

Building a strong and sustainable accounting and auditing profession in Moldova



STAREP is supported with funding provided in part by European Union, Austria's Federal Ministry of Finance, Austrian Development Cooperation, Luxembourg's Ministry of Finance, SECO - State Secretariat for Economic Affairs

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10 March 2017



Objectives

- » Understand what a Professional Accounting Organization (PAO) is and how it can strengthen the profession
- » Understand how professional accountants and auditors contribute to an improved business climate
- » Understand options for how the profession can be organized in Moldova to optimize strength and sustainability



Introduction

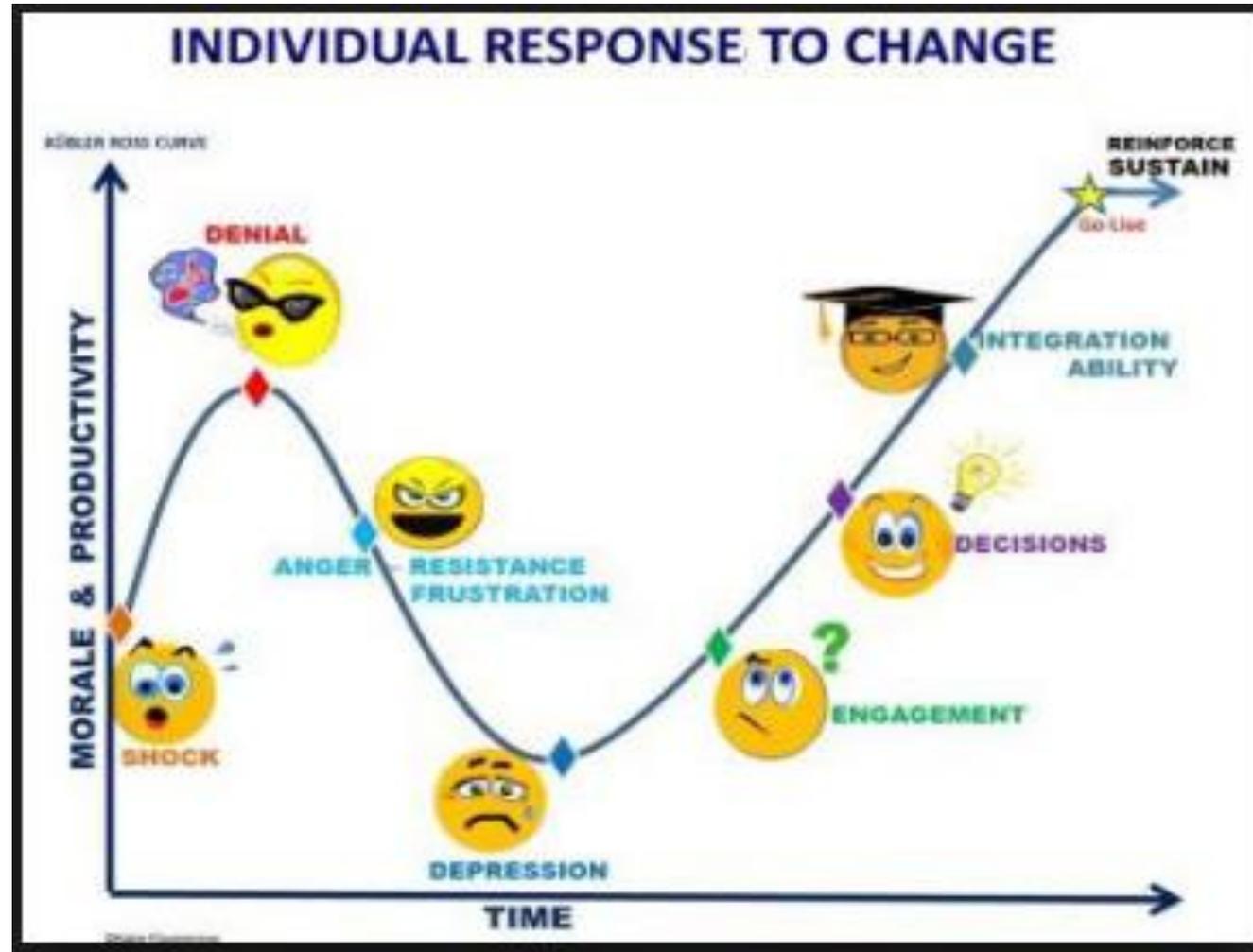
- » Moldova is developing and strengthening policy aimed at improving the quality of financial reporting by all sectors of the economy
- » To effect sustained change in the financial reporting system three interrelated components must be improved:
 - » Financial reporting and auditing frameworks
 - » Implementation capacity (i.e. capacity to comply)
 - » Enforcement capacity
- » Real improvement in the financial reporting system will be limited in the absence of a strong, well managed and sustainable accounting and auditing professional body



