

MINISTRY OF FINANCE

Republic of Serbia

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A&ACoP

CFRR >>

**Centre for Financial
Reporting Reform**



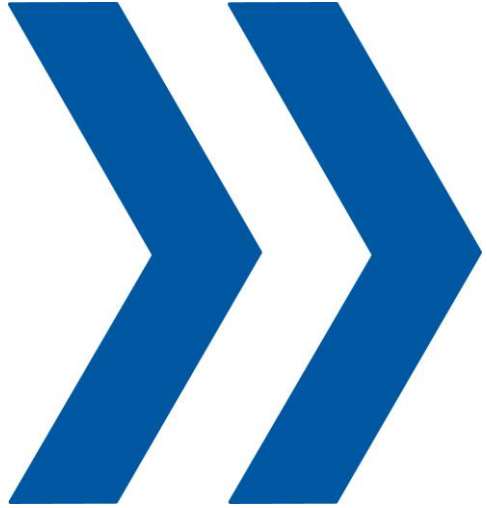
WORLD BANK GROUP
Governance



Road to Europe: Program of Accounting
Reform and Institutional Strengthening



EU-REPARIS is funded by the
European Union and is a part of
WB EDIF.



Audit oversight: experience of Serbia



Background information – state of audit market

Number of auditors: **294**

Number of audit firms: **69**

Number of entities, subject to statutory audit: **approx. 4.100**

Audit is mandatory for:

1) annual financial statements of:

- **PIEs** (including large legal entities, banks, insurance companies, etc.)
- **medium-sized legal** entities classified according to the Law on Accounting
- **all legal entities and entrepreneurs whose operating revenues in previous year exceed EUR 4,400,000** in dinar equivalent.

2) consolidated financial statements of parent legal entities preparing consolidated financial statements according to the Law on Accounting.



Legal framework

- » **Audit Law** (*Republic of Serbia Official Gazette No. 62/13*) in force since July 24th, 2013
- » Audit carries out in accordance with the ISAs
- » **The most relevant by-laws for the enforcement of the Law include:**
 - 1) Rulebook on Methodology of quality assurance of audits performed, quality control of audit firms, independent auditors and certified statutory auditors;
 - 2) Rulebook on minimum working documentation that must be the content of the methodology;
 - 3) Programme of qualifying examination for a statutory auditor;
 - 4) Rulebook on conditions and procedures for the exemptions referring to certain exams, or part thereof;
 - 5) Programme for continuing professional education for certified statutory auditors;
 - 6) Rulebook on annual quality assurance review plan of audit firms, independent auditors and certified statutory auditors
- » Statutory Auditing Directive (**Directive 2006/43/EC**) - used as a reference when the current audit legislation in Serbia was developed



Public Oversight Authority (1)

» **THE PUBLIC OVERSIGHT BOARD OF AUDITING (POB)** – independent body governed by non-practitioners selected by the Republic of Serbia Government, on the proposal of the Ministry of Finance (MoF), National Bank of Serbia and Securities Commission.

» Established late 2013

» POB conducts oversight of the auditors and audit companies

» Funding – state budget



Public Oversight Authority (2)

POB main goal - protecting public interest in the work of the Chamber, audit firms and auditors

- » Most important role of the POB:
 - oversight of the quality assurance of auditors and audit firms work and imposition of measures;
 - oversight of the Chamber of Authorized Auditors work;
 - oversight the issuance of licenses/permits to auditors and audit firms



Public Oversight Authority (3)

» **Composition: chairman + 6 members:**

- 1 representative from the National bank of Serbia – chairman;
- 1 representative from the Securities Commission;
- 2 representatives from the MoF;
- 1 representative from the Government (Legal department);
- 1 practitioner (from BIG 4);
- 1 representative from the PAO

» POB mostly focuses on the Chamber and its members work, oversight of the QAS and thereof imposition of measures



Public Oversight Authority (4)

- » The quality assurance of audits is undertaken by the Chamber (independent inspectors, licensed certified auditors employed in this body)
- » Sanctions (measures with regard to oversight) are imposed by the MoF **on the proposal of the POB**, based on the Chamber report
- » **Sanctions (measures):**
 - order for removal of irregularities;
 - additional measure, i.e. public notice;
 - conditional revoke of the audit permit, i.e. license;
 - revoke of the audit permit, i.e. license
- » POB has an ultimate responsibility (together with the MoF) for the quality of audit in Serbia
- » POB **program of work and annual report** - published on the webpage of the MoF
- » Reporting to the Government – once a year



The relationship between POB and other financial sector regulators

»POB closely cooperates with National bank of Serbia and Securities Commission

»Based on their proposal the POB may request extraordinary quality control of audit companies



Quality Assurance System (1)

- » The **enforcement of QAS** is within the authority of the **Chamber**, and under supervision of the POB
- » **Audit inspection activities** – performed by persons employed in the Chamber (including two licensed certified auditors with more than five years of experience in audit)
- » **Annual inspection plan** – prepared by the Chamber based on annual return of information provided by all audit companies and respecting the Law requirements
- » **Review performed on-sight by the inspectors** who inform the Chambers governing council and the POB of the inspections results



Quality Assurance System (2)

» **Review process** consists of two parts:

1. the audit company completes an extensive questionnaire and
2. the QA team performs the review on-site

» The average duration of the review is one week depending on the size of the audit firm

» The QA team has two primary tasks:

1. to review the internal quality controls and
2. to review at least three separate audit engagements



Quality Assurance System (3)

- All of the engagements of an audit company are reviewed by the staff and three to four are selected for the on-site review using the risk approach.
- **Q&A funding** - specific funds allocated in the Chamber
- Chamber publishes its annual report (with the prior approval of the POB) on Q&A once a year on its webpage
- All audit companies and licensed auditors are subject to Q&A – at least once every three years for the audit companies performing audits of public interest entities and at least once every six years for all others.
- The Q&A process became operational in 2015.



Law on Audit – the results

- » The Q&A was performed in:
 - 49 Audit companies on
 - 98 Licensed authorized auditors that audited
 - 125 audit engagements.



Law on Audit – the results

The Ministry of Finance, based on the POB proposal, has issued so far:

- 11 sanctions for audit companies which are:
- 10 orders for elimination of irregularities;
- 1 work permit has been revoked;



Law on Audit – the results

The Ministry of Finance, based on the POB proposal, has issued:

- 21 sanctions to licensed authorized auditors :
- 9 public warnings;
- 10 conditional license revocations;
- 2 license revocations;



Law on Audit – next steps

- » **New/amended Law on audit (expected Q4, 2018)** – what needs to be done:
 - detailed analysis of the Law assessing degree of compliance with current EU *Acquis*
 - taking into account recommendations from the WB ROSC A&A 2015
 - remove identified deficiencies in the current Law and focus on specifics of the local market, practice and needs



Law on Audit – main challenges

- » Establishing the system for Q&A within the POB
- » New organization of the public oversight system
- » Funding



Thank you

Q&A?