

KAZAKHSTAN:

PUBLIC OVERSIGHT AND QUALITY ASSURANCE SYSTEMS

***INTERNATIONAL EXPERIENCE AND KEY CONSIDERATIONS FOR KAZAKHSTAN:
REQUIREMENTS FOR PUBLIC INTEREST ENTITIES' AUDITORS, QUALITY ASSURANCE,
AUDITORS' QUALIFICATION, AND CONTINUING PROFESSIONAL DEVELOPMENT***

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Acronyms and Abbreviations

ACCA	Association of Chartered Certified Accountants
CEAOB	Committee of European Auditing Oversight Bodies
CEO	Chief Executive Officer
CPD	Continuing Professional Development
EU	European Union
IAESB	International Accounting Education Standards Board
IAI	Institute of Indonesia Chartered Accountants
ICAEW	Institute of Chartered Accountants in England and Wales
ICFR	Internal Control over Financial Reporting
IESBA	International Ethics Standards Board for Accountants
IES	International Education Standards
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ISA	International Standards of Auditing
ISQC	International Standards on Quality Control
JERP	Joint Economic Research Program
MOF	Ministry of Finance
PAC/KZ	Professional Audit Council in Kazakhstan
PAO	Professional Accountancy Organization
PAO/KZ	Professional Auditing Organization in Kazakhstan
PCAOB	Public Company Accounting Oversight Board of the United States
PIE	Public Interest Entity
SME	Small and Medium-Sized Enterprises
SMO	Statement of Membership Obligations
USA	United States of America
WB	World Bank

Executive summary

- 1. Improving audit regulation and enforcement through implementation of a sound audit public oversight system is relevant for the Government of the Republic of Kazakhstan in its efforts towards integration into the global economy.** Recent amendments to the Law of the Republic of Kazakhstan on Auditing Activities (hereafter Audit Law), approved on July 3, 2020 (in force from July 2021), mandate the establishment of an independent¹ non-profit, non-membership organization, the Public Auditing Council² (PAC/KZ). The key functions of PAC/KZ include quality assurance inspection of public interest entities (PIE) audits' and auditors', certification of auditors, and monitoring quality assurance performed by accredited professional auditing organizations in Kazakhstan (PAOs/KZ). Over time the public oversight regulator should have ultimate responsibility over all key oversight functions, following good international practice (i.e. approval and registration of statutory auditors and audit firms; adoption of standards on professional ethics, auditing and quality control ; continuing professional education; quality assurance system, investigation and administrative disciplinary systems).
- 2. A preliminary report,³ focusing on issues related to the institutional arrangements of the proposed public oversight model, its key activities, board members' eligibility, and qualification criteria, funding, and staffing was delivered to the Ministry of Finance of the Republic of Kazakhstan (MOF) in June 2020.⁴** In April 2020, the MOF asked the World Bank (WB), as part of the Joint Economic Research Program (JERP) between Kazakhstan and the WB to prepare an analysis, following good international practices, focusing on issues related to institutional arrangements of the public oversight model, its key activities, board members' eligibility and qualification criteria, funding and staffing; requirements for PIEs' auditors, quality assurance, auditors' qualification, and continuing professional development (CPD). This report prepared by the WB team⁵ covers aspects related to requirements for PIEs' auditors, quality assurance, auditors' qualification and CPD. The conclusions and recommendations included in the report are based on analysis of the recently approved amendments to the Audit Law, available draft bylaws, phone discussions, and virtual meetings with key stakeholders.
- 3. The core conclusions of this report suggest that the Government needs to adequately consider the implications of the recently adopted amendments to the Audit Law** and amend and/or develop its implementing regulations and bylaws to ensure that processes are supported by sustainable mechanisms. This report suggests a series of adjustments to address and/or reduce the identified shortfalls and risks, which are outlined below.

Requirements for Auditors and Audit Firms that Perform Audits of Public Interest Entities

- 4. Extensive qualitative requirements in respect of auditors/audit firms performing statutory audits of PIEs should be adopted by authorities.** Both the existing legal framework and proposed amendments to bylaw #441 contain only quantitative (e.g. minimum years of experience) requirements for auditors/audit firms that perform statutory audits of PIEs, while

¹ The existing legal framework in Kazakhstan has no independent system of audit oversight, only elements of self-regulation by professional auditing organizations.

² Founders of PAC/KZ are accredited professional auditing organizations in Kazakhstan (one or more).

³ Preliminary report "Public oversight and quality assurance systems - international experience and key considerations for Kazakhstan: institutional structure, functions, staffing, and funding".

⁴ MOF is currently working on the development of regulatory legal acts which are interconnected with the adopted amendments to the Audit Law. The process of creating PAC/KZ itself has not yet been initiated.

⁵ The World Bank team is led by Andrei Busuioc, Senior Financial Management Specialist, and comprises Svetlana Platon, Consultant, and Meruyert Salimova, Consultant.

qualitative and transparency requirements are missing. Consequently, it is recommended to consider good international experience and introduce more stringent requirements in respect of auditors/audit firms that perform audits of PIEs in particular related to: audit fees; restrictions on certain non-audit services to PIE audit clients; independence of auditors/audit firms; engagement quality control review before audit reports for PIEs are issued; improved role of audit committees of audited PIEs including in communication and reporting; transparency reporting by audit firms that audit PIEs; and duration of the audit engagement (to the extent that a relevant rotation period is identified by authorities as reasonable).

5. **Both PAC/KZ and MOF should ensure a proper enforcement of the international ethics requirements by all auditors and audit firms in Kazakhstan.** The International Code of Ethics for Professional Accountants, including International Independence Standards of the International Ethics Standards Board for Accountants (IESBA Code of Ethics) is mandatory for all audit firms and audits in Kazakhstan starting from November 2020 and it reinforces important requirements for PIE audits. Consequently, MOF is recommended to ensure that the IESBA Code of Ethics is properly disseminated by publishing it in the official language⁶ on its website, while PAC/KZ (and PAOs/KZ where applicable) should ensure a proper quality assurance review over its implementation by auditors and audit firms.
6. **The role of the Audit Committees of PIEs as contributors to enhancing audit quality should be reinforced.** Audit committees are on the front lines of promoting audit quality, which is why in many jurisdictions one priority of the public oversight authority is to interact more often and more directly with members of PIEs' audit committees. PAC/KZ should establish an adequate channel of communication with PIEs audit committees (initially this should be applicable for those PIEs audits of which are subject to quality assurance review by PAC/KZ); also authorities should ensure that the requirement to establish an audit committee is expanded to all PIEs in Kazakhstan (currently the requirement is only mandatory for listed entities and SOEs with joint stock company legal form), for a better alignment to good international practice. Also, reinforcing regular communication between auditors and audit committees of audited PIEs will enhance the value and quality of audits.
7. **The quality of audit oversight in Kazakhstan will be further improved if there is effective cooperation between PAC/KZ and other relevant authorities charged with supervision and/or communication with audit firms of supervised entities.** Therefore, PAC/KZ is encouraged to develop adequate internal policies that would allow cooperation and exchange of information with the National Bank of Kazakhstan, the Kazakhstan Stock Exchange, the Agency for Regulation and Development of the Financial Market, and other relevant authorities that supervise and regulate PIEs. Regular exchanges of information between these authorities would enable parties to perform their duties effectively, would contribute to improved enforcement in the field of corporate financial reporting, and would avoid duplication of some requirements.

Quality Assurance for Audit

8. **Template rules for conducting external quality assurance inspections by PAC/KZ and by PAOs/KZ respectively should be improved, to ensure all key areas are captured by policies and procedures.** Authorities are encouraged to consider in detail the following areas: frequency of inspection of audit firms; cycle and risk-based selection and where risk-based

⁶ Currently, the right to translate and publish the IESBA Code of Ethics into Russian belongs to the Chamber of Auditors.

selection is required, identification and listing of key risk indicators; audit inspection procedures and methodologies; methodologies in use;⁷ transparent and fair procedures;⁸ transparent and appropriate reporting; sanctions and remedial actions; innovative policies and procedures for use of technology. In addition, the scope of the quality assurance bylaw should be enlarged to cover also auditors (not only audit firms) and oversight of PAOs/KZ by PAC/KZ. Auditors should be subject to quality assurance reviews, in their capacity of employees by the reviewed audit firm; therefore, they could be subject of individual sanctioning as result of quality assurance inspections, and such aspects (i.e. references to auditors) need to be properly regulated.

- 9. It is recommended that the quality assurance bylaw provides clear guidance in respect of independence requirements for quality assurance inspectors.** While former auditors could be hired as quality assurance inspectors by PAC/KZ, it is important to ensure that each quality assurance inspector is independent from the reviewed audit firm and there are no conflicts of interest between the inspectors and the statutory auditor/audit firm under review. Peer review-based quality assurance inspections could be allowed in case of non-PIE audits, performed by PAOs/KZ in respect of their members-audit firms. However, there may also be significant independence issues if, for example, the reviewing audit/auditor firm has some connection with or dependency on the audit firm/auditor it is reviewing. As an alternative, PAOs/KZ could be required to establish a quality assurance committee within their governing board and a separate executive unit, responsible for quality assurance, where inspectors would be employees of the professional body (and not practicing auditors). Having a dedicated unit with its own employees performing quality assurance with appropriate professional expertise will enhance independence, ensure consistent reviews and outcomes as the same individuals are involved in repeated quality assurance inspections, and give PAC/KZ greater trust in the quality assurance inspections performed by PAOs/KZ.
- 10. The duration of inspection should be flexible; PAC/KZ and PAOs/KZ respectively should be allowed to determine it depending on the size of the audit firm and the number and type of audit clients.** Limiting the duration of the inspection to 10 working days (7 working days for inspections performed at MOF's request) as foreseen by the draft bylaw #441 could affect the quality of the work performed. Consequently, it is recommended that PAC/KZ and PAOs/KZ be allowed to decide on the time needed to carry out each inspection, depending on factors such as size of the audit firm, number of offices and locations, the number and type of audit clients, and the period covered by the inspection.
- 11. The quality assurance bylaw should ensure that there is a reporting process in place, including preparation and issuance of a draft inspection report and process for the audit firm to respond, before the final inspection report is issued.** Currently such areas are not addressed. Inspected audit firms should have the right to provide written comments related to identified deficiencies by quality assurance inspectors. The quality assurance methodology of both PAC/KZ and PAOs/KZ should include procedures for making and following up recommendations for improvements to auditors and audit firms based on inspection findings. If recommendations are not followed up, the respective auditor/audit firm shall, if applicable, be subject to the system of disciplinary actions and sanctions.
- 12. Publication of individual quality assurance outcomes should be carefully considered by authorities.** International practice related to grading audit firms as a result of quality

⁷ Key areas to be covered by a quality assurance methodology is provided at Annex A (confidential).

⁸ Annex C (confidential) proposes detailed inspection procedures for both assessment of audit quality control policies and procedures at the level of the audit entity and the audit engagement.

assurance inspection varies. It is not recommended at this stage that attributed grades are published in Kazakhstan as this could generate uncertainty for market participants and investors. The draft bylaw #441 should clarify the circumstances in which individual inspection reports could be published; this should ensure that minimum requirements and restrictions in respect of confidentiality are respected. Following good practices, PAC/KZ should publish annually the overall results of the quality assurance system with a summary of inspections and their findings. Individual inspection reports could be published following confidentiality requirements (in some jurisdictions publishing individual inspection results is a form of sanction of auditors/audit firms and therefore this should be used only in cases when such sanction is necessary).

- 13. The requirements related to sanctions and remedial actions need to be strengthened to provide clear and consistent information related to:** (i) **types of sanctions** that could be administered in respect of inspected audit firms, auditors, and PAOs/KZ, respectively; (ii) which authority or body (e.g. PAC/KZ, PAOs/KZ, MOF) has the **final power to apply the sanctions**; and (iii) right of **appeal**. There should be an appropriate set of procedures in place, specifying actions required for serious or repeated non-compliance.

Auditors' Qualification in Kazakhstan

- 14. While the recent amendments to the Audit Law aim to unify and strengthen the credibility of the auditors' certification process in Kazakhstan, there is room for further improvement,** in particular in relation to institutional arrangements, content of the certification program, and assessment. Key identified shortfalls are outlined below.
- 15. The size of the Qualification Commission to be established by PAC/KZ, as well as qualification criteria for its members, need further clarifications.** Neither the Audit Law nor the draft bylaws set out the size of the Qualification Commission; furthermore, the draft bylaw #115 provides that the Commission could attract (i.e. hire) non-practitioner experts, while the law recommends their membership. It is recommended that the respective bylaw specifies the maximum size of the Qualification Commission to avoid an excessively large number of members. The role and nomination process of non-practitioner experts should also be clarified. The only existing legal requirements on nomination/qualification criteria refer to the Chair of the Qualification Commission: she/he should be an auditor with minimum 5 years of experience in the field of audit and not held accountable for committing a corruption offense (this requirement is not extended to other members). It is recommended that the minimum requirements in terms of work experience and lack of corruption offenses is extended to all members. In addition, the authorities should ensure that members of the Qualification Commission are knowledgeable and possess sufficient expertise in all areas covered by the syllabi, i.e. International Financial Reporting Standards (IFRS), International Standards of Auditing (ISA), financial and management accounting, taxation and law, financial management, etc.
- 16. There are no legal requirements for certification program for auditors to be aligned to International Education Standards (IES) provisions.** The Audit Law provides that the certification program for aspiring auditors should be aligned to IFRS, ISA, and the existing national legal framework. While the examinable disciplines are listed, it is not required that IES (or similar) provisions are applied or used to define learning objectives, learning outcomes, or proficiency level. It is recommended that the bylaw #273 provides that the certification program is aligned to IESs and covers at least the following areas: (i) a skills matrix that shows what skills are developed as aspiring auditors progress through the qualification; (ii) a

framework that describes the levels⁹ of the qualification and details how aspiring auditors are able to progress in their studies in terms of both knowledge and skills; and (iii) a detailed syllabi for each examinable discipline that identifies the subject content and defines how the abilities of aspiring auditors are achieved in terms of competencies.

- 17. A competency framework should serve as a basis for evaluating and granting credit or exemptions for prior studies and work experience for mature students and career-changers wishing to enter the auditor qualification program.** The draft bylaw currently provides a list of professional qualification certificates, issued by various PAOs around the world, holders of which are exempted from several exams. It is recommended that exemptions are only provided to holders of active qualification certificates (i.e. people subject to annual CPD requirements), issued by internationally recognized PAOs or other countries' authorities responsible for registration/licensing of auditors. In addition, it is recommended that local professional accounting and auditing organizations be able to achieve exemptions only through accreditation of their syllabi by PAC/KZ using an examination and assessment process. A local universities accreditation model, to allow graduates receiving exemptions on successful completion of specific university courses, could also be considered by the authorities, i.e. accreditation to universities is provided after their syllabi and examinations are assessed by PAC/KZ.
- 18. The draft bylaws should expand and clarify the key requirements related to the exam development and administration process.** The Qualification Commission is required to establish a review, organization, and marking groups, however from the provisions of draft bylaw #115 it is not clear if these groups should comprise members of the Commission or external selected professionals (non-practitioners). In case of hiring non-practitioners (as defined by the Audit law), their role and functions should be explicitly defined. Detailed syllabi in respect of each examined discipline should be supported by a valid and reliable assessment approach. Such an approach will ensure that the skills framework is achieved and demonstrated through student assessments, following the provisions of IES 6 - *Initial professional development – assessment of professional competence* (2015). A clear link between learning and achievement demonstrated in the examinations will ensure that the process of qualifying as an auditor in Kazakhstan is as transparent as possible.
- 19. Setting a pass threshold generally aligns with good practices, but marking the entire paper as unsatisfactory if one question is not covered/solved is too stringent.** The requirement that the entire paper should be marked as unsatisfactory if any one question is not covered/solved, regardless of the result on other questions of the exam, should be abolished as it does not align with good international practice and IES provisions. The current pass threshold is 75%, already higher than that established by PAOs or licensing authorities in many jurisdictions, where the percentage may often be 50%. It is not recommended to penalize a student for not covering/solving one question.
- 20. In the medium-term, PAC/KZ and the Qualification Commission could consider an electronic examination process, subject to a preliminary analysis of cost implications.** Such costs will be a function of the nature and extent of the application of electronic processes determined by the Qualification Commission and will reflect the combination of hardware, custom software, and processes adopted to develop and deliver electronic examinations in accordance with proposed objectives and the required security, control, and integrity.