Ask yourself as you're listening...

- » Are professional bodies in Moldova fragmenting the profession or providing healthy competition?
- » The types of activities necessary to improve the profession in the various areas discussed, best done by a unified PAO or not?
- » Improved integration of the profession into the overall economy in Moldova, effectively done by separate bodies or better unified?

The only constant is change.....





What is a PAO?

» *“Professional Accounting Organizations (PAOs) are membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians who perform a variety of roles in the accountancy field and adhere to high-quality standards of practice”*

(September 2014 Professional Accountancy Development Committee Fact Sheet)

Profession = Professional Accountants + PAOs

| Professional Accountants | PAOs |
|---|---|
| Become qualified | Education programs Assess competence |
| Enter profession: -Public practice (compliance services and business advisory) -Employed or contracted in Business (and other sectors) -Become academics | Authorize individuals/firms to practice in public Raise awareness of the value of qualification |
| Agree to comply with a Code of Ethics and other requirements | Issue a Code of Ethics |
| Provide services and maintain competence | Undertake quality assurance activities Provide continuing education Enforcement of Code of Ethics and other professional requirements |

A strong and sustainable profession is well integrated domestically





A strong and sustainable profession is well integrated internationally

- » Relationships/Memberships of note that may help:
 - » International Federation of Accountants
 - » Regional Accountancy Bodies (i.e. Accountancy Europe, European Federation of Accountants and Auditors for SMEs)
 - » Leading Accounting PAOs (ICAEW, ICAS etc. etc.)
 - » International Standard Setters for Financial Reporting and Audit
 - » Forums for Independent Audit Regulation

The international PAO community

» PAOs can join an international community through membership of the International Federation of Accountants (IFAC)

» Membership criteria outlined in the Bylaws of IFAC

- 1.1 Member status shall be open to Professional Accountancy Organizations (“PAO”s) that meet the following criteria:
 - a. the PAO is acknowledged, either by legal decree or by general consensus, as being a national PAO in good standing in the jurisdiction in which it operates. In case of acknowledgement of the foregoing by general consensus, evidence shall exist that such PAO has the support of the public and other key stakeholders;
 - b. the PAO supports the mission of IFAC;
 - c. the PAO fulfills the requirements specified in the Statements of Membership Obligations (“SMO”s) approved by the Board, and demonstrates evidence of compliance as required by the Member Compliance Program;
 - d. the PAO demonstrates capacity to actively participate in the Member Compliance Program;
 - e. the PAO is financially and operationally viable, and has an appropriate governance structure;
 - f. the PAO has an internal operating structure that provides for the support and regulation of its members;
 - g. the PAO has the financial capacity to make the Member contributions determined in accordance with the basis of assessment approved by the Council, and makes such contributions; and
 - h. the PAO abides by the relevant provisions of the Constitution and Bylaws.

Strong, effective PAOs can make a significant contribution

» The World Bank believes PAOs have an important role to play in developing quality financial information that enhances the public trust and creates a business climate conducive to sustained economic growth

Strong, effective PAOs:

- act in the public interest and are integral to the delivery of public value globally as proponents of good corporate governance and appliers of consistent global standards;
- develop and produce capable and competent accountancy professionals through education, certification, and continuing professional development programs;
- promote strong professional and ethical standards through adoption and implementation of international standards and best practices—PAOs set the bar for behavior and practice of accountancy professionals, thereby enhancing public trust in the quality of their work;
- further the quality of financial reporting through review, investigation, and discipline of professionals—well-functioning systems not only strengthen professional behavior but also educate and reinforce best practices, thus improving the quality of information and advancing the profession; and
- act as a resource to government, regulators, and other stakeholders at the individual country and regional levels, with sound public policy guidance and advice on accountancy related topics.

