

Kosovo Accounting and Auditing Reforms in Public Oversight and Quality Assurance

Kalina Sukarova, Senior Financial Management Specialist, CFRR, The World Bank
Ranjan Ganguli, Financial Management Consultant, CFRR, The World Bank

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Advancing Audit Quality Assurance Systems: Trends and Opportunities

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Project Overview



Component A – Structural elements for sustainable public oversight and quality assurance systems

Current status and gaps in existing regulations

Options and recommendations for delegation principles

Recommendations for funding model

Component B – Tools and Resources to support public oversight and quality assurance processes