⁹ Introducing at least two levels for the qualification will allow PAC/KZ and the Qualification Commission to improve cooperation with local universities and to offer exemptions for universities' graduates, where the syllabus is accredited (recognized) following the Qualification Commission procedures.

21. Authorities are recommended to introduce a practical work experience assessment for aspiring auditors; currently, there are no such provisions. The bylaw #273 only provides that all aspiring auditors should have minimum 3 years practical work experience in economics, finance, law, control, and auditing or in the field of accounting and auditing teaching in universities and that practical experience should be demonstrated as a mandatory requirement for admission to the professional qualification. It is recommended that the bylaw #273 introduces minimum practical experience requirements in line with IES 5 - *Initial professional development – practical experience* (2015), to be enforced by PAC/KZ and the Qualification Commission, before the qualification certificate is issued. Good practices recommend that specified competencies will generally be met through 36 months of approved work experience, under the supervision of a qualified professional accountant (auditor) and practical experience may be obtained either concurrent with a program of study, after the program of study, or by some combination of these methods as long as the quality meets IES 5 provisions.

Continuing Professional Development

22. It appears that topics for CPD training are approved exclusively by PAOs/KZ; there are no legal provisions to coordinate the annual CPD program with PAC/KZ. Topics for CPD should be relevant to the profession and should contribute to reducing gaps identified by quality assurance inspections or financial statements monitoring. Coordinating the annual CPD training program with PAC/KZ and its Quality Assurance Committee would ensure that major gaps are addressed. In addition, PAOs/KZ could consult other key regulators, such as the MOF, the Kazakhstan Stock Exchange, and the National Bank of Kazakhstan to ensure that their expectations in respect of auditors' experience and knowledge of the respective markets are considered.

23. There are no sanctions imposed on auditors for non-compliance with CPD requirements. While encouraging compliance is essential, sanctioning for non-compliance is also necessary to ensure that the CPD requirements are taken seriously by auditors. Where relevant, additional time could be provided to ensure the compliance, before sanctioning. Sanctions should strongly motivate compliance without being excessively punitive. For example, a first-time offense could result in a requirement to improve conduct and a small fine, whereas repeat offenders would trigger a more formal disciplinary process with potential for more significant consequences; authorities may also consider an appropriate mix of remediation and punitive sanctions. In addition, it is recommended that the bylaw #278 explicitly clarifies where non-compliance with CPD requirements would result in exclusion from the public register of auditors, maintained by the MOF or where the qualification certificate is withdrawn.

24. Liaising with quality assurance processes could be improved while a CPD program is designed. PAOs/KZ should be required to ensure coordination between their CPD monitoring and enforcement system and their quality assurance processes. For example, quality assurance inspections can include a review of CPD compliance in conjunction with the International Standard on Quality Control (ISQC) ¹⁰ where appropriate. Inspection results may indicate competence gaps of audit firm-members and auditors. When there are identified competency failings, there should be an ability to impose additional CPD requirements. Specific quality assurance inspection results that indicate failings in competence should result in increased CPD as remedial action. More broadly, quality assurance inspection results should

¹⁰ IAASB issued four Quality Management (QM) exposure drafts in February 2019, to replace ISQC once the due process is completed.

inform CPD policies (e.g., common weaknesses could guide more emphasis in offerings or requirements). In addition, as mentioned above, coordinating the annual CPD training program with PAC/KZ and other key regulators which interact with PIEs' auditors would ensure that major gaps are properly addressed.

- 25. Use of technology for CPD declarations, monitoring, and assessment is encouraged.** The PAOs/KZ could be encouraged to use its online presence more effectively on CPD. They may be required to make more detailed information on the entire CPD process available on its website. Auditors will benefit by being able to create a profile on the PAOs/KZ website and have access to all relevant information regarding their CPD progress. In addition, auditors should be able to verify their CPD hours by filling an online questionnaire.

International experience in setting up audit oversight and quality assurance systems

A. Requirements for auditors and audit firms that perform audits of public interest entities

International experience

- 1. Around the world, statutory auditors and audit firms are entrusted by law to conduct statutory audits of PIEs with a view to enhancing the degree of confidence of the public in the annual and consolidated financial statements of such entities.** The public-interest function of statutory audit means that a broad community of people and institutions rely on the quality of a statutory auditor's or an audit firm's work. Good audit quality contributes to the orderly functioning of markets by enhancing the integrity and efficiency of financial statements. Thus, statutory auditors fulfil a particularly important societal role.
- 2. While the conditions and the minimum requirements for the approval and registration of statutory auditors and audit firms are prescribed by legislation, it is important to lay down detailed rules with a view to ensuring that the statutory audits of PIEs are of adequate quality and are carried out by statutory auditors and audit firms subject to more stringent requirements.** Such a regulatory approach aims to enhance the integrity, independence, objectivity, responsibility, transparency, and reliability of statutory auditors and audit firms carrying out statutory audits of PIEs, thus contributing to the quality of statutory audits in the jurisdiction. In addition to these so-called *qualitative requirements*, some jurisdictions impose a range of *quantitative restrictions* on statutory auditors and audit firms in order to be allowed to perform statutory audits of PIEs. Examples of such restrictions are: minimum number of statutory auditors employed by the audit firms (e.g. no less than three to five statutory auditors); proven experience by these auditors in auditing IFRS based financial statements of no less than 7-12 years; requirements to hold a professional qualification from an internationally recognized PAO, which is a member of the International Federation of Accountants (e.g. Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants in England and Wales (ICAEW), Institute of Indonesia Chartered Accountants (IAI), Malaysian Institute of Accountants, etc.).
- 3. Statutory auditors and audit firms of PIEs in many jurisdictions are subject to more stringent requirements.** For example, in the European Union (EU) auditors and audit firms are subject to mandatory requirements regarding statutory audit of PIEs, while each member state can introduce additional provisions. Regulation 537/2014¹¹ lays down requirements for the carrying out of the statutory audit of annual and consolidated financial statements of PIEs and includes rules on the organization and selection of statutory auditors and audit firms by PIEs; this is particularly important for promoting their independence and avoiding conflicts of interest. The Regulation also prescribes rules on the supervision of compliance by statutory auditors and audit firms with those requirements. In fact, these specific requirements in respect of PIE audits and auditors represent a collection of good practices and many jurisdictions around the world have already implemented similar requirements. Key requirements regarding statutory audit of PIEs are discussed below with reference to the EU and United States of America (USA) regulations and the IESBA Code of Ethics, as being the most relevant and advanced practices in this field.

¹¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1542894519712&uri=CELEX:32014R0537>. The Regulation as a legal instrument is automatically applicable in EU Member States (i.e. there is no need to transpose the requirements into local legislation).

4. **Audit fees.** The level of fees received from an audited entity and the structure of fees can threaten the independence of a statutory auditor or an audit firm. Thus, it is important to ensure that audit fees are not based on any form of contingency and that when the audit fees from a single client including its subsidiaries are significant, a specific procedure involving the audit committee is established to secure the quality of the audit. If a statutory auditor or an audit firm becomes excessively dependent on a single client, the PIE's audit committee should decide on the basis of proper grounds whether the statutory auditor or the audit firm may continue to carry out the statutory audit. When taking this decision, the audit committee should take into consideration, inter alia, the threats to independence and the consequences of such decision. For instance, according to EU regulations, when the total fees received from a PIE in each of the last three financial years are more than 15 % of the total fees received by the audit firm, such audit firm is required to disclose that fact to the audit committee of the audited PIE and discuss with its audit committee the threats to their independence and the safeguards applied to mitigate those threats. The audit committee will consider whether the audit engagement should be subject to an engagement quality control review by another audit firm prior to the issuance of the audit report. Where the fees received from such a PIE continue to exceed 15 % of the total fees, the audit committee is required to decide on the basis of objective grounds whether the audit firm may continue to carry out the statutory audit for an additional period which shall not, in any case, exceed two years. Such requirements are applicable to the audit firm of the group, where relevant, and the assessment is done on the group level.
5. **In the EU, there are restrictions on certain non-audit services to PIE audit clients.** The provision of certain services other than statutory audit (so-called non-audit services) to audited entities by statutory auditors/audit firms or members of their networks may compromise their independence. Therefore, it is appropriate to prohibit the provision of certain non-audit services such as specific tax, consultancy, and advisory services to the audited entity. The statutory auditor/audit firm (and any member of their network) carrying out the statutory audit of a PIE is not allowed directly or indirectly to provide any prohibited non-audit services to the audited entity, its parent, or its controlled entity within the EU. However, the EU Member States are allowed to take a derogation and to permit certain tax and valuation services, following their national legislation. In addition, when the statutory auditor/audit firm provides non-audit services other than those referred to in table 1 below to the audited entity, its parent, or its controlled entities for a period of three or more consecutive financial years, the total fees for such services shall be limited to no more than 70 %¹² of the average of the fees paid in the previous three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, its parent, controlled entities, and the consolidated financial statements of that group. The public oversight body (i.e. the relevant competent authority in the jurisdiction) has the right, at the request of the statutory auditor/audit firm on an exceptional basis, to allow exemptions for a period not exceeding two financial years.

Table 1: Prohibition of certain non-audit services to PIEs in the European Union¹³

¹² Calculation of 70% cap applies to all PIEs. If there are more than one PIE within a group, a cap shall be determined for each PIE. Calculation of the cap shall include the audited PIE and, where applicable, its parent and controlled entities whether these entities are PIEs or not. For calculation of the cap, entities to be considered can be established either inside or outside the EU.

¹³ EU Member States have certain options in implementing the legislation related to non-audit services, i.e. (i) to add other services to the list of prohibited services; (ii) to establish stricter rules setting out the conditions under which an audit firm may provide non-audit services; and (iii) to allow specified tax and valuation services subject to conditions, as highlighted in Table 1.

Prohibited non-audit services (so-called <i>blacklist</i>)			
(a) Tax and tax compliance services:	(i) Preparation of tax forms.	Member States can allow the provision of tax services relating to i), iv), v), vi), and vii) as long as:	<ul style="list-style-type: none"> • They have no direct or have immaterial effect on the audited financial statements; • Estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee; and • Principles of independence are complied with.
	(ii) Payroll tax.		
	(iii) Customs duties.		
	(iv) Identification of public subsidies and tax incentives unless support from the statutory auditor/audit firm in respect of such services is required by law.		
	(v) Support regarding tax inspections by tax authorities unless support from the statutory auditor/audit firm in respect of such inspections is required by law.		
	(vi) Calculation of direct and indirect tax and deferred tax.	Audit committee to set guidelines with regard to provision of such services.	
	(vii) Provision of tax advice.		
(b) Services that involve playing any part in the management or decision-making of the audited entity.			
(c) Bookkeeping and preparing accounting records and financial statements.			
(d) Payroll services.			
(e) Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.			
(f) Legal services, with respect to:	(i) The provision of general counsel.		
	(ii) Negotiating on behalf of the audited entity.		
	(iii) Acting in an advocacy role in the resolution of litigation.		
(g) Valuation services, including valuations performed in connection with actuarial services or litigation support services.	Member States can allow the provision of valuation services as long as:		<ul style="list-style-type: none"> • they have no direct or have immaterial effect separately or in aggregate on the audited financial statements; • estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee; and • principles of independence are adhered to, with the audit committee setting guidelines with regard to provision of such services.
(h) Services related to the audited entity's internal audit function.			
(i) Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements,			

Prohibited non-audit services (so-called <i>blacklist</i>)		
such as the issuing of comfort letters in connection with prospectuses issued by the audited entity.		
(j) Promoting, dealing in, or underwriting shares in the audited entity.		
(k) Human resources services, with respect to:	(i) Management is in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:	Searching for or seeking out candidates for such position; or
		Undertaking reference checks of candidates for such positions.
	(ii) Structuring the organization design.	
	(iii) Cost control.	

6. **The IESBA Code of Ethics also contains prohibitions that apply when an audit firm audits a PIE.**¹⁴ If a service, interest, or relationship is not covered by the prohibitions specifically listed by the Code of Ethics, the audit firm is required to apply the conceptual framework to comply with the International Independence Standards. The application of the conceptual framework involves a rigorous analysis of the service, interest, or relationship to identify, evaluate, and address threats to independence, and involves a reasonable and informed third party test. If the service, relationship, or interest creates a threat that cannot be eliminated and if safeguards are not available to reduce the threat to an acceptable level, the audit firm is required to decline or end the service or audit engagement. Table 2 below provides a high-level summary of prohibitions applicable to audits of PIEs by the Code of Ethics.

Table 2: Summary of prohibitions applicable to audits of PIEs in accordance with the IESBA Code of Ethics

Prohibited without regard to materiality	Prohibited if material to the financial statements
<ul style="list-style-type: none"> Assuming a management responsibility. Serving as General Counsel. Accounting and bookkeeping services, including preparing accounting records and financial statements (can only be provided to divisions/related entities if routine/mechanical, and if specified conditions are met). Promoting, dealing in, or underwriting client shares. Negotiating for the client as part of a recruiting service. Recruiting directors/officers or senior management who will have significant influence over accounting records or financial statements. Evaluating or compensating a key audit partner based on that partner's success in 	<ul style="list-style-type: none"> Valuation services. Calculations of current/deferred taxes. Tax or corporate finance advice that depends on a particular accounting treatment/financial statement presentation with respect to which there is reasonable doubt as to its appropriateness. Acting as an advocate before a public tribunal or court to resolve a tax matter. Internal audit services relating to internal controls over financial reporting, financial accounting systems, or financial statement amounts/disclosures. Designing/implementing financial reporting IT systems. Estimating damages or other amounts as part of litigation support services.