(September 2014 Professional Accountancy Organization Development Committee Fact Sheet)

An international framework supports PAOs as productive partners in regulation

» PAOs that work toward compliance with IFAC's Statements of Membership Obligations (SMOs) and focus on developing their capacity provide Governments with more regulatory options





IFAC's Statements of Member Obligations (SMOs)

- » Essentially outline the key functions of PAOs
- » There are 7:
 - » SMO 1: Quality Assurance
 - » SMO 2: International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB
 - » SMO 3: International Standards and Other Pronouncements Issued by the IAASB
 - » SMO 4: IESBA *Code of Ethics for Professional Accountants*
 - » SMO 5: International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB
 - » SMO 6: Investigation and Discipline
 - » SMO 7: International Financial reporting Standards and Other Pronouncements issued by the IASB



IFAC's Statements of Member Obligations (SMOs) (Continued...)

- » PAO obligations depend on responsibilities under national legal system
- » Obligation is to implement requirements of SMOs when responsible or use best endeavors to encourage implementation by responsible party and assist in implementation.



Other Key Talking Points

- » The profession in a market economy
 - » Market recognition of a credential that embodies quality and value differential and attractiveness as a career path
 - » Governance and Strategy
 - » Consolidation and Scale
- » The regulation of the profession
 - » Audit oversight: The role of the PAO in the European context



Market recognition of a credential that embodies a quality and value differential

- » Professionalism and public interest is the foundation: but don't lose sight of the key fundamentals in the profession's "business model" that support sustainability
- » The qualification and designation
 - » What opportunities exist to strengthen the "brand" of the profession in Moldova?
- » Youth program
 - » How do you work with under-graduates to engage them in the profession?
- » Pathways to membership
 - » Opportunities for accounting technician?
- » Specializations
 - » Are there "special interest groups" in the profession that may pay for increased recognition as a specialist?

The profession in a market economy: Key points on good governance

| | |
|-----------|--|
| Members | <ul style="list-style-type: none">• Represented by Council• Entitled to attend and vote at AGM• Empowered to call a SGM |
| Council | <ul style="list-style-type: none">• Elected by members, may include appointments to retain accountability as a public interest body• Should represent a range of membership• Should not be too large, members have fixed terms but staged exits to ensure continuity• Approve the strategic plan, policies and budget |
| President | <ul style="list-style-type: none">• Selected by members or the Council to head Council• Represents the profession, should be aware of current issues and developments• Works closely with and oversees CEO/management work |

The profession in a market economy: Key points on good governance (cont....)

Committee Structure

- Good for member engagement and accessing resources at low cost
- Can be time consuming (preparation) and costly (e.g. travel)
- Can be a significant effort to gain consensus
- It is important that the CEO establishes that service to a committee is a privilege and not a right
- Initial committees likely to include:
 - Admission and Membership
 - Education, Training and Certification
 - Technical
 - Investigations and Discipline
- Downstream committees may include:
 - Audit committee
 - Nominations committee
 - Remuneration committee
 - Quality assurance committee

The profession in a market economy: Governance (CAPA Maturity Model)

Governance - Adhering to principles of good governance, including, where applicable, oversight mechanisms by which the PAO is directed, monitored and controlled.

| Aspect | 1 | 2 | 3 | 4 | 5 |
|------------------------------------|---|---|--|--|--|
| Constitution or charter | No formal constitution or charter | Informal governance documentation | Established governance documentation, example , constitution, by-laws, policies and procedures | Effective and complete governance documentation | Comprehensive framework, including ongoing review and self-assessment |
| Leadership or corporate governance | No established leadership or governance structure | Voluntary leadership with limited corporate governance administration | Established council or board Key stakeholders involved Leadership continuity and succession planning considered Established and effective secretariat | Separation of governance and management roles and accountabilities | Clear understanding of the distinction between volunteer and secretariat roles Effective review, performance monitoring and performance development in place Independent, public members involved in boards and committees |
| Member involvement | No membership structure or involvement | Limited member involvement beyond voluntary leadership | Members involved in representation, with formal nomination, reappointment and election procedures Members contribute to strategic development | Extensive committee structure with formal Terms of Reference | Board and committee performance review structure in place |
| Reporting | No annual reporting | Limited reporting, including financials | Formal reporting, including audited financial statements | Detailed financial and non-financial performance reporting | Formal audit and risk committee structure |



