website of the Ministry of finance and of the LCPAA. Other regulators, members of CAP may publish the document on their website

Inspection Team Composition:

- ▶ 8 Trained technical staff of the Audit Division and Legislation Division of AD-MoF
- ▶ Engaged expertized reviewer/s

Quality Assurance System (1)

1. The Lao Audit Quality Assurance System (LAQAS), of which the AD-MoF is in charge, is in the beginning process of its establishment and implementation.
2. Number of staff :
 - ▶ 8 Trained technical staff of the Audit Division and Legislation Division of AD-MoF and one engaged expertized reviewer (with 40 year audit experiences)
3. Selection of audit firm: it would be based on a combined approach that includes cycle- and risk-based elements.
4. Referral mechanism to the review process: the Multi-year Monitoring Program would be prepared by the consultation with CAP, in which LCPAA is its member. The Review will be carried out by AD-MoF.

Quality Assurance System (2)

4. LAQAS Review Process:

- ▶ Desktop Surveillance – audit firm annual activities report-questionnaires
- ▶ Quality Assurance Review – on-site-visit

5. The estimated average duration of review: The length of a Quality Assurance Review depends on the size of the audit firm under review and the type of engagements held.

- ▶ For big one audit firm: 1 month
- ▶ For small-medium audit firm: 1 week

6. The primary review focus:

- legal texts and policies that regulate statutory and contractual audits
- The Code of Ethics
- The professional audit standards in force during the year in which the audit engagement was performed.

Quality Assurance System (3)

7. **Basis for the selection of the audit engagements under review:** Audit engagements are selected:

- ▶ so as to constitute a sample of engagements representative of audit's firm activity whilst keeping in mind the economic sector that has been selected by the Audit Quality Multi-Year Monitoring Program; and
- ▶ Upon request of a specific regulator member of the CAP

8. **Members of the quality assurance review team shall have the necessary competencies include:**

- Appropriate professional education
- Relevant professional experience and
- Specific training on performing quality assurance review

9. **Publication:** The results of the review shall be transmitted to all members of the Consulting Advisory Panel for comments, and will be included in the Report on Multi-year Monitoring Program before being approved, published to the public.

10. **Main Findings:** The first review is expected to be carried out at the end of this year. So actually no findings.

The relationship between POA and other financial sector regulators

Relationship between POA and other financial sector regulators in Laos: The MoF is in the process of completing the establishment of a Consulting Advisory Panel (CAP) which consist of representatives from Bank of Lao PDR (financial sector regulators). Its missions are:

- ▶ Coordinating the work of regulators in the audit performance area; and
- ▶ Providing information, advice and recommendations regarding:
 - ▶ Multi-Year Audit Quality Monitoring Program;
 - ▶ Enhancement of contributing factors to audit quality; and
 - ▶ Improvement of Audit regulation.

Other quality assurance regulations:

No other regulations which address Quality Assurance for Audit.

Other regulators perform only formal controls i.e. formal compliance with regulation and decision adopted by these regulators.

Conclusions

Significant challenges in the establishment and maintenance of a public oversight and quality assurance system in Laos:

- ▶ Lack of local qualified auditors and reviewers



Needs to build qualified auditors and reviewers
(time and costs)