¹⁴ <https://www.iesbaeocode.org/>

selling non-assurance services to the partner's audit client.	<ul style="list-style-type: none"> • Acting as an advocate to resolve a dispute or litigation.
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7. **In the USA, the Sarbanes-Oxley Act of 2002 prohibits auditors from providing specified non-audit services to audited entities**, i.e. bookkeeping or other services related to the accounting records or financial statements of the audit client; financial information systems design and implementation; appraisal or valuation services, fairness opinions or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions or human resources; broker or dealer, investment adviser, or investment banking services; or legal services and expert services unrelated to the audit. Additionally, the Sarbanes-Oxley Act prohibits any other service deemed through regulation as impermissible by the Public Company Accounting Oversight Board (PCAOB). In addition the Securities and Exchange Commission requires companies to disclose fees paid to external auditors for the two most recent years according to four categories—"audit", "audit-related" (being fees reasonably related to the performance of the audit or review of the company's financial statements), "tax", and "all other" fees. Companies are also required to provide a narrative description in relation to other fees.
8. **Independence.** With a view to avoiding conflicts of interest it is important that the statutory auditor/audit firm, before accepting or continuing an engagement for a statutory audit of a PIE, assess whether the independence requirements are met, and in particular whether any threats to independence arise as a result of the relationship with that entity. In the EU, the statutory auditor/audit firm should confirm its independence annually to the audit committee of the audited PIE and should discuss with that committee any threat to its independence as well as the safeguards applied to mitigate those threats. In the USA, the Sarbanes-Oxley Act mandates that audit committees be directly responsible for the oversight of the engagement of the company's independent auditor; audit committees are required to consider periodically the sufficiency of the auditor's and the issuer's monitoring processes.
9. **Engagement quality control review.** In the EU and other jurisdictions, the requirements in respect of PIE engagement quality control review go beyond the requirements of international auditing and quality control standards. A sound engagement quality control review of the work carried out in each statutory audit engagement should be conducive to high audit quality. Therefore, the statutory auditor/audit firm should not issue the audit report until such a PIE engagement quality control review has been completed.
10. **Additional report to the audit committee.** The value of statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor/audit firm, on the one hand, and the audit committee, on the other hand, are reinforced. In addition to the regular statutory audit dialogue, it is important that the statutory auditor/audit firm submit an additional and more detailed report on the results of the statutory audit to the audit committee of the audited PIE. This additional report should be submitted to the audit committee no later than the audit report. Upon request, the statutory auditor/audit firm should discuss key matters mentioned in the additional report with the audit committee. In addition, it should be possible to make such additional detailed report available to competent authorities responsible for the oversight of statutory auditors/audit firms upon their request. In the USA, auditors are required by Auditing Standard 1301 "Communications with Audit Committees"¹⁵ to communicate and report to the audit committee of the audited PIE. The

¹⁵ <https://pcaobus.org/Standards/Auditing/Pages/AS1301.aspx>

requirements of the additional report to the audit committee in the EU is described in Box 1 below.

Box 1: Additional report to the audit committee in the EU

The additional report shall explain the results of the statutory audit carried out and shall at least:

- a) include the declaration of independence;
- b) identify each key audit partner involved in the audit where the statutory audit was carried out by an audit firm;
- c) indicate where the statutory auditor or the audit firm has made arrangements for any of his, her or its activities to be conducted by another statutory auditor or audit firm that is not a member of the same network, or has used the work of external experts, and shall confirm that the statutory auditor or the audit firm received a confirmation from the other statutory auditor or audit firm and/or the external expert regarding their independence;
- d) describe the nature, frequency, and extent of communication with the audit committee or the body performing equivalent functions within the audited entity, the management body, and the administrative or supervisory body of the audited entity, including the dates of meetings with those bodies;
- e) include a description of the scope and timing of the audit;
- f) describe the distribution of tasks among statutory auditors and/or audit firms where more than one statutory auditor or audit firm have been appointed;
- g) describe the methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variation in the weighting of system and compliance testing when compared to the previous year, even if the previous year's statutory audit was carried out by other statutory auditor(s) or audit firm(s);
- h) disclose the quantitative level of materiality applied to perform the statutory audit for the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions, account balances, or disclosures, and disclose the qualitative factors which were considered when setting the level of materiality;
- i) report and explain judgments about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention, and other support measures that have been taken into account when making a going concern assessment;
- j) report on any significant deficiencies in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management;
- k) report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;
- l) report and assess the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods;
- m) in the case of a statutory audit of consolidated financial statements, explain the scope of consolidation and the exclusion criteria applied by the audited entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the financial reporting framework;
- n) where applicable, identify any audit work performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) in relation to a statutory audit of

consolidated financial statements other than by members of the same network to which the auditor of the consolidated financial statements belongs;

- o) indicate whether all requested explanations and documents were provided by the audited entity;
- p) report: (i) any significant difficulties encountered in the course of the statutory audit; (ii) any significant matters arising from the statutory audit that were discussed or were the subject of correspondence with management; and (iii) any other matters arising from the statutory audit that in the auditor's professional judgment are significant to the oversight of the financial reporting process.

11. **Transparency report.** In order to increase confidence in, and the reliability of, the statutory auditors/audit firms carrying out the statutory audit of PIEs, it is important to increase the transparency of reporting by statutory auditors and audit firms. Therefore, audit firms should be required to disclose financial information, showing in particular their total turnover divided into audit fees paid by PIEs, audit fees paid by other entities, and fees for other services. They should also disclose financial information at the level of the network to which they belong. Statutory auditors/audit firms should provide additional supplementary information on audit fees to competent authorities with a view to facilitating their supervisory tasks. In the EU, a statutory audit firm that carries out statutory audits of PIEs must make public an annual transparency report, at the latest four months after the end of each financial year, and communicate to the competent authorities that the transparency report has been published. The transparency report must be published on the website of the audit firm and remain available on its website for at least five years from the day of publication. Published annual transparency reports may be subject to thematic quality reviews by the competent authority in the jurisdiction.¹⁶ As a good practice example, an outline of EU annual transparency report requirements is presented in Box 2 below (statutory auditors of PIEs in Australia¹⁷ are subject to similar requirements).

Box 2: The annual transparency report

The annual transparency report shall include at least the following:

- a) a description of the legal structure and ownership of the audit firm;
- b) where the statutory auditor or the audit firm is a member of a network: (i) a description of the network and the legal and structural arrangements in the network; (ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network; (iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration, or principal place of business; (iv) the total turnover achieved by the statutory auditor operating as a sole practitioner or audit firm that is a member of a network resulting from the statutory audit of annual and consolidated financial statements;
- c) a description of the governance structure of the audit firm;
- d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;
- e) an indication of when the last quality assurance review was carried out;

¹⁶ An example of thematic quality review is available following the link - <https://www.frc.org.uk/getattachment/3c124043-70b7-428a-af03-9359b32652e2/Transparency-Reporting-Final.pdf>

¹⁷ <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/audit-transparency-reports/>

- f) a list of PIEs for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;
- g) a statement concerning the independence practices of the statutory auditor or audit firm which also confirms that an internal review of independence compliance has been conducted;
- h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors;
- i) information concerning the basis for the partners' remuneration in audit firms;
- j) a description of the statutory auditor or audit firm policy concerning the rotation of key audit partners and staff;
- k) information about the total turnover of the statutory auditor or the audit firm, divided into the following categories: (i) revenues from the statutory audit of annual and consolidated financial statements of PIEs and entities belonging to a group of undertakings whose parent undertaking is a PIE; (ii) revenues from the statutory audit of annual and consolidated financial statements of other entities; (iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and (iv) revenues from non-audit services to other entities.

12. Appointment of statutory auditors by PIEs. It is important that the role of the audit committee in the selection of a new statutory auditor/audit firm be reinforced, in the interest of a more informed decision of the general meeting of shareholders or members of the audited PIE. Good international practices suggest that when making a proposal to the general meeting, the administrative or supervisory body of a PIE should explain whether it follows the preference of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a duly justified preference for one of them, so that a real choice can be made. In order to provide a fair and proper justification in its recommendation, a mandatory selection procedure organized by the audited entity under the responsibility of the audit committee should be used. Statutory auditors/audit firms with a low market share should also be allowed to present proposals. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals (e.g. experience in the industry, level of engagement of key audit partner, etc.).

13. Duration of audit engagements. In order to address the familiarity threat and therefore reinforce the independence of statutory auditors/audit firms, it is important to establish a maximum duration of the audit engagement in a particular audited PIE. Following the Enron scandal and other highly-publicized corporate failures at the beginning of the previous decade, many market participants and investors questioned the role of independent (i.e., external) auditors and why they had not alerted financial statements users to certain accounting treatments that inflated earnings or artificially improved their financial position. Specific concerns arose regarding the independence of external auditors and, following intense policy debates, several jurisdictions changed their legislation to introduce measures including independent oversight of auditors, limitations and prohibitions on the services an auditor can provide to an audit client, and stricter sanctions regimes. Two cases in point are the US (Sarbanes Oxley Act of 2002) and the EU (2006/43/Directive and Regulation 537/2014). Specifically, there are two types of rotation:

- a) *Rotation of key audit personnel, also known as “partner rotation”,* which refers to the (lead) audit engagement partner, the concurring or second partner, and other individuals who play a key role in the audit engagement. Partner rotation is widely accepted as a healthy practice and most jurisdictions have adopted it in the early part of the previous decade or before. In EU Member States, the key audit partners

responsible for carrying out a statutory audit of PIE shall cease their participation no later than **seven years**¹⁸ from the date of their appointment. They shall not participate again in the statutory audit of the audited PIE before three years have elapsed following that cessation.

- b) *Rotation of audit firm.* Mandatory audit firm rotation simply means that the company needs to appoint a new firm to audit its financial statements. Several countries (e.g., Brazil and Italy) have been requiring audit firm rotation for many years and, more recently, it has been introduced in the EU by Regulation 537/2014 on specific requirements regarding statutory audit of PIEs. The maximum length of an audit engagement without tender in EU Member States is **ten years**. The option to tender enables the audit engagement to continue for a maximum of another ten years. However, although it is not possible to “re-tender” the audit firm more than once, it is possible to “re-new” the engagement more than once and this depends on the length of the (initial) audit engagement defined/permitted by a Member State. At the global level, neither the International Organization of Securities Commissions nor the Basel Committee¹⁹ endorse mandatory audit firm rotation; none of the 11 Core Principles²⁰ issued for the International Forum of Independent Audit Regulators (IFIAR) mentions it. Consequently, each jurisdiction must decide on appropriate restrictions to impose in respect of mandatory audit firm rotation, taking account of local culture and experience, as well as the trade-off between (i) a fresh perspective possibly and more independence, on the one hand, and (ii) better knowledge and experience of the business and its risks and emphasizing the role of the audit committee, on the other hand.

14. **Quality assurance.** Statutory auditors/audit firms performing audits of PIEs should be subject to appropriate oversight by competent authorities which are independent from the audit profession and which have adequate capacity, expertise, and resources. Good international practices recommend that a competent authority, responsible for audit oversight carry out quality assurance reviews of statutory auditors/audit firms that carry out statutory audits of PIEs. Selection of auditors/audit firms to be inspected are performed on the basis of an analysis of the risk, and at least every three years.²¹

Key issues related to requirements for auditors and audit firms that perform audits of PIEs in Kazakhstan

15. **The definition of PIEs in Kazakhstan, and related requirements in respect of their audits, should be reconsidered for better alignment with good international practices.** As mentioned in the Preliminary JERP Report “*Public oversight and quality assurance systems - international experience and key considerations for Kazakhstan: institutional structure, functions, staffing, and funding*”, delivered on June 30, 2020,²² it would be advisable for the authorities to reconsider the definition of PIEs²³ and clarify the audit requirements of different categories of entities, especially which should be subject to more stringent requirements (the

¹⁸ A similar requirement is enforced by the IESBA Code of Ethics.

¹⁹ Basel Core Principle 27 on the external auditor does incorporate the rotation requirement but doesn’t differentiate between partner/auditor and firm rotation.

²⁰ <https://www.ifiar.org/?wpdmdl=2113>

²¹ EU Regulation 537/2014

²² Preliminary report “Public oversight and quality assurance systems - international experience and key considerations for Kazakhstan: institutional structure, functions, staffing, and funding”, para 30.

²³ According to good international practice, PIEs are typically defined as listed companies, banks, insurance companies and other entities that have significant public interest because of nature of their business, their size or the number of their employees

analysis provided by Annex E of the previous report identifies the gap which exists between entities defined as PIEs in Kazakhstan, entities which are subject to statutory audits, and those audits subject to external quality review by the PAC/KZ directly or indirectly). According to good international practices, PIEs should have more stringent financial reporting, governance, and auditing requirements, their audits should be subject to external quality control by a competent authority that is independent from the profession, while their auditors should be subject to stringent quality, governance, and transparency requirements. Currently, there are three categories of PIEs defined in the legislation of Kazakhstan:

- a) *PIEs*, as defined by Accounting and Financial Reporting Law of the Republic of Kazakhstan No. 234 of 28 February 2007,²⁴ encompass six types of entities. All are subject to statutory audit but not all of these audits are subject to external quality control by PAC/KZ (for example, audits of grain receiving stations, entities with a government-owned stake in their authorized capital, and state-owned enterprises established as of right of operational management are not under the scope of external quality control);
- b) *Entities subject to statutory audit*, as required by Article 5(2) of the Audit Law, which comprise around 14 types of entities;
- c) *Entities, audit of which is subject to external quality control by the PAC/KZ*, as defined by Article 1(12-1) of recently adopted amendments to the Audit Law.

Such an approach is not in line with good practices. It is therefore recommended to have a single definition of PIE that would satisfy all purposes for financial reporting and audit requirements.

16. Extensive qualitative requirements in respect of auditors/audit firms performing statutory audits of PIEs should be adopted by the authorities. Order No. 231 of the Minister of Finance of the Republic of Kazakhstan of March 30, 2015 “On approval minimum requirements for audit firms that conduct a statutory audit”²⁵ lays down some quantitative requirements for audit firms that perform statutory audits of PIEs. However, qualitative and transparency requirements are missing. It is recommended that more stringent requirements in respect of auditors/audit firms that perform audits of PIEs are introduced, based on international practice as described above but adapted as necessary to local requirements, in particular related to:

- audit fees;
- restrictions on certain non-audit services to PIE audit clients;
- independence of auditors/audit firms;
- engagement quality control review before audit reports for PIEs are issued;
- improved role, communication, and reporting to audit committees of audited PIEs;
- transparency reporting by audit firms that audit PIEs;
- duration of the audit engagement (to the extent that the relevant rotation period is identified by authorities as reasonable).

Such an approach would allow authorities to regulate the restrictions and conditions for their application without requiring professional judgment by auditors.

17. Ensure a proper enforcement of the international ethics requirements by all auditors and audit firms in Kazakhstan. The IESBA Code of Ethics is mandatory for all audit firms and audits in Kazakhstan starting from November 2020. This reinforces important requirements for PIE audits. The Code of Ethics contains prohibitions that apply when a firm audits a PIE, including prohibitions to performing some non-audit services, as well as related to interests, relationships, and actions. It is important to ensure a proper enforcement of the ethics provisions, by both PAC/KZ (at least for PIEs auditors and audit firms at the first stage) and

²⁴ <http://adilet.zan.kz/rus/docs/Z070000234>

²⁵ <http://adilet.zan.kz/rus/docs/V1500010875>

PAOs (for their members) through quality assurance controls and appropriate training and dissemination.