The profession in a market economy: Governance

» Final thoughts on Governance

- » Development and governance of the strategic plan is one of the most critical aspects of building and sustaining a strong accounting and auditing profession
- » Look out for conflicts of interest in those undertaking a governance role
- » There are many resources available, for example look at IFAC's "Establishing and Developing a Professional Accounting Body (2009)"



The profession in a market economy: Strategy

- » Highlights of Australasia's new strategy:
 - » Self-regulation no longer as centric; education, advocacy and services now more centric
 - » More investment in advocacy and thought leadership as it supports better market understanding of the brand
 - » Big investment in education platforms as the 'learning experience' changes
 - » Providing relevant membership services where members are located
 - » Entry pathways and specializations to improve scale

The profession in a market economy: Consolidation and scale

- » New Zealand a trans-national merger
 - » Membership: One body of 33,000 combined with one of 74,000 to create a new body with 107,000 professional accountants
 - » Designation: No change, remained CA
 - » Qualification: No change, already collaborating on the CA Program
- » Canada a “unification”
 - » Membership: 4 bodies of +/- 42,500 to one body of 200,000+ professional accountants
 - » Designation: Changed to CPA from CA/CMA/CGA
 - » Qualification: New certification program
- » What’s driving these?
 - » Pre-eminence, Relevance and Reach
- » Competition vs consolidation

The EU Acquis Communautaire: Establishing the pillars of public oversight

27.5.2014 **EN** Official Journal of the European Union L 158/77

REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 16 April 2014
on specific requirements regarding statutory audit of public-interest entities and repealing
Commission Decision 2005/909/EC
 (Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee ⁽¹⁾,

Acting in accordance with the ordinary legislative procedure ⁽²⁾,

Whereas:

- (1) Statutory auditors and audit firms are entrusted by law to conduct statutory audits of public-interest entities 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 audits 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) Union legislation requires that the financial statements, comprising annual financial statements or consolidated financial statements, of credit institutions, insurance undertakings, issuers of securities admitted to trading on a regulated market, payment institutions, undertakings for collective investment in transferable securities (UCITS), electronic money institutions and alternative investment funds be audited by one or more persons entitled to carry out such audits in accordance with Union law, namely: Article 1(1) of Council Directive 86/635/EEC ⁽³⁾, Article 1(1) of Council Directive 91/674/EEC ⁽⁴⁾, Article 4(d) of Directive 2004/109/EC of the European Parliament and of the Council ⁽⁵⁾, Article 15(2) of Directive 2007/64/EC of the European Parliament and of the Council ⁽⁶⁾, Article 73 of Directive 2009/65/EC of the European Parliament and of the Council ⁽⁷⁾, Article 3(1) of

⁽¹⁾ OJ L 91, 29.6.2012, p. 61.
⁽²⁾ Position of the European Parliament of 3 April 2014 (not yet published in the Official Journal) and decision of the Council of 14 April 2014.
⁽³⁾ Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (OJ L 372, 31.12.1986, p. 1).
⁽⁴⁾ Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (OJ L 374, 31.12.1991, p. 7).
⁽⁵⁾ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).
⁽⁶⁾ Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2004/68/EC and repealing Directive 97/5/EC (OJ L 318, 5.12.2007, p. 1).
⁽⁷⁾ Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 202, 17.11.2009, p. 32).

2006L0043 — EN — 16.06.2014 — 003 001 — 1

This document is meant purely as a documentation tool and the institutions do not assume any liability for its contents.