18. **Legal requirements related to processes for the adoption and translation of international standards for financial reporting and auditing applicable in Kazakhstan were recently amended and authorities should ensure that there are proper enforcement mechanisms in place.** Despite previous efforts, there are still significant discrepancies between original versions of international standards and available translations that are legally enforceable in Kazakhstan. Table 3 below summarizes the actual status of adopted standards in Kazakhstan and available translations into Russian and Kazakh languages. For instance, Article 4(2) of the Audit Law (in force from November 2020) provides that ISAs can be published in the Kazakh and Russian languages by an organization that has written permission for their official translation and (or) publication in the Republic of Kazakhstan from the International Federation of Accountants (IFAC); similar provisions are adopted in respect of the IFRS and the IESBA Code of Ethics. Currently, written permissions from international standard-setters are owned either by the MOF or by the Audit Chamber of Kazakhstan,²⁶ i.e. MOF owns the permission to translate and publish IFRS and IFRS for Small and Medium-sized Enterprises (SMEs) into the Kazakh and Russian languages and ISAs and the IESBA Code of Ethics into Kazakh. The right to translate and publish ISAs and the IESBA Code of Ethics into the Russian language is owned by the Audit Chamber. It appears that authorities need to adopt a bylaw/regulation and put in place a sustainable mechanism, that would ensure enforcement of legal requirements by specifying the rights and responsibilities of each institution involved in the adoption and translation process of international standards, specifying the institution with ultimate responsibility over the entire process. The ultimate goal is that the latest versions of international standards should be legally enforceable in Kazakhstan.

Table 3: Status of available translations of international standards in Kazakhstan

	IFRS	ISAs	IESBA Code of Ethics	IFRS for SMEs ²⁷
The latest version as adopted by international standard-setter	IFRS (2020) as issued by IASB ²⁸	2018 International quality control, auditing, review, other assurance, and related services pronouncements are issued by IAASB ²⁹	2018 International Code of Ethics for Professional Accountants, including International Independence Standards issued by IESBA ³⁰	2015 IFRS for SMEs Standard issued by IASB ³¹
Russian language	While Russian translation is	2015 International quality control,	IESBA Code of Ethics is mandatory	2009 IFRS for SMEs Standard ³⁵

²⁶ Full IFAC member.

²⁷ IFRS for SMEs is applicable for non-PIE entities in Kazakhstan

²⁸ <https://www.ifrs.org/issued-standards/list-of-standards/>

²⁹ <https://www.iaasb.org/publications/2018-handbook-international-quality-control-auditing-review-other-assurance-and-related-services-26>

³⁰ <https://www.ethicsboard.org/international-code-ethics-professional-accountants>

³¹ <https://www.ifrs.org/issued-standards/ifrs-for-smes/>

³⁵

http://www.minfin.gov.kz/irj/servlet/prt/portal/prteventname/HtmlbEvent/prtroot/pcd!3aportal_content!2fmf!2fkz.ecc.desktop!2fkz.ecc.KMNavigation/documents?1574978537988&Uri=/documents/%D0%9C%D0%B8%D0%BD%D1%84%D0%B8%D0%BD_new/%D0%9C%D0%B5%D0%B6%D0%B4%D1%83%D0%BD%D0%B0%D1%80%D0%BE%D0%B4%D0%BD%D1%8B%D0%B5%20%D1%81%D1%82%D0%B0%D0%BD%D0%B4%D0%B0%D1%80%D1%82%D1%8B/%D0%9C%D0%A1%D0%A4%

	IFRS	ISAs	IESBA Code of Ethics	IFRS for SMEs ²⁷
	available on MOF's website, ³² it seems that IFRS 10-16 (all applicable in 2020) are missing ³³	auditing, review, other assurance, and related services pronouncements ³⁴	for all audit firms and audits in Kazakhstan starting from November 2020; translation is not available on MOF website	
Kazakh language	IFRS 2016 ³⁶	2015 International quality control, auditing, review, other assurance, and related services pronouncements ³⁷	Translation is not available	2015 IFRS for SMEs Standard ³⁸

19. PAC/KZ should establish an adequate channel of communication with audit committees of PIEs (initially this should be applicable for those PIEs audits of which are subject to quality assurance review by PAC/KZ); also authorities should ensure that requirements to establish Audit Committee is expanded to all PIEs in Kazakhstan. Currently, according to the legislation in force, listed entities and SOEs with joint stock company legal form are required to establish Audit Committees. Good international practice recommends that all PIEs establish audit committees, as the value of mandatory audits, in particular for PIEs would be enhanced if the communication between auditors, on the one hand, and audit committees of audited entities, on the other hand, were reinforced. Audit committees are on the front lines of promoting audit quality, which is why in many jurisdictions one priority of the public oversight authority is to interact more often and more directly with PIEs' audit committee members. Key functions of an audit committee, according to good international practice, are listed in Box 3 below.

Box 3: Key functions of an audit committee

Key functions:

- a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;
- b) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;

http://www.minfin.gov.kz/irj/go/km/docs/documents/%D0%9C%D0%B8%D0%BD%D1%84%D0%B8%D0%BD_new/%D0%9C%D0%B5%D0%B6%D0%B4%D1%83%D0%BD%D0%B0%D1%80%D0%BE%D0%B4%D0%BD%D1%8B%D0%B5%20%D1%81%D1%82%D0%B0%BD%D0%B4%D0%B0%D1%80%D1%82%D1%8B/%D0%9C%D0%A1%D0%A4%D0%9E/%D0%A2%D0%B5%D0%BA%D1%81%D1%82%D1%8B/ru/1306992538.html

³²

http://www.minfin.gov.kz/irj/go/km/docs/documents/%D0%9C%D0%B8%D0%BD%D1%84%D0%B8%D0%BD_new/%D0%9C%D0%B5%D0%B6%D0%B4%D1%83%D0%BD%D0%B0%D1%80%D0%BE%D0%B4%D0%BD%D1%8B%D0%B5%20%D1%81%D1%82%D0%B0%BD%D0%B4%D0%B0%D1%80%D1%82%D1%8B/%D0%9C%D0%A1%D0%A4%D0%9E/%D0%A2%D0%B5%D0%BA%D1%81%D1%82%D1%8B/ru/1306992538.html

³³ New and revised requirements, including IFRS 16 Leases and IFRS 17 Insurance Contracts are available in the Russian language on IASB website - <https://www.ifrs.org/issued-standards/ifrs-translations/#russian>

³⁴ <http://www.audit.kz/sbornik-mezhdunarodnykh-standartov-audita-2015-goda>

³⁶ <https://www.gov.kz/memleket/entities/minfin/documents/details/84664?directionId=8798&lang=ru>

³⁷

http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_int_standarts/international_standarts/ISA

³⁸ <https://www.gov.kz/memleket/entities/minfin/documents/details/84664?directionId=8798&lang=ru>

- c) monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence;
- d) monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority;
- e) review and monitor the independence of the statutory auditors or the audit firms, and in particular the appropriateness of the provision of non-audit services to the audited entity;
- f) be responsible for the procedure for the selection of statutory auditor(s) or audit firm(s) and recommend the statutory auditor(s) or the audit firm(s) to be appointed.

20. **The quality of audit oversight in Kazakhstan will be further improved if there is effective cooperation between PAC/KZ and other relevant authorities charged with supervision and/or communication with external auditors of supervised entities.** Therefore, PAC/KZ is encouraged to develop adequate internal policies that would allow cooperation and exchange of information with the National Bank of Kazakhstan, the Kazakhstan Stock Exchange, the Agency for Regulation and Development of the Financial Market, or other relevant authorities that supervise and regulate PIEs. Regular exchanges of information between these authorities would enable parties to perform their duties effectively, would contribute to improved enforcement, and would avoid duplication of some requirements. Signing a memorandum of understanding between the PAC/KZ and respective supervisory authorities would detail circumstances in which supervisors would communicate directly with the PAC/KZ on topics related to public oversight, quality assurance inspections, and investigations of auditors/audit firms of banks and other listed entities. Consequently, it is recommended to establish provisions for a clear mandate for parties to meet on a regular and systematic basis (including ad-hoc meetings) to discuss auditing issues related to PIEs in Kazakhstan in a constructive and critical manner.

B. Quality assurance for audit

International experience

21. **Quality assurance for audit drives better quality and more reliable financial information.** Auditors provide assurance about the quality of financial information. Their professional judgments play a key role in building public trust and investor confidence. Introducing mandatory quality assurance requirements for audit strengthens corporate financial reporting in private companies leading to many national benefits: (i) increased potential to strengthen public revenues; (ii) improved governance and transparency; (iii) increased international confidence and investment; and (iv) stronger foundations for sustainable economic growth. The ultimate beneficiary of quality assurance for audit is the public, which benefits from a strengthening of public revenues and the climate for investment.
22. **The efficiency of a quality assurance system in any jurisdiction requires stakeholder consensus to ensure a fully functional, effective, and sustainable system.** The following key elements determine quality assurance for audit:
- *legislation and regulations* - these are essential if a quality assurance system is to be legally binding;
 - *institutional governance* – a public oversight competent authority (a board, a committee or an agency), ideally independent from the profession, is required to oversee quality assurance for audit;
 - *policies and procedures* - these set out how the quality assurance system will operate in a transparent way and include a quality assurance methodology, which is typically

not publicly available, that is subject to periodic review and update (the quality assurance methodology may be also embedded in a special software, in a similar way as automated audit methodologies by audit firms);

- *operational capacity* – people (including quality assurance inspectors) with a background in audit and related corporate financial reporting areas and trained in quality assurance to conduct audit reviews.

23. There are two international benchmarks for quality assurance for audit. These are: (i) IFIAR Core Principles for audit regulator members of IFIAR, and (ii) Statement of Membership Obligations (SMO) 1 “Quality assurance” for PAOs members of IFAC. Box 4 below summarizes each of these.

Box 4: International benchmarks for quality assurance

The IFIAR Core Principles for Independent Audit Oversight³⁹ set out how its member organizations (regulators that are independent of the audit profession) should perform quality assurance for audit or oversight of quality assurance for audit, independently from the audit profession. IFIAR members are encouraged to comply with them. The core principles cover good practices for quality assurance for audit, including a well-developed legal and corporate governance framework for corporate reporting and auditing. They highlight specific requirements for audit regulators to work in the public interest and to be independent and transparent operationally. The core principles also cover inspections of PIEs with a risk-based system, ensuring inspections of both firm-wide procedures and audit files, as well as the requirements for reporting effectively (see part C. Principles for Inspections).

SMO 1⁴⁰ **is for IFAC member PAOs.** It sets out the role that PAOs should play in a system of quality assurance for audit. SMO1 requires that ISQC 1⁴¹ be adopted and implemented by all audit firms.⁴² It addresses the design of a system for the quality assurance of audit, including the system of practical application and the basis for reaching conclusions. It covers how PAOs should implement quality assurance for audit, providing guidance on the review cycle, on the quality assurance team procedures and competencies, reporting on corrective and disciplinary actions, and the interaction with public oversight.

24. In the USA, the PCAOB⁴³ **established a process for reviewing selected audit firms.** Quality inspection is designed to assess the audit firm’s compliance with PCAOB standards and rules, and other applicable regulatory and professional requirements in the audit firm’s system of quality control and in the portions of audits selected for inspection. Inspections do not involve a review of all aspects of an audit firm’s quality control system. They do not review all of the audit firm’s audits, nor are they designed to identify every deficiency in the reviewed audits. Portions of each inspection report are made public on the PCAOB website.⁴⁴ PCAOB inspection

³⁹ <https://www.ifiar.org/?wpdmdl=2113>

⁴⁰ <https://www.ifac.org/system/files/publications/files/Statements-of-Membership-Obligations-1-7-Revised.pdf>

⁴¹ <https://www.iaasb.org/publications/2018-handbook-international-quality-control-auditing-review-other-assurance-and-related-services-26>

⁴² IAASB issued four Quality Management (QM) exposure drafts in February 2019, to replace ISQC once the due process is completed.

⁴³ <https://pcaobus.org/Pages/default.aspx>

⁴⁴ <https://pcaobus.org/Inspections/Reports/Pages/default.aspx>

teams' review work is performed by making selections of completed audits through the process described in Box 5 below.

Box 5: PCAOB's process for reviewing selected audit firms' audit work⁴⁵

- 1. Select Audits for Review:** The inspection team selects the audits and the audit areas that it will review. The inspected firm has no opportunity to limit or influence the PCAOB's selections. In selecting issuer audits for review, PCAOB staff generally use both risk-based and random methods of selection and they generally focus their attention on audit areas they believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies.
- 2. Review Work Papers and Interview Engagement Team:** For each audit area that is selected, the inspection team reviews the engagement team's work papers and interviews engagement personnel regarding those audit areas.
- 3. Provide Comment Forms:** If the inspection team identifies a potential deficiency, it discusses the matter with the firm and may review additional audit documentation. If the inspection team still believes that a potential deficiency exists after its discussion with the firm and review of any additional audit documentation, it will provide the firm with a written comment form on the matter. The firm is allowed the opportunity to provide a written response to the comment form.
- 4. Evaluation of the Deficiencies:** After the firm's response to the comment form, the matter is evaluated for inclusion in the inspection report. If a deficiency is included in Part I.A of the report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm may take remedial actions, including performing additional audit procedures after the issue is identified, and may have completed those actions by the time the PCAOB inspection report is published. Depending on the circumstances, the firm may inform management of the issuer of the need for changes to the financial statements or reporting on internal control over financial reporting (ICFR) and may take steps to prevent reliance on prior audit reports. An inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during that inspection.
- 5. Include the Deficiency in the Inspection Report:** The report includes deficiencies in inspected issuer audits that were of such significance that the Board believes that the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. These are included in Part I.A of the inspection report. The report may also include certain deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the auditor obtained to support its audit opinion(s), but nevertheless relate to instances of non-compliance with PCAOB standards or rules. These are included in Part I.B of the inspection report. Consistent with the Sarbanes-Oxley Act, it is the Board's assessment that nothing in Part I of an inspection report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II of a report. Further, readers should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.
- 6. What an Audit Deficiency in an Inspection Report Does and Does Not Mean:** The inclusion of a deficiency in an inspection report reflects information communicated to the Board by the inspection team and is not a determination by the Board as to whether the firm has engaged in conduct for which it could be sanctioned through the Board's

⁴⁵ <https://pcaobus.org/Inspections/Pages/PCAOB-inspection-procedures-what-does-PCAOB-inspect-how-inspections-conducted.aspx>

disciplinary process. In addition, any references in a report to violations or potential violations of law, rules, or professional standards are not a result of an adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability. Inclusion of a deficiency in an inspection report—other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR—does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for the Board to reach a conclusion on those points based on inspection procedures and related deficiencies because, for example, the inspection team has access only to the information that the auditor retained and the issuer’s public disclosures. The inspection team does not have direct access to the issuer’s management, underlying books and records, and other information that may be relevant.

7. Enforcement and Other Referrals: The inspection team may refer matters, where appropriate, to the Division of Enforcement and Investigations, and/or, consistent with requirements of the Sarbanes-Oxley Act and PCAOB Rule 4004, to the Stock Exchange Commission or other appropriate federal, state, or foreign law enforcement or regulatory authorities.