► **B** DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
 of 17 May 2006
 on statutory audit of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC
 (Text with EEA relevance)
 (OJ L 157, 9.6.2006, p. 87)

Amended by:

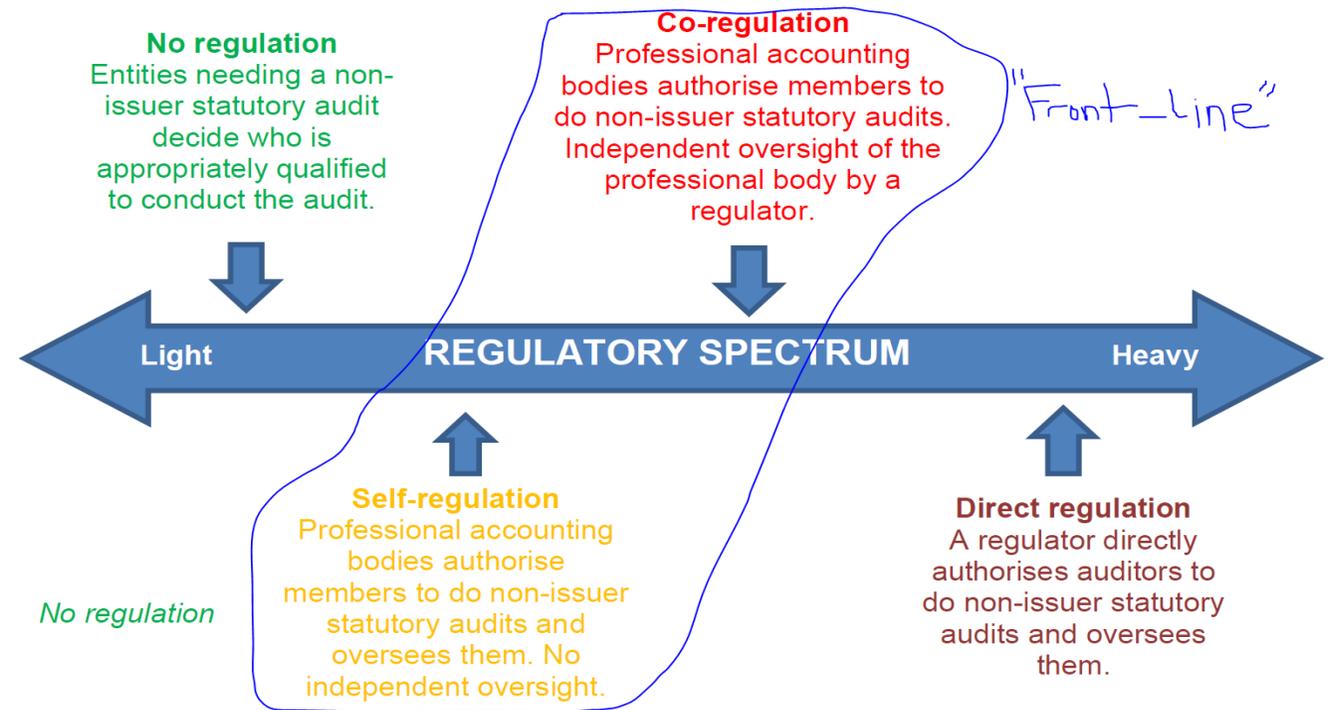
| | Official Journal | | |
|---|------------------|------|-----------|
| | No | page | date |
| ► M1 Directive 2005/30/EC of the European Parliament and of the Council of 11 March 2005 | L 81 | 53 | 20.3.2005 |
| ► M2 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 | L 182 | 19 | 29.4.2013 |
| ► M3 Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 | L 158 | 196 | 27.5.2014 |

Delegation of oversight tasks to PAOs: Summary

| OVERSIGHT OF | non PIEs | PIEs |
|---|------------------|--|
| Approval and registration of statutory auditors and audit firms | may be delegated | may be delegated |
| Adoption of relevant standards | may be delegated | may be delegated |
| Continuing education | may be delegated | may be delegated |
| Quality assurance system | may be delegated | may NOT be delegated |
| Investigative and administrative disciplinary system | may be delegated | Member States are provided with an option to delegate the tasks related to sanctions and measures, but only to a body independent from the profession ⁸ . |

The regulation of the profession: What are the benefits to Government of a strong PAO in audit regulation?

- » Provides regulatory options
- » The costs and benefits vary across the regulatory spectrum



(Regulatory impact Statement: Restricted areas of statutory audit work. New Zealand Ministry of Business, Innovation and Employment)



The regulation of the profession: What are the key challenges to a co-regulatory approach?