25. **Regular inspections are considered a good means of achieving a consistently high quality in statutory audits in EU Member States.** Consequently, statutory auditors and audit firms are subject to a system of quality assurance that is organized in a manner which is independent from the reviewed statutory auditors/audit firms and where each auditor/audit firms is subject to a quality assurance review at least every six years and at least every three years if they perform PIE audits. In this respect, the funding for the quality assurance system should be free from undue influence. Directive 2006/43/EC prescribes the criteria to be met by each Member State in order to comply with quality assurance requirements. The key criteria are outlined in Box 6 below:

Box 6: Quality assurance systems in EU Member States

Each Member State shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance which meets at least the following criteria (Article 29 of Directive 2006/43/EC):

- a) the quality assurance system shall be organized in such a manner that it is independent of the reviewed statutory auditors and audit firms and is subject to public oversight;
- b) the funding for the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms;
- c) the quality assurance system shall have adequate resources;
- d) the persons who carry out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting combined with specific training on quality assurance reviews;
- e) the selection of reviewers for specific quality assurance review assignments shall 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 or audit firm under review;
- f) the scope of the quality assurance review, supported by adequate testing of selected audit files, shall include an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged, and of the internal quality control system of the audit firm;

- g) the quality assurance review shall be the subject of a report which shall contain the main conclusions of the quality assurance review;
- h) quality assurance reviews shall take place on the basis of an analysis of the risk and, in the case of statutory auditors and audit firms carrying out statutory audits, at least every six years;
- i) the overall results of the quality assurance system shall be published annually;
- j) recommendations of quality reviews shall be followed up by the statutory auditor or audit firm within a reasonable period. If the recommendations are not followed up, the statutory auditor or audit firm shall, if applicable, be subject to the system of disciplinary actions or penalties;
- k) quality assurance reviews shall be appropriate and proportionate in view of the scale and complexity of the activity of the reviewed statutory auditor or audit firm.

26. **Independent audit regulators around the world have come together both bilaterally and in groups to create awareness of important issues and promote cooperation and consistency amongst audit regulators on quality assurance inspections.** Two well-known groups are the Committee of European Auditing Oversight Bodies (CEAOB) and the International Forum of Independent Audit Regulators.

27. **CEAOB⁴⁶ was established in 2016 to improve cooperation between European national audit authorities in the EU.** The CEOB contributes to the proper application of EU audit legislation by facilitating supervisory convergence. Current key activities, directly related to quality assurance in audit (coordinated by various sub-groups established within CEOB) include:

- *Sharing and discussing inspection findings through analysis of the findings database.* The findings database is an important aspect of the facility to exchange information between sub-group members and enables the identification of inspection findings by audit firm. It also enables review of potential root causes of the findings, which can assist in discussions with the standard setters. Access to the database is subject to maintaining confidentiality requirements.
- *Consistency of inspection methodology.* The Common Audit Inspection Methodology initiative aims to further improve the consistency of inspection practices.
- *Sharing inspection findings and practices relating to audits of financial services entities.* The sub-group has a group of experts for the inspections of bank and other financial institution audits and it facilitates the exchange of practices and findings amongst European audit regulators in relation to the audits of financial institutions and will provide a platform to engage with the European banking and insurance regulators (i.e. European Banking Authority, European Insurance and Occupational Pensions Authority, and European Securities and Markets Authority in financial services matters).

28. **IFIAR also shares inspection practices and findings among their members and facilitates discussions on topics related to audit inspections.** A core activity of independent audit regulators is the ongoing inspection of audit firms. The development and organization of a robust and sustainable inspection workshop model⁴⁷ is central to IFIAR's aim to enhance investor protection by improving audit quality. With member countries from all continents, IFIAR is in a unique position to provide a forum through inspection workshops for independent audit regulators to meet and discuss inspections processes, learn and leverage from each other, and consider similarities and differences among their practices and methodologies.

⁴⁶ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/auditing-companies-financial-statements_en

⁴⁷ <https://www.ifiar.org/members/inspection-workshops-working-group/>

29. **When introducing the option to delegate quality assurance for non-PIEs to the profession, the PAOs selected must have adequate maturity, operational capacity, and resources to perform the delegated tasks.** According to good international practice, quality assurance of PIE audits and auditors cannot be delegated. While some activities and tasks related to public oversight (for instance, certification/qualification of auditors and CPD monitoring) could be delegated to professional bodies and/or to other relevant authorities in the jurisdiction (e.g. financial supervisors), delegation of quality assurance for PIE audits and auditors and related investigations and sanctioning is not recommended. Where the competent authority delegates tasks to professional bodies, it must be able to reclaim these competences on a case-by-case basis. In addition, where tasks and activities are delegated, the competent authority should develop a consistent methodological approach that could be used to monitor (and sanction) professional bodies in respect of performed quality assurance inspections, to ensure that delegated activities are performed following high quality standards.
30. **Investigations and appropriate sanctions help prevent and correct inadequate execution of audit.** Good international practices encourage authorities responsible for public oversight to ensure that there are effective systems of investigations and sanctions to detect, correct, and prevent inadequate execution of the audit. Where audits are not carried out in accordance with legal provisions (e.g. auditing standards, Code of Ethics, and relevant laws and bylaws), the legal system should provide for effective, proportionate, and dissuasive sanctions in respect of auditors and audit firms. For example, in EU Member States it is recommended that competent authorities have the power to impose at least the administrative measures and sanctions as listed in Box 7 below. These could be imposed directly, in collaboration with other authorities, or by application to the competent judicial authorities. It is important to mention that good international practices also call for the effective application of sanctions. EU Member States are required to ensure that when determining the type and level of administrative sanctions and measures, their competent authorities take into account all relevant circumstances, including where appropriate: (i) the gravity and the duration of the breach; (ii) the degree of responsibility of the responsible person; (iii) the financial strength of the responsible person, for example as indicated by the total turnover of the responsible undertaking or the annual income of the responsible person, if that person is a natural person; (iv) the amounts of the profits gained or losses avoided by the responsible person, in so far as they can be determined; (v) the level of cooperation of the responsible person with the competent authority; and (vi) previous breaches by the responsible legal or natural person. Additional factors may be taken into account by competent authorities responsible for public oversight where such factors are specified in national law.

Box 7: Measures and sanctions for breaches of the provisions of Directive 2006/43/EC of EU Regulation No. 537/2014

Measures and sanctions for breaches:

- a) a notice requiring the natural or legal person responsible for the breach to cease the conduct and to abstain from any repetition of that conduct;
- b) a public statement which indicates the person responsible and the nature of the breach, published on the website of competent authorities;
- c) a temporary prohibition, of up to three years' duration, banning the statutory auditor, the audit firm, or the key audit partner from carrying out statutory audits and/or signing audit reports;
- d) a declaration that the audit report does not meet the requirements;

- e) a temporary prohibition, of up to three years' duration, banning a member of an audit firm or a member of an administrative or management body of a PIE from exercising functions in audit firms or PIEs;
- f) the imposition of administrative pecuniary sanctions on natural and legal persons.

31. **A system of quality assurance for audit will only be effective with the right operational capacity.** There are practical challenges to address to ensure effective operations. Early implementation can be aimed at all auditors or restricted initially to PIE audits, which will reduce the number of visits required. Such an approach would allow for a parallel process of capacity strengthening of audit firms through ISA and ISQC 1 training, and for information to be captured on the audit market, including the size (partners, staff, locations) and type of audit clients (PIE and non-PIE). Recruiting the right staff for the quality assurance for audit unit is essential, including the right level of support staff to ensure audit reviewers can focus on the key technical skills of audit review (see also chapter E of the June 2020 Preliminary JERP Report). An appropriate and structured recruitment process will include: (i) job specifications for head of unit, reviewers, and admin staff; (ii) salaries that attract the right quality of staff; (iii) contracts of employment; and (iv) interviews. Once quality assurance inspectors are recruited, they need to be trained in the skills required to carry out audit quality assurance monitoring reviews and in the procedures to be used to carry out the work, including: (i) soft skills – for example interview techniques, managing and resolving conflict; (ii) technical training in monitoring ISA (including ISQC 1) and financial reporting standards compliance; and (iii) practical mentoring (in-country with external audit quality review experts and/ or accompanying experienced reviewers in other countries on their visits).

Key issues⁴⁸ related to the quality assurance system in Kazakhstan

32. Guided by current good international practices, it is suggested that the following key areas should be covered by policies and procedures related to quality assurance in audit in Kazakhstan:

- **The frequency of inspection of audit firms.** A maximum review frequency of six years is recommended. Auditors doing PIE audits should be reviewed every three years or less.
- **Cycle or risk-based selection.** Selection of audit firms to visit can be cycle-based or risk-based, or ideally a combination of both.
- **Audit inspection procedures and methodologies.** These should cover firm-wide procedures including compliance with ISQC 1 and audit file reviews in relation to ISAs etc. Selected areas of audit inspection methodologies are made available by the European Audit Inspection Group (EAIG).⁴⁹
- **Methodologies in use.** These should be checked for compliance with requirements of ISAs, ISQC 1, and the relevant codes of ethics for auditors. Annex A (confidential) lists key areas to be covered by a quality assurance methodology.

⁴⁸ Key issues are discussed following the provisions of the Auditing law and draft bylaw #441 “Rules for conducting external quality control of audit firms” made available to the project team by MOF.

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https://www.eaigweb.org/fileadmin/user_upload/pdf_files/04_Projects/EAIG_CAIM_Work_Programme_Suite_Review_Internal_Quality_Control_System.pdf

https://www.eaigweb.org/fileadmin/user_upload/pdf_files/04_Projects/EAIG_CAIM_Work_Programme_Suite_File_Reviews.pdf

- **Transparent and fair procedures.** Audit inspection visit findings should be discussed with the audit firm and appropriate remedial actions agreed where appropriate.
- **Transparent and appropriate reporting.** Reporting of inspection findings should be both privately to the relevant quality assurance board of the competent authority (public oversight body) and publicly where appropriate.
- **Sanctions and remedial actions.** An appropriate set of procedures must be in place, specifying the actions required for serious or repeated non-compliance.
- **Innovative policies and procedures** should be investigated to see if they can reduce costs, and/or increase efficiency, effectiveness, and coverage of quality assurance for audit. For example, PAOs in Australia and New Zealand use technology to reduce the cost of practice reviews and to survey large firm personnel to better understand matters impacting audit quality. There is also a specialized software for quality assurance used by audit oversight authorities in various jurisdictions (e.g. Germany, the United Kingdom, and Netherlands). Greater use of technology has demonstrated high efficiency by ensuring the continuity of remote process management in situation such as COVID-19 pandemic.

33. **The quality assurance inspection of audits and auditors of selected PIEs (as defined by article 1(12-1) of the Audit Law) will be performed by PAC/KZ, while non-PIE audits will be inspected by PAOs/KZ.** Following the provisions of the Audit Law, the MOF drafted a bylaw covering template rules for conducting external quality assurance inspections by PAC/KZ and by PAOs/KZ. Key areas of the proposed bylaw are discussed below.

34. **The scope of the proposed bylaw should be increased to also cover auditors (not only audit firms) and PAOs/KZ oversight by PAC/KZ.** Theoretically, auditors are subject to quality assurance review, being employed by the reviewed audit firm; however, assuming that they could be subject to individual sanctioning as a result of quality assurance inspections, such aspects need to be properly regulated. Article 13-2(2)(8) of the Audit Law gives PAC/KZ the right to inspect PAOs/KZ and perform quality assurance of their members, the general requirements of this should be regulated in detail by the bylaw.

35. **The objective of quality assurance in audit is broader than improving audit quality.** Introducing quality assurance requirements for audit strengthens corporate financial reporting in both private and state-owned companies leading to many national benefits: (i) increased potential to strengthen public revenues; (ii) improved governance and transparency; (iii) increased international confidence and investment; and (iv) stronger foundations for sustainable economic growth. The scope of the proposed bylaw could be revised to better outline the objective of the quality assurance to ensure all involved actors properly understand it.

36. **While former auditors could be hired as quality assurance inspectors by PAC/KZ, it is important to ensure the independence of inspectors.**⁵⁰ The selection of inspectors for quality assurance should be performed in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the inspectors and the statutory auditor/audit

⁵⁰ Good international practice recommends the following criteria be applied to the selection of quality assurance inspectors: (i) inspectors should have appropriate professional education and relevant experience in audit and financial reporting combined with specific training on quality assurance reviews; (ii) 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**; and (iii) reviewers shall declare that there are no conflicts of interest between them and the statutory auditor/audit firm to be reviewed.

firm under review (e.g. reviewing an audit firm that was a former employer). **Consequently, it is important that the bylaw provides clear guidance in respect of independence requirements to quality assurance inspectors of PAC/KZ.** Peer review-based quality assurance inspections could be allowed for non-PIE audits performed by PAOs/KZ member audit firms. However, there may be significant independence issues if, for example, the reviewing audit/auditor firm has some connection with or dependency on the audit firm/auditor it is reviewing. As an alternative, PAOs/KZ could be required to establish a quality assurance committee within their governing board and a separate executive unit, responsible for quality assurance where inspectors would be employees of the professional body. Having a dedicated unit performing quality assurance with appropriate professional expertise will enhance independence, improve the consistency of reviews and outcomes, and give PAC/KZ greater confidence in the quality assurance inspections performed by PAOs/KZ.

37. **Article 19(1) of the Audit Law provides that quality assurance inspections should be risk-based, consequently it is recommended that the bylaw lists key risk indicators.** The following could serve as examples of risk indicators: outcomes of the previous quality assurance inspection, outcomes of thematic monitoring and review performed by the public oversight authority or professional body; number of engagements performed by an engagement partner; unreasonable (often low) fees for audit engagements; poor relationship history with regulatory bodies; quality of audited financial statements in the depository of financial statements (filed in dfo.kz portal); significant increase in audit income; size and relationship between audit fees and fees for non-audit services (especially for the same clients including groups); possible non-compliance with the Code of Ethics; number of `Disclaimer of opinion`; legal form, size, complexity of business, and areas of activity of the audited entity; complaints received; information received from other regulatory bodies/financial supervisors or other sources about the audit firm/auditor; other similar indicators.
38. **The duration of inspection should be flexible, PAC/KZ and PAOs/KZ should be allowed to determine its length depending on the size of the audit firm and the number and type of audit clients.** Limiting the duration of the inspection to 10 working days (and 7 working days in case of inspections performed at the MOF's request) as foreseen by the draft bylaw could affect the quality of the work performed. Consequently, it is recommended that PAC/KZ and PAOs/KZ may decide on the time needed to carry out each inspection, depending on such factors as size of the audit firm, number of offices and locations, the number and type of audit clients it has, and the period covered by the inspection. Good international practice suggests that the number of days needed to carry out an inspection will depend both on the size of the audit firm and the number and type of audit clients it has. For example, an audit firm with one office and no PIE audits would typically take 2 days on-site plus 1 day off-site (planning and completion time). Each additional partner will typically add 1 day and each additional office will also add 1 day. Inspections of large auditors of PIE entities will typically take 7 days (5 on-site and 2 off-site). Inspections of the large international audit firms will typically take 14 days (10 on-site and 4 off-site), but this can significantly increase in the case of multiple offices of audit firms located in different cities. Actual timings will depend on getting information on the size and nature of audit firms and their clients.
39. **Additional areas to be covered by the quality assurance methodology.** In addition to the listed areas to be covered by the quality assurance methodology (p.8, draft bylaw #441), consideration of the following aspects is recommended:
- Quality assurance methodology of PAC/KZ should include **monitoring procedures to be applied by PAC/KZ in respect of PAO/KZ** (arising from the provisions of Article 13-2(2)(8) of the Audit Law);

- Quality assurance methodology of both PAC/KZ and PAO/KZ should include **procedures for making and following up recommendations for improvements to auditors and audit firms based on inspection findings**. If the recommendations are not followed up, the respective auditor/audit firm shall, if applicable, be subject to the system of disciplinary actions and sanctions;
- The bylaw should explicitly provide that the risk-based inspection approach should also be reflected in quality assurance methodology to be developed by PAC/KZ and PAOs/KZ in both, **firm wide and audit file inspection procedures**. The firm wide procedures should address the audit firm's quality control system as reflected in the audit firm's organization, policies, and procedures. ISQC 1 should be used as a key benchmark. The inspection process should also include adequate testing of selected audit files in order both to determine the effectiveness of the audit firm's quality control system and to assess compliance with applicable laws, rules, and professional standards.