- » Benefits are optimized when underpinned by a solid relationship between the Oversight Body and the PAO, but the costs are exacerbated when the relationship does not function
- » Balances the cost of regulation
- » For PAOs: Comes with reputation risk

Approval and registration of statutory auditors and audit firms

| Key requirements (i.e. what Member States need to do) | Potential for PAO involvement |
|--|--|
| <p>Establish requirements, consistent with the Directive, to be authorized as a statutory auditor or audit firm, the conditions that may apply to the authorization and the term of the approval. (Assigned in law or delegated to the Oversight Body to set regulations)</p> | <p>Consultation</p> |
| <p>Where PAOs to be involved: Establish legal mechanisms to provide for PAO involvement If using an accreditation approach: Establish the accreditation process expressly in law, delegation to the oversight body to set minimum requirements to achieve accreditation</p> | <p>PAO seeks accreditation</p> |
| <p>Qualifying auditors and audit firms are authorized to perform statutory audits</p> | <p>Assess auditors and audit firms and authorize (both PIEs and Non-PIEs) through an assignment in law as an accredited body</p> |
| <p>Establish a public register</p> | <p>Maintain a register of its authorized members and notify changes to the registrar</p> |

Approval and registration of statutory auditors and audit firms (continued...)

- » Accredited PAOs have functions and powers expressed directly in primary legislation
- » Oversight Body afforded power (i.e. primary law) to accredit PAOs based on achievement of minimum standards defined in secondary legislation



Approval and registration of statutory auditors and audit firms (continued...)

- » Minimum standards should cover:
 - » PAO governance and organization structure
 - » Qualifications of regulatory personnel
 - » Resourcing
 - » Standing with IFAC and national regulatory bodies
 - » Audit regulatory policies and systems



Approval and registration of statutory auditors and audit firms (continued...)

- » Accreditation with conditions covering, for example:
 - » Ongoing satisfaction of minimum standards
 - » Notification to Oversight Body on the occurrence of certain events
- » The Oversight Body supervises the accredited PAO and reports on their performance annually to the public



Setting standards for auditors and audit firms to meet

| Key requirements (What Member States need to do) | Potential for PAO involvement |
|---|--|
| <p>Statutory auditors and audit firms are required to comply with professional and ethical, internal quality control and auditing and assurance standards set by the relevant standard setting Boards of IFAC</p> | <p>Traditionally, in many countries PAOs have set standards for their members</p> <p>The generally accepted view now is that PAOs should not set standards for their members because they lack independence from their membership</p> <p>PAOs should be consulted in the standard setting process (i.e. as with other stakeholders and the public) and should keep their members updated on changes and provide implementation guidance and training</p> |



Establish continuing education requirements

| Key requirements (What Member States need to do) | Potential for PAO involvement |
|--|--|
| Require statutory auditors to take part in appropriate programs of Continuing Education and provide that if they fail to, they may be sanctioned | PAOs generally require their members to perform a certain amount of continuing professional development annually. Typically, they are a provider of education services to their members |
| Establish the Continuing Education requirements to be met and the consequences of not meeting them | <p>The Oversight Body should set quantum (i.e. as part of the conditions of authorization as a statutory auditor), but assign in primary legislation the power for accredited bodies to require statutory auditors to complete specific education including passing an exam, practical training and experience and courses of study as part of their function to monitor members they have authorized</p> <p>Monitor compliance of member in completing minimum requirements and addressing where member has achieved unsatisfactory results for a required course</p> |

Quality assurance inspections of statutory auditors and audit firms

| Key requirements (What Member States need to do) | Potential for PAO involvement (Non-PIEs) | Potential for PAO involvement (PIEs) |
|--|---|---|
| Build a Quality Assurance team that satisfies the requirements of the Regulation and the Directive | PAOs could be responsible for the quality assurance of non-PIEs and, therefore, could build the quality assurance team | Provide quality assurance services under contract provided it does not amount to delegation and is otherwise consistent with the functions an Oversight Body is expressly required to perform |
| Build a Quality Assurance work program and undertake planning | PAOs could be responsible for the quality assurance of non-PIEs and, therefore, could build the work program and undertake planning | Provide quality assurance services under contract provided it does not amount to delegation and is otherwise consistent with the functions an Oversight Body is expressly required to perform |
| Perform review/inspection work | PAOs could be responsible for the quality assurance of non-PIEs and, therefore, could perform reviews | None. PAOs can't perform inspections of PIE audits |