40. **Inspected audit firms should be entitled to provide written comments related to identified deficiencies by quality assurance inspectors.** From the provisions of the draft bylaw, it is not clear if the reference to 15 working days is for presentation of the final inspection report or of the draft inspection report for comments by inspected audit firms. Time might be allotted (5-7 working days) for inspected audit firms to provide written comments in respect of identified deficiencies and proposed remedial action plan. For instance, IFIAR's Principle 11 says that audit regulators' reporting processes should include the preparation and issuance of a draft inspection report, a process for the audit firm to respond, and the preparation and issuance of a final inspection report.

41. **While international practice related to grading audit firms as result of quality assurance inspection is different, it would not be recommended to publish attributed grades, as it could generate uncertainty for market participants and investors.** It is not clear if the draft bylaw requires publication of only the grade or of the entire inspection report. Following good practice, PAC/KZ should publish annually the overall results of the quality assurance system with a summary of inspections and their findings. Individual inspection reports should be published only if the legal requirements and restrictions in respect of confidentiality are respected. In the United Kingdom, for example, the Audit Quality Review team⁵¹ of the Financial Reporting Council issues confidential reports on individual reviewed audits to the relevant audit firms and audited companies' audit committee chairs. These reports include an assessment of the quality of the audit work inspected using one of four audit quality categories as follows: good, limited improvements required, improvements required, and significant improvements required. While publication of grading could be seen as a special type of sanction, good international practice requires competent authorities to publish administrative sanctions imposed to audit firms/auditors as a result of quality assurance inspections only where all rights of appeal have expired, and only after the firm/person sanctioned was informed of that decision. Where publication of sanctions which are subject to appeal is permitted, competent authorities shall, as soon as reasonably practicable, also publish on their official website information concerning the status and outcome of any appeal. In addition, it would be recommended to complete points 1 to 4 of the annex to the draft bylaw #441 by adding references to the Code of ethics and national legislation in the area of audit (e.g. requirements for PIE audits).

42. **Sanctions and remedial actions.** The requirements related to sanctioning (p.13-14, draft bylaw #441) could be redrafted to provide clear and consistent information related to: (i)

⁵¹ <https://www.frc.org.uk/auditors/audit-quality-review>

types of sanctions that could be administered in respect of inspected audit firms, auditors, and PAOs/KZ; (ii) which authority or body (e.g. PAC/KZ, PAOs/KZ, MOF) has the **final power to apply the sanctions**; and (iii) right of **appeal**. See para 30 of this report for additional information on good international practice. There should be an appropriate set of procedures in place, specifying actions required for serious or repeated non-compliance.

43. It is recommended that the bylaw also includes **general provisions related to reporting by PAOs/KZ to PAC/KZ** on the matters related to quality assurance of non-PIEs audits, including but not limited to the frequency of reporting, information to be provided, etc.

C. Auditors' qualification and continuing professional development

International experience

44. **Those responsible for implementing high-quality financial reporting and auditing standards must have the necessary skills to effectively achieve the regulatory objectives of financial reporting reforms.** IESs,⁵² issued by the International Accounting Education Standards Board (IAESB), define a professional accountant as an individual who achieves, demonstrates, and further develops professional competence to perform a role in the accountancy profession and who is required to comply with a code of ethics as directed by a PAO or a licensing authority. In this context, PAOs include, but are not limited to, IFAC member bodies. When a professional accountancy organization or a licensing authority is not an IFAC member body, the IESs serve as an international benchmark of good practice. The definition above of the professional includes also individuals with the authority to sign the audit opinion/auditor's report, referred to in some jurisdictions as a "statutory auditor" or "engagement partner", and there could be additional requirements for auditors compared to professional accountants, who do not have this authority. For example, in the EU minimum requirements for auditors are mandatory in all Member States, regulated by Directive 2006/43/EC. It is therefore important that a jurisdiction has a well-organized profession and where separate professional qualifications are introduced for accountants and auditors, both are established following IESs provisions.
45. **The IESs promote consistency and convergence in high quality accounting education around the world and using these standards as a framework can help organizations and jurisdictions move forward systematically in pursuing international best practices.** The overall goal of standardization is to promote the development of competent professional accountants worldwide. Over an individual's career, their professional skills, values, ethics, and attitudes are more important than the professional knowledge base obtained at the point of qualification because current knowledge can become obsolete relatively quickly. As a result, aspiring professional accountants must develop skills to identify and solve problems, manage uncertainty, and adapt to change. To this end, the IESs aim to help aspiring professional accountants develop an attitude of lifelong learning.⁵³ Instilling a commitment to lifelong learning is, in the long run, more important than any piece of technical knowledge. The IESs set the minimum standards for:
- entry to professional accounting education programs;

⁵² <https://www.ifac.org/system/files/publications/files/Handbook-of-International-Education-Standards-2019.pdf>

⁵³ The IFAC Accountancy Education E-tool helps accountancy education stakeholders navigate and access key principles and related implementation support. E-tool is available at: <https://education.ifac.org/index.html>

- education, examinations, or other assessments, and professional training/experience that make up the initial professional development of aspiring professional accountants;
- ongoing learning activities and systems for CPD of professional accountants to maintain and further their competence and allow them to seek more advanced roles; and
- competence requirements for engagement partners responsible for audits of financial statements.

In this way, the IESs provide guidance for the education, assessment, and training of professional accountants throughout their careers both pre-and post-qualification. A more detailed introduction to the IESs is provided in part 2 of the World Bank Competency-Based Accounting Education and Assessment Materials Implementation Guide.⁵⁴

46. **In addition to IAESB’s requirements and guidance, there is a benefit for PAOs and relevant licensing authorities to learn from peers in other countries.** Such benchmarking enables more rapid implementation of the changes needed to move a professional qualification to competency-based accounting education. There are various good examples around the world of PAO competency maps, for example, by the Chartered Professional Accountants of Canada⁵⁵ which also offers an online tool⁵⁶ with a variety of convenient features, including a streamlined layout that displays competencies alongside knowledge lists, and the ability to filter the map by competency area, module, and proficiency level. Other examples of PAO competency maps are available from ACCA,⁵⁷ ICAEW,⁵⁸ IAI,⁵⁹ the Malaysian Institute of Accountants,⁶⁰ and the South African Institute of Chartered Accountants.⁶¹
47. **A professional accountancy qualification consists of several key elements:** (i) a **skills matrix** that shows what skills are developed as aspiring professional accountants progress through the qualification; (ii) a **framework** that describes the levels of the qualification and details how aspiring professional accountants are able to progress in their studies in terms of both knowledge and skills; the framework should also specify the relationship between the modules that comprise the professional qualification; (iii) the **detailed syllabus** that identifies the subject content and how abilities of aspiring professional accountants are achieved in terms of competencies (a detailed expression of the skills that aspiring professional accountant acquire); and (iv) a **credible system of examination and testing**, both in terms of procedures, and in terms of fair assessment of exams.
48. **A competency framework identifies and describes professional competencies that a PAO or a licensing authority asserts that newly-certified professional accountant should demonstrate at specified levels of proficiency.** A competency framework typically includes the elements indicated in Figure 1 below. Developing the initial competency framework for an organization focuses on establishing the domains (or subject areas); the competency statements for each domain and their related levels of proficiency; and the knowledge topics that underline each competency statement. Consistent with IESs, a certification program typically specifies three proficiency levels that relate to working environments, characterized

⁵⁴ https://cfr.worldbank.org/sites/default/files/2020-11/resources_pages_lq.pdf

⁵⁵ <https://www.cpacanada.ca/en/become-a-cpa/cpa-professional-education-program-becoming-a-cpa>

⁵⁶ <https://www.cpacanada.ca/en/become-a-cpa/pathways-to-becoming-a-cpa/national-education-resources/cpa-competency-map-tool>

⁵⁷ <https://www.accaglobal.com/gb/en.html>

⁵⁸ <https://www.icaew.com/>

⁵⁹ <http://iaiglobal.or.id/v03/home>

⁶⁰ <https://www.mia.org.my/v2/>

⁶¹ <https://www.saica.co.za/>

by progressively higher levels of ambiguity, complexity, and uncertainty (i.e. foundation, intermediate, and advanced). Proficiency levels are generally specified at the point of certification or licensing as a professional accountant, but they can also be set at interim points, such as on entry to a professional program, or on completion of stages within a program. The competency framework should serve as the foundation that ties together all elements of a certification program by:

- Supporting internal education and professional development programs at both pre- and post-certification;
- Defining requirements with respect to competence and expected behavior to support ethics and disciplinary processes;
- Providing a basis for evaluating and granting credits or exemptions for prior studies and work experience for mature students and career-changers wishing to enter the program;
- Supporting compliance with national, regional, and international requirements and expectations; and
- Supporting comparisons with other organizations, such as potential partners (e.g., other PAOs and licensing authorities; tertiary education institutions; or the governing bodies of other, related professions).

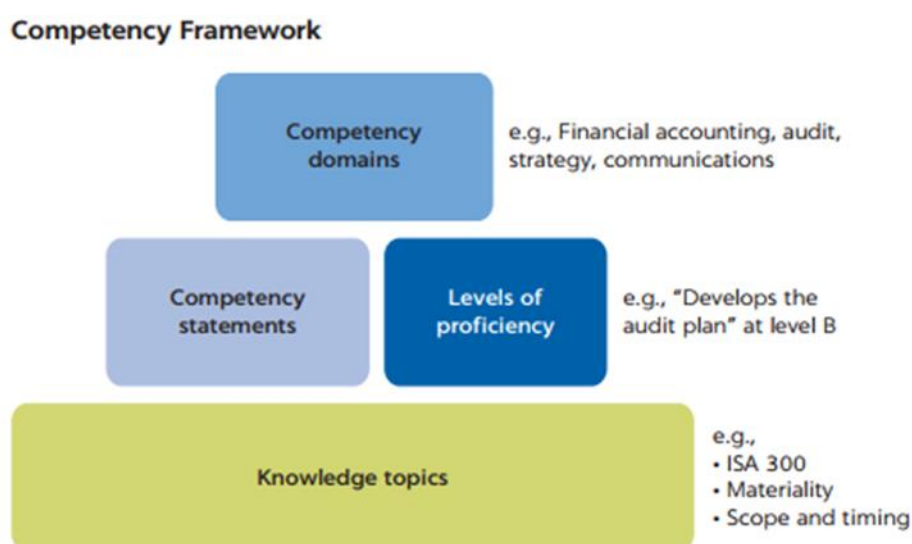


Figure 1: Competency Framework.

Source: Competency-Based Accounting Education, Training, and Certification: An Implementation Guide⁶²

49. **Exam development and administration processes.** For professional qualifications, examinations are normally developed by an exams group that is often separate to the organization’s education development team (unlike in universities, where exams are typically developed and administered by instructors for their own cohorts of students). Administering exams may be as simple as offering the exam in a classroom or as complex as setting up and administering a fully-secure exam center. Regardless of the context, security is important. Higher-stakes exams warrant higher security, particularly if the exam questions are non-disclosed and will be reused in future exams. Exam marks and the marked papers should be

⁶² The guide is available in English (<https://cfrr.worldbank.org/sites/default/files/2019-11/Competency-Based-Accounting-Education-Training-and-Certification-An-Implementation-Guide.pdf>) and Russian (https://cfrr.worldbank.org/sites/default/files/2020-06/CBAETC_RU.pdf) languages.

maintained for sufficient periods of time, to serve as objective evidence of the assessments and results. There are general steps (see figure 2 below) that all exams in a professional qualification should follow.⁶³

- i. **Develop the specifications for the exam:** exams need to be properly planned to ensure that aspiring professional accountants' competence and skill is sufficiently tested in the allowable time. This includes planning for sufficient coverage of key areas, appropriate weighting of topics, and appropriate use of various question types.
- ii. **Determine who will prepare the exam:** for PAO or licensing authority qualification exams an external examiner will likely be selected and contracted. This examiner is required to have extensive subject matter expertise, and will often be an academic (e.g., PhD university professor), but could also be a professional accountant with relevant practical, teaching, and assessment expertise. Having professional accountants and auditors involved in exam development helps ensure that exams are relevant and realistic, thereby increasing the validity of the assessment.
- iii. **Develop the exam:** to demonstrate adherence to the specifications, questions should be mapped to competency statements/learning outcomes, or learning objectives, as well as to the location of content within the course lessons (where applicable). Proficiency or in-depth levels should also be identified. Depending on the program, there may be in the range of 1 to 4 exam offerings in a year, and each session requires a unique exam. Previous exams may be released to students to be used as study tools for future writers – students clearly prefer this approach, but it is costly to create completely new exams each session.
- iv. **Complete review process:** exam reviews check for errors and ambiguity, editorial issues (grammar, wording), cultural bias (to ensure wording is neutral and not confusing) and so on. Various types of reviews are typically undertaken, and any feedback must be cleared before the exam is released. As part of the development and review of the examination by professional committees, the requirements of each question should be checked for validity—to confirm that what the student is expected to demonstrate in terms of outcomes matches the related competency, topic(s), learning objective(s), and level(s) of proficiency or depth.
- v. **Approve exam and prepare for delivery:** Final approval may be through either a formal or informal process. Final formatting and checks are completed, any required sign-offs are obtained, and the exam is securely photocopied or prepared for secure electronic transmission, if the exam is computer-based.

⁶³ https://cfrr.worldbank.org/sites/default/files/2020-11/resources_pages_lq.pdf

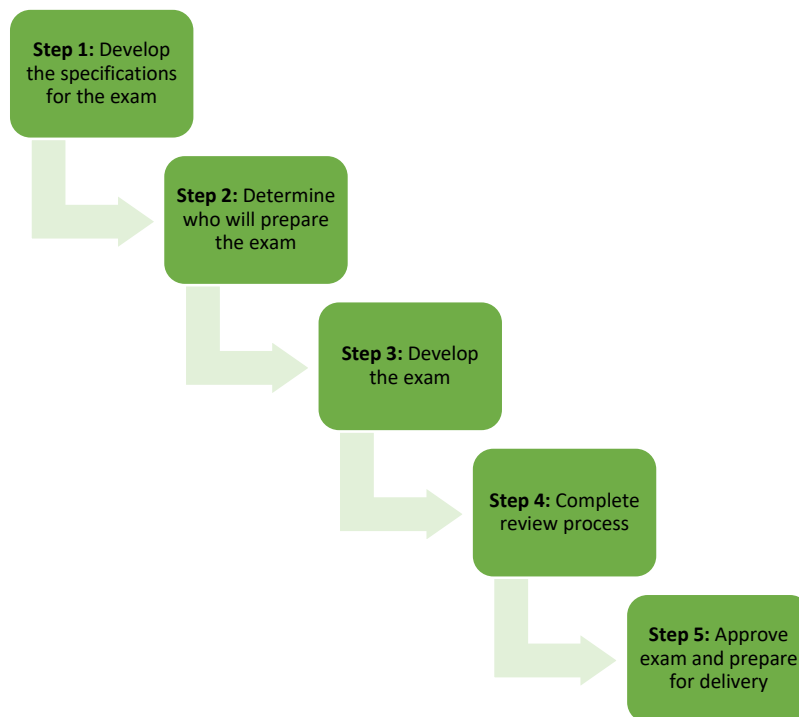


Figure 2: Exam development and administration processes

50. **Practical work experience and assessments.** To qualify for certification as a professional accountant/auditor, all candidates must satisfactorily complete practical work experience and assessments. Specified competencies will generally be met through 36 months of approved work experience under the supervision of a qualified professional accountant. The experience must be acquired in positions that require a well-rounded knowledge of and a high degree of responsibility in an accounting, auditing, financial, or relevant acceptable equivalent position. It is expected that students will be concurrently employed full-time in an appropriate position. As students move to higher tiers of the program, they must be employed in positions of increasing responsibility. This experience provides the opportunity to apply the concepts, skills, and judgmental abilities learned through the program of professional studies. Students' practical experience or portfolios are assessed from time to time, as recommended by IES 5 "Initial professional development –practical experience (2015)". Key features of the experience should allow students to: (i) obtain the required training to function at a high level of professional and technical competence within the workplace; (ii) understand the relationship of their financial role to the functioning of other areas of the business; (iii) develop and practice ethical business practices; (iv) work at progressive levels of responsibility with increased accountability, independence of action, decision making, and problem solving; (v) demonstrate the ability to communicate orally and in writing; (vi) demonstrate strong interpersonal, project management, and supervisory skills; and (vii) actively participate in a professional network. In the EU, aspiring auditors are required to complete a minimum of three years practical training in, inter alia, auditing of annual financial statements, consolidated financial statements, or similar financial statements. At least two thirds of such practical training shall be completed with a registered statutory auditor or an audit firm (approved in accordance with requirements of the Directive 2006/43/EC).

51. **The use of computers in assessments has increased significantly in recent years and accelerated due to the COVID-19 pandemic⁶⁴ in various jurisdictions.** Electronic assessment, on computers or online, can be used to demonstrate a student’s knowledge alongside or to replace a traditional paper-based model. Reasons a PAO or licensing authority may consider moving to increased use of electronic assessment include, but are not limited to:

- Simulation/emulation of real-world skills, competence, and situations. Use of computers allows testing of a broad range of professional skills in addition to knowledge, thereby providing improved coverage of the educational programs. Multi-dimensional simulations and case studies in a computerized environment enhance the ability to assess important skills such as research, communications, the ability to integrate knowledge, and organizational and analytical skills. Permitting candidates to perform calculations, research, and analysis using computer tools allows them to more fully demonstrate their professional skills. It gives candidates a real-world simulation and practical work environment;
- Increased efficiency in delivery. With the ever-expanding and changing body of knowledge, the cost to maintain, deliver, and control access to specific information/permissible examination aids as part of an assessment is becoming prohibitive, unless provided electronically. Printing examinations (and mailing them to test centers where applicable) can be a major expense for testing programs. If an error is found after examinations are printed, they must be reprinted and reshipped at considerable expense. If the test is contained in an electronic file, it can be corrected at any point before the test administration, and it can then be sent electronically at a very little expense. Electronic assessments allow opportunities to take examinations in more test centers and on a timely and frequent basis;
- Increased security. Electronic transmission and encryption of the examination and the candidates’ responses reduce the risk of losing data;
- Increased efficiency in marking and reporting. Immediate scoring and reporting by computer allow faster decision making and reduces response-entry errors.

52. **All professional accountants should be expected to undertake career-long learning and development.**⁶⁵ The IESs, in particular the revised IES 7 *Continuing Professional Development* (2020)⁶⁶, define CPD as learning and development that takes place after initial professional development, and that develops and maintains professional competence to enable professional accountants to continue to perform their roles competently. The standard justifies the need for CPD regardless of the role, industry sector, or size of organization worked in. All professional accountants have an obligation of due care which requires underlying competence and all are subject to public accountability and maintaining public trust. The standard also recognizes, however, that different CPD requirements may be appropriate for professional accountants are on career breaks, such as on parental leave or on a leave due to

⁶⁴ For instance, ACCA introduced On-Demand Computer Based Exam at home during pandemic - <https://www.accaglobal.com/gb/en/student/exam-entry-and-administration/computer-based-exams/on-demand-cbes/remote-on-demand-cbe-info/remote-on-demand-cbe-faqs.html>

⁶⁵ The World Bank Center for Financial Reporting Reform has developed and made available a CPD Guide “Development Programs for Accountants – Implementation Guide”. It seeks to assist professional accountancy organizations, government agencies, and other regulators involved with the critical responsibility of setting, implementing, and enforcing appropriate requirements in the area of CPD for accountants and auditors. The Guide is available at: <https://cfrr.worldbank.org/publications/continuing-professional-development-programs-accountants-implementation-guide>

⁶⁶ The IAESB has developed and made available a set of support materials that provide guidance on the new standard, to increase consistency of understanding, adoption, and implementation of the principles and requirements of IES 7 (2020). These materials are beneficial to both developing and well-developed organizations during initial implementation and ongoing maintenance and monitoring of CPD systems compliant with the standard. These resources are available at: <https://www.ifac.org/publications-resources/ies-7-continuing-professional-development-revised>.

illness. Similarly, professional accountants who are retired but are still using their designation in some capacity may qualify for reduced CPD requirements, commensurate with their reduced roles. There may be a need to implement specific CPD requirements for professional accountants in roles deemed to require specialized competence and/or for roles that are higher risk in terms of public protection. Arguably, this includes the role of an audit engagement partner, IES 8 *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* provides the supporting rationale for this assessment. In the EU, Member States are required by Directive 2006/43/EC to ensure that statutory auditors are required to take part in appropriate programs of continuing education in order to maintain their theoretical knowledge, professional skills, and values at a sufficiently high level; failure to respect the continuing education requirements is subject to appropriate sanctions.

Key issues⁶⁷ related to auditors' qualification and continuing professional development in Kazakhstan

Auditors' qualification in Kazakhstan

- 53. While the recent amendments to the Audit Law aim to unify and strengthen the credibility of the auditors' certification process in Kazakhstan, there is room for further improvement.** Starting July 2021, certification of auditors in Kazakhstan will be organized by the Qualification Commission established by the PAC/KZ, following procedures to be adopted the MOF (certification is currently the responsibility of PAOs/KZ). Under the legal provisions due to be in force from July 2021, functions related to the approval and registration of auditors are split between PAC/KZ (the Qualification Commission is an executive body of the PAC/KZ) and the MOF. The rules related to the establishment and activity of the Qualification Commission and for conducting auditors' certification and CPD are approved by the MOF; members of the Qualification Commission are approved by PAC/KZ; the Qualification Commission should develop and coordinate with PAC/KZ the syllabus for auditor certification, organize the certification process, and issue the qualification certificate. A public register of audit firms and auditors is maintained by MOF, while CPD is monitored by PAOs/KZ. Only MOF has sanctioning power in respect of auditors and audit firms, such as their removal from public registers. Over time, the ultimate responsibility for the oversight of approval (certification) and registration of auditors and audit firms and CPD can be entirely assigned to PAC/KZ for better alignment with good international practice.
- 54. Neither the Audit Law nor the draft bylaws offer clarification on the size of the Qualification Commission.** The Audit Law provides that the Qualification Commission should be of an odd number and must include an equal number of PAOs/KZ⁶⁸ representatives, a representative of MOF, and could also include non-practitioner experts.⁶⁹ Draft Bylaw #115 provides that non-practitioner experts could be attracted by the Commission on a contractual basis, which essentially excludes the possibility of their membership. It is recommended that the bylaw specifies the maximum size of the Qualification Commission to avoid an excessively large number of members; it would be beneficial to clarify if all accredited PAOs/KZ will have a right to nominate a representative for the Qualification Commission or only PAC/KZ founders, and how to deal with a situation if a PAOs/KZ loses its accreditation, does not nominate a

⁶⁷ Key issues are discussed, following the provisions of the Auditing law and draft bylaws, made available to the project team by MOF, i.e. #115 "Rules for the formation and activity of the Qualification Commission for the certification of aspiring auditors", #273 "Rules for conducting auditors' certification" and #278 "Rules for continuing professional development and issuance on confirming certificate".

⁶⁸ As of March 2020, there are six accredited PAOs in Kazakhstan.

⁶⁹ Defined as individual, who is not an owner or an employee of audit organization and not being in civil law relationship with it not less than one year prior to appointment with the bodies of the professional council.

representative, or if a new professional auditing organization becomes accredited. In addition, the role and nomination process of non-practitioner experts should be clarified. The bylaw will also benefit if key functions and responsibilities of the Chair, Deputy Chair, Secretary, and members of the Qualification Commission are clearly and explicitly stated.

55. **Currently no nomination and/or qualification criteria for members of the Qualification Commission are prescribed.** The only existing legal requirements on nomination/qualification criteria refer to the Chair of the Qualification Commission (to be elected from nominated members): she/he should be an auditor with minimum 5 years of experience in the field of audit and not held accountable for committing a corruption offense (this requirement is not extended to members). It is recommended that the minimum requirements in terms of work experience and lack of corruption offenses is extended to all members. In addition, the authorities should ensure that members of the Qualification Commission are knowledgeable and possess sufficient expertise in all areas covered by the syllabus, i.e. IFRS, ISA, financial and management accounting, taxation and law, financial management, etc. Qualification and eligibility requirements for members of the Qualification Commission could be similar to those recommended for the Board Members of PAC/KZ (see Annex D of the June 2020 Preliminary JERP Report), including that they: enjoy full civil rights; have an impeccable reputation; have not been sentenced by legally valid verdict for intentionally committed crime against property, or tax or economic crime that has not yet been expunged from the record; have completed higher education in the field of economics, finance, legal, tax, or other relevant field; possess authority, knowledge, and significant experience in relation to audit which provides a guarantee for the proper execution of tasks; are fluent in the Kazakh and Russian languages and, preferably also the English language.
56. **It appears that proposed bylaws give the MOF representative on the Qualification Commission additional rights and authority not specified by the Audit Law.** For instance, the Qualification Commission is required no later than five working days before the date of the meeting to notify the representative of the MOF about the place and time of the meeting of the Commission (p.18, draft bylaw #115); during the examination the MOF representative has the authority to submit written comments to the Chair, and the Commission shall immediately consider these comments and, if necessary, take measures to address them (p.17, draft bylaw #115); and coding and encoding of exam papers is by default performed by the MOF representative (p.19-20, draft bylaw #273).
57. **A process is needed to ensure the efficient transfer of information between the MOF, which maintains the public register of auditors, and PAC/KZ, which awards the qualification.** Draft bylaw #115 (p.16) provides that the representative of the MOF assigns the number of qualification certificates on the basis of information from the public register of auditors. From July 2021, there will be a single Qualification Commission⁷⁰ established by the PAC/KZ. It should therefore be possible for the MOF to periodically transmit to PAC/KZ and its Qualification Commission the range of individual numbers to be assigned. The draft bylaw also requires the Qualification Commission to submit to the MOF the minutes of Qualification Commission meetings, including details of the assigned number of the qualification certificate and notarized copies of documents for each holder of the certificate within 15 working days. Since PAC/KZ is chaired by a MOF representative and its Qualification Commission is responsible for the certification process it should be possible to reduce this administrative burden and avoid providing MOF with notarized copies of documents for each holder of the certificate. If the legal framework allows, a memorandum of understanding could be signed

⁷⁰ Article 14 of the recently amended Audit law in force from July 2021. Currently, each PAOs/KZ is in right to establish a Qualification Commission.

between PAC/KZ and MOF to ensure that there is proper access to information. In the medium term, maintaining the public register should become the responsibility of the PAC/KZ, either in-house or by other institutions with PAC/KZ oversight (for example, in some jurisdictions the maintenance of auditors' register is delegated to PAOs).

58. **The design of the certification program for auditors is not legally required to follow IES provisions.** The Audit Law provides that the certification program for aspiring auditors should be aligned to IFRS, ISA, and existing national legal framework; in addition to these provisions, draft bylaw #273 (p.6) lists the examinable disciplines: IFRS-based financial accounting and reporting, management accounting, finance and financial management, taxation, corporate law, ethics, audit. There are no references to IESs, learning objectives, learning outcomes, or proficiency levels. It is recommended that either bylaw #115 or #273 include minimum requirements to be covered by the certification program for auditors, to be developed by the Qualification Commission and approved by PAC/KZ. For instance, the bylaw could require that the certification program is aligned to IESs and covers at least the following areas: (i) a **skills matrix** that shows what skills are developed as aspiring auditors progress through the qualification; (ii) a **framework** that describes the levels of the qualification and details how aspiring auditors are able to progress in their studies in terms of both knowledge and skills. Introducing at least two levels for the qualification will allow PAC/KZ and the Qualification Commission to improve cooperation with local universities and to offer exemptions for graduates of universities where the syllabus is accredited (recognized) by the Qualification Commission; and (iii) a **detailed syllabus** for each examinable discipline that identifies the subject content and how the abilities of aspiring auditors are achieved in terms of competencies.
59. **A competency framework should serve as a basis for evaluating and granting credit or exemptions for prior studies and work experience for mature students and career-changers wishing to enter the qualification program of auditors.** Currently, draft bylaw #273 provides a list of professional qualification certificates, issued by various PAOs around the world, holders of which are exempted from several exams. Good international practices encourage exemptions, but these should be based on detailed exemption rules and conditions developed by the Qualification Commission and approved by PAC/KZ. For instance, it would be recommended to provide exemptions only to active holders of qualification certificates (i.e. people subject to annual CPD requirements), issued by internationally recognized PAOs or other countries' authorities responsible for the registration/licensing of auditors. In addition, it is recommended that exemptions for the professional qualification of accountants provided by local PAOs are granted only as result of an accreditation process of their syllabus and examinations through an examination and assessment process by PAC/KZ. For example, the IESBA Code of Ethics only became mandatory in Kazakhstan from November 2020; therefore, it would not be recommended to provide exemptions where the exam on ethics is/was based on a different framework. In some jurisdictions, providers of professional qualifications (either PAOs⁷¹ or the competent/licensing authority) have introduced a university accreditation model to allow students of accredited universities to receive exam exemptions on successful completion of specific university courses. The model requires that accredited universities support the development of competences of students by adhering to good practices, such as actively engaging students through collaboration and learner-centric approaches. In this model, at the knowledge topic level, university courses are required to demonstrate adequate coverage of the required topics in their courses before receiving exemptions.

⁷¹ ACCA's experience could be consulted following the link: <https://www.accaglobal.com/gb/en/learning-provider/learningproviders-exemptions.html>

60. **The draft bylaws could expand and clarify the key requirements related to the exam development and administration process.** The Qualification Commission is required to establish a review, organization and marking groups however, from the provisions of draft bylaw #115, p.18, it is not clear if these groups should comprise members of the Commission or external selected professionals (non-practitioners). In case of hiring non-practitioners (as defined by the Audit law), their role and functions should be explicitly defined. A detailed syllabus in respect of each examined discipline should be supported by a valid and reliable assessment approach. Such an approach will ensure that the skills framework is achieved and demonstrated through student assessments, following the provisions of IES 6 *Initial professional development – assessment of professional competence* (2015).⁷² A clear link between learning and achievement demonstrated in the examinations will ensure that the process of qualifying as an auditor in Kazakhstan is as transparent as possible. While setting the legal requirements for development, review, and approval of the examination papers the following aspects could be considered by the authorities:⁷³

- *Consistency in case and scoring grid development* – cases and scoring grids are carefully constructed and adequately reviewed; cases are regularly pre-tested (trial sit) with a small group of recently-qualified auditors to ensure that the instructions and expectations are clear and reasonable (confidentiality agreements must be signed by pre-testers);
- *Consistency in marking* – scoring grids must support inter-rater reliability, and the marking leader must have all markers assess the same paper at least periodically (double marking) to ensure consistency is achieved and maintained. Individual markers are also evaluated for consistency through an auditing process (e.g., checking for drift – becoming systematically more lenient or strict, and for general adherence to the scoring grid);
- *Appropriate standard setting* – proficiency levels must be interpreted in the context of the exam and the requirements to be demonstrated by a minimally-competent candidate must be clearly defined;
- *Involvement of appropriate individuals* – administrators, case authors, markers, and those setting the cut scores need to be diverse, knowledgeable, realistic, and unbiased.

61. **The proposed passing standard is aligned with good practices, however the provision to mark the entire paper as unsatisfactory where one question is not solved (i.e. one question is left completely blank) appears to be too stringent.** It is recommended that the requirement in draft bylaw #273 (p.23-1) that if one question is not solved at all the entire paper should be marked as unsatisfactory, regardless of the result on other questions of the exam, is abolished as it does not align good international practice and IES provisions. The current passing rate is 75% which is already higher than the passing standard established by PAOs or licensing authorities in many jurisdictions, where the percentage may often be 50%; consequently, it would not be recommended to penalize the students for not solving one question.

62. **PAC/KZ and the Qualification Commission might consider moving to an electronic examination process in the medium-term, subject to a preliminary analysis of cost**

⁷² The IAESB has developed and made available a set of support materials that provide guidance to increase consistency of understanding, adoption, and implementation of the principles and requirements of IES 6. These resources are available at: <https://education.ifac.org/part/ies-6>, including Russian translation of the Information Paper – Preparation and organization of written examinations available at: <https://education.ifac.org/files/iaesb-written-examinations%20-russian%20translation.pdf>

⁷³ Sample education and assessment materials are provided in the part 4 of the Competency-based Accounting Education and Assessment Materials: Implementation Guide, available following the link – https://cfrr.worldbank.org/sites/default/files/2020-11/resources_pages_lq.pdf

implications. Such costs will be a function of the nature and extent of the application of an electronic process determined by the Qualification Commission and will reflect the combination of hardware, custom software, and processes adopted to develop and deliver electronic examinations in accordance with proposed objectives and the required security, control, and integrity. The PAC/KZ and Qualification Commission should consider costs including: custom software development, or licensing fees for such a software available on the market; hardware costs; technical support and maintenance costs; the increase in administrative costs associated with the delivery and supervision of electronic examinations in a controlled environment; and other relevant costs. Among other models, the following options for the provision of electronic examinations could be analyzed by the PAC/KZ, the Qualification Commission, and other key actors involved in the certification process:

- **Use of a third party.** Delivery of the examination is outsourced to an examination provider that operates a network of writing centers or learning centers for good geographical coverage. Candidates would attend one of the writing center offices at a prescribed time (or within a prescribed period of time) to sit the examination. PAC/KZ and the Qualification Commission may wish to rely on the third-party provider for hardware, software, and security while retaining the responsibility for developing the examination, its marking, and the reporting of results. The Qualification Commission would work with the outsourced examination provider to ensure that all aspects of security, control, and integrity of the examination and the examination process are maintained.
- **Delivered directly.** Delivery of the examination is managed directly using writing centers organized by the PAC/KZ and Qualification Commission for the purpose of administering the examination, for example using university classrooms. Candidates may use either a computer provided at the writing center or a computer brought to the center by the candidate. In either case, the computer may be limited by custom software to only those features, applications, and functions allowed by the Qualification Commission. The Qualification Commission should assume responsibility for all aspects of hardware, software, and security.

63. **Currently, there are no requirements for practical work experience assessment.** Draft bylaw #273 only provides that all aspiring auditors should have minimum 3 years practical economic, finance, legal, or control and auditing work experience or teaching accounting and auditing in universities. This practical experience should be demonstrated as a mandatory requirement for admission to the professional qualification. Good practices⁷⁴ recommend that specified competencies will generally be met through 36 months of approved work experience, under the supervision of a qualified professional accountant (auditor). The role of the supervisor is to help the aspiring auditor to plan, to record progress, and to decide when performance objectives are met. Practical experience as required by IES 5 *Initial professional development – practical experience* (2015) may be obtained concurrent with a program of study, after the program of study, or by some combination of these methods as long as the quality meets IES 5 provisions. It is recommended that the bylaw introduces minimum practical experience requirements for aspiring auditors, to be enforced by PAC/KZ and the Qualification Commission, before the qualification certificate is issued:

- Practical experience must be appropriately supervised by a qualified professional accountant (auditor);
- Aspiring auditors should record detailed reports on gained practical experience at regular intervals;

⁷⁴ Examples in respect of practical experience requirements and monitoring are available at following the links: <https://www.accaglobal.com/gb/en/affiliates/completing-your-per.html> and <https://www.cpacanada.ca/en/become-a-cpa/cpa-designation-practical-experience-requirements-overview>

- Aspiring auditors should meet and discuss their progress at least semi-annually with a qualified professional accountant (auditor) mentor;
 - Practical experience should be assessed by a qualified professional accountant (auditor).
64. **It is recommended that exams results are reported by the Qualification Commission to PAC/KZ.** An important element of this reporting will be a discussion of the examiner's confidential report on the performance of students in the examination and it should highlight any areas of strength and weakness. The examiner of each discipline should prepare a report covering the following minimum aspects: examination name and session; number of candidates; statistical analysis per question, average mark and standard deviation; statistical analysis per paper, average mark and standard deviation; pass rate; evaluation of student performance including identification of student weakness and strengths for each question and for the paper as a whole; evaluation of the paper, including problematic areas that were unclear, too difficult, or too loaded for students to complete; any issues arising during the marking process. Some parts of the examiner's report could be published on the PAC/KZ website, subject to the compliance of information confidentiality requirements.
65. **A proposed outline of examination rules could be considered by the authorities.** To ensure that key aspects, including those discussed above, are properly considered and enforced, it is recommended that the bylaw should specify the structure of the examination rules, to be developed and approved by the Qualification Commission (p.12 draft bylaw #273). It could cover but not be limited to the outline proposed in Annex B.

Continuing professional development

66. **CPD requirements for auditors are to be regulated by a bylaw, approved by the MOF.** Draft bylaw #278 provides that CPD training for auditors and CPD monitoring is performed by PAOs/KZ (for their members-auditors respectively). Auditors are required to demonstrate 40 hours annually of learning, covering various theoretical and practical areas related to IFRS, ISAs, and other topics related to examinable disciplines while obtaining the auditor's qualification (p.3-3, draft bylaw #278). Of the 40 hours, at least 21 hours should be verified by a certificate, issued by PAOs/KZ or by another authorized training institution. A few aspects, discussed below, could help authorities to improve CPD requirements to ensure a better alignment to IESs and to good international practice.
67. **Topics for CPD should be relevant to the profession and contribute to reduce gaps, identified as a result of quality assurance inspections or financial statement monitoring, performed by various authorities and bodies.** It seems that topics for CPD training are approved exclusively by PAOs/KZ; there are no legal provisions to coordinate the annual CPD program with PAC/KZ. According to good international practices, topics relevant for CPD would include technical areas related to the professional accountant's current employment, as well as areas that may be chosen to pursue career advancement or a change in role. They also include the fundamental professional skills, values, ethics, and attitudes that are expected of all professional accountants. Coordinating the annual CPD training program with PAC/KZ and its Quality Assurance Committee would ensure that major gaps are addressed. In addition, PAOs/KZ could consult other key regulators, such as MOF, the Kazakhstan Stock Exchange, and the National Bank of Kazakhstan to ensure that their expectations in respect of auditors' experience and knowledge of the respective markets are considered. CPD program priorities should include key elements as shown in figure 3 below.

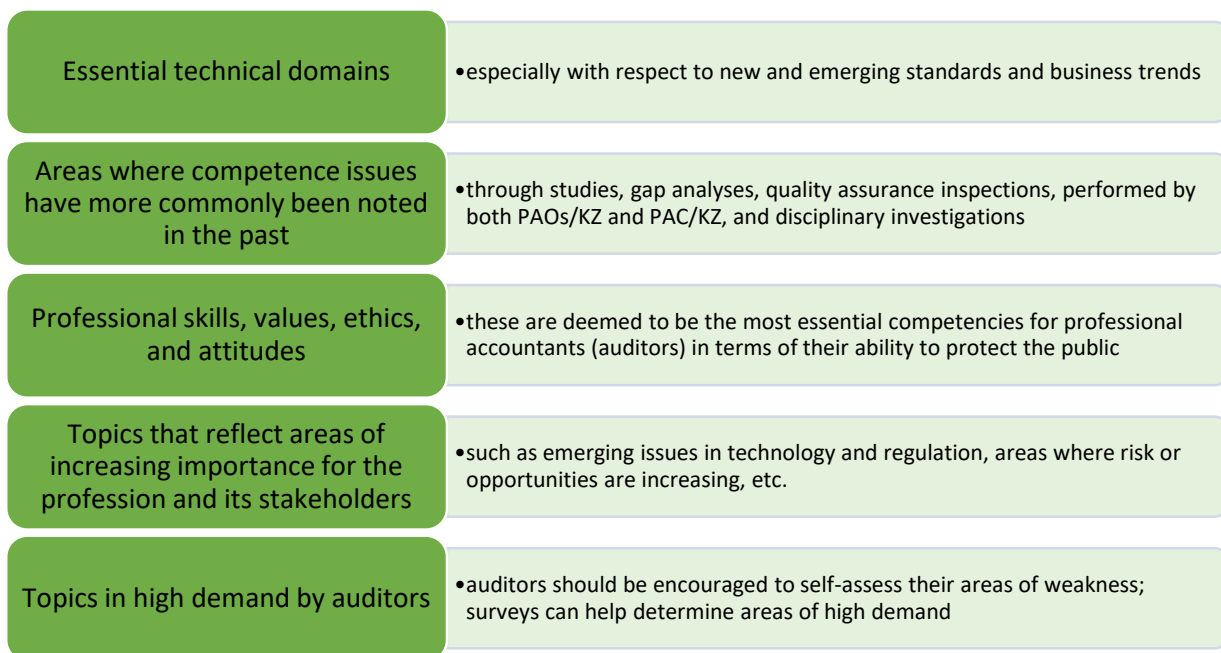


Figure 3: CPD program priorities

68. **It appears that there are no sanctions imposed on auditors for non-compliance with CPD requirements.** While encouraging compliance is essential, sanctioning for non-compliance is also necessary to ensure that the CPD requirements are taken seriously by auditors. Where relevant, additional time could be provided to ensure compliance, before sanctioning (IES 7 (2020) recognizes that the public is best served by bringing non-compliant professional accountants (auditors) into compliance on a timely basis). Sanctions should strongly motivate compliance without being excessively punitive. Willful disregard on the part of a member may justify disciplinary action; depending on the legal authority, the appropriate disciplinary action for willfully failing to comply with CPD requirements may include expulsion from membership. In addition, proper classification of a breach as an administrative or full disciplinary matter should also be analyzed by authorities. For example, first-time offense could result in a requirement to improve conduct and a small fine, whereas repeat offenders trigger more formal disciplinary process with potential for more significant consequences. Appropriate discipline may include the following mix of remediation and punitive sanctions: requirement to promptly make up the shortfall; requirement to take prescribed courses; reprimand placed in an auditor-member’s file; public naming of the non-compliant auditor; fine; limit on practicing rights; suspension; or even expulsion/cancellation of membership. In addition, clarification is recommended of when non-compliance with CPD requirements, included in bylaw #278, would result in exclusion from the public register of auditors maintained by the MOF.
69. **Liaison with quality assurance processes could be improved.** PAOs/KZ should be required to ensure coordination between their CPD monitoring and enforcement system and their quality assurance processes. For example, quality assurance inspections can include a review of CPD compliance in conjunction with ISQC 1 where appropriate. Inspection results may indicate competence gaps of audit firm-members and auditors. When there are identified competency failings, there should be an ability to impose additional CPD requirements. Specific quality assurance inspection results that indicate failings in competence should result in increased CPD as remedial action. More broadly, quality assurance inspection results should inform CPD policies (e.g., common weaknesses could lead to more emphasis on offerings or

requirements). In addition, as mentioned above, coordination of the annual CPD training program with PAC/KZ and other key regulators that interact with PIEs' auditors would ensure that major gaps are properly addressed.

70. **Use of technology for CPD declarations, monitoring, and assessment is encouraged.** PAO/KZ could be encouraged to use its online presence more effectively on CPD. They may be required to make more detailed information on the entire CPD process available on their website. Auditors will benefit from an ability to create a profile on the PAOs/KZ website and have access to all relevant information regarding their CPD progress. Courses provided by PAOs/KZ would automatically be included in the total number of completed CPD hours. Auditors should be able to verify their CPD hours by filling an online questionnaire. Bylaw #278 could also discuss the possibility of delivering online CPD courses and assessments by PAOs/KZ, as these could facilitate further improvement of the quality of CPD courses.

ANNEX A [Confidential]: Quality assurance methodology – key areas

ANNEX B: Proposed outline for the examination rules

Examination rules should be developed and approved by the Qualification Commission in accordance with the requirements of p.12 of draft Bylaw #273 - Rules for Conducting Auditors' Certification.

I. Approval of candidates

- applications to undertake the examination;
- approval to undertake the examination;
- examination instructions for candidates;
- anonymity;
- candidates with special needs.

II. Development, review, and approval of the examination papers

- responsibilities of the examiner;
- skills development and learning outcomes;
- learning outcomes, syllabus mappings, and assessment criteria mappings;
- assessment criteria;
- questions and solutions;
- due process for ensuring translation into the official language of the exam papers;
- learning materials (if applicable);
- competence;
- review and authorization;
- standards and style requirements;
- timetable.

III. Examinations approval

- review and approval of draft exam papers (cases);
- pilot testing;
- confidentiality.

IV. Arrangements for the examination

- selecting the writing center (including aspects where writing centers are situated in different locations in Kazakhstan);
- storing the materials;
- duties of the writing center supervisors;
- security issues during the examination;
- announcements;
- emergency procedures;
- dealing with suspected errors on the examination;
- misconduct during the examination;
- illness of candidates;
- collection of the examinations; and
- return of materials from the writing center.

V. Security of the examinations

- security and confidentiality of the examination paper;
- contingency plans for overcoming security breaches or disasters;
- printing and distribution of hardcopy examinations;
- electronic distribution of the examination.

VI. Marking

- marking guide;
- selection of markers;
- marker training;
- key examiner responsibilities with respect to marking;
- reporting.

VII. Release of results and appeals

- notification procedures;
- appeals;
- performance appraisal reviews;
- publication of results, examinations, and solutions;
- permanent records and retention policy.

ANNEX C [Confidential]: Quality assurance methodology – key in