Quality assurance inspections of statutory auditors and audit firms (continued....)

| Key requirements (What Member States are required to do) | Potential for PAO involvement (Non-PIEs) | Potential for PAO involvement (PIEs) |
|--|---|---|
| Report conclusions and recommendations of reviews/inspections | PAOs could be responsible for the quality assurance of non-PIEs and could, therefore, report to firms directly on the outcomes of reviews performed | Provide quality assurance services under contract provided it does not amount to delegation and is otherwise consistent with the functions an Oversight Body is expressly required to perform |
| Publish the results of quality assurance work on an annual basis | PAOs could be responsible for the quality assurance of non-PIEs and, therefore, could publish annually the results of the quality assurance work | Provide quality assurance services under contract provided it does not amount to delegation and is otherwise consistent with the functions an Oversight Body is expressly required to perform |

Quality assurance inspections of statutory auditors and audit firms (continued.....)

- » Assignment in law of non-PIEs quality review tasks
accredited bodies are responsible for
- » Minimum standards and conditions of accreditation to be met on an ongoing basis
- » Oversight Body has ultimate responsibility for the oversight of quality assurance systems



Quality assurance inspections of statutory auditors and audit firms (continued.....)

Accessing sufficient and appropriate resources to undertake quality assurance work is a key issue. It is important that its design meets the requirements, but also it is very important that resource levels permit the system to operate effectively. The need to access resources existent in the profession can be “dialed-up” or “dialed-down” and will likely be determined by where experience and skill currently reside. The following may be options, particularly for PIE work (i.e. where delegation is not possible):

| Area | Input provided | Requirements |
|--------------------------------------|--|--|
| Back-office | <ul style="list-style-type: none"> -Draft Inspection Manuals -Processing contracting of inspectors -Develop draft inspection program -Coordinate inspections with firms -Coordinate inspection reporting -Draft annual reporting | Competent Authority to approve all work done under contract. |
| Advisory Group to the Oversight Body | <ul style="list-style-type: none"> -Advice on implementation of policies and procedures -Advice on inspection reporting | Not be involved in any decision making |
| Experts | <ul style="list-style-type: none"> -Undertake inspection work | Paragraph 5 of Article 26 of Regulation No 537/2014 (i.e. qualifications of inspectors). |

Investigations

| Key requirements (What the Member States need to do) | Potential for PAO involvement |
|---|--|
| <p>Ensure effective systems of investigation to detect where statutory auditors and audit firms have breached legal requirements in performing their audits exist</p> | <p>Can delegate investigation to PAO for non-PIEs audits as long as Oversight Body retains ultimate responsibility. This could be effected through the legal means for establishing the accreditation system (i.e. functions and powers of accredited bodies to include inspections).</p> <p>Can't delegate investigations to PAOs for PIE audits from quality assurance or matters referred from other authorities. However, a statutory auditor or audit firm may still be investigated by a PAO (i.e. for other purposes) and a level of formal collaboration (e.g. through conditions of accreditation and reporting of breaches under Article 32e of the Regulation) and informal collaboration could be discussed and coordinated.</p> <p>NB. In all cases the Oversight Body has to have the requisite powers to investigate.</p> |

Imposing sanctions for non-compliance

| Key requirements | Potential for PAO involvement |
|---|--|
| <p>Impose effective, proportionate and dissuasive sanctions to correct and prevent breaches by auditors and audit firms of legal requirements</p> | <p>Can be delegated to PAOs for non-PIEs as long as Oversight Body retains ultimate responsibility. This could be effected through the legal means for establishing the accreditation system (i.e. functions and powers of accredited bodies provide for imposing sanctions)</p> <p>Through an exception in the Regulation, it is possible for the Oversight Body to prosecute legal breaches pertaining to a PIE audit through a PAO's Disciplinary Tribunal (howsoever named) provided required criteria are met. This requires the express delegation from the Oversight Body to the PAO (i.e. not assigned in law)</p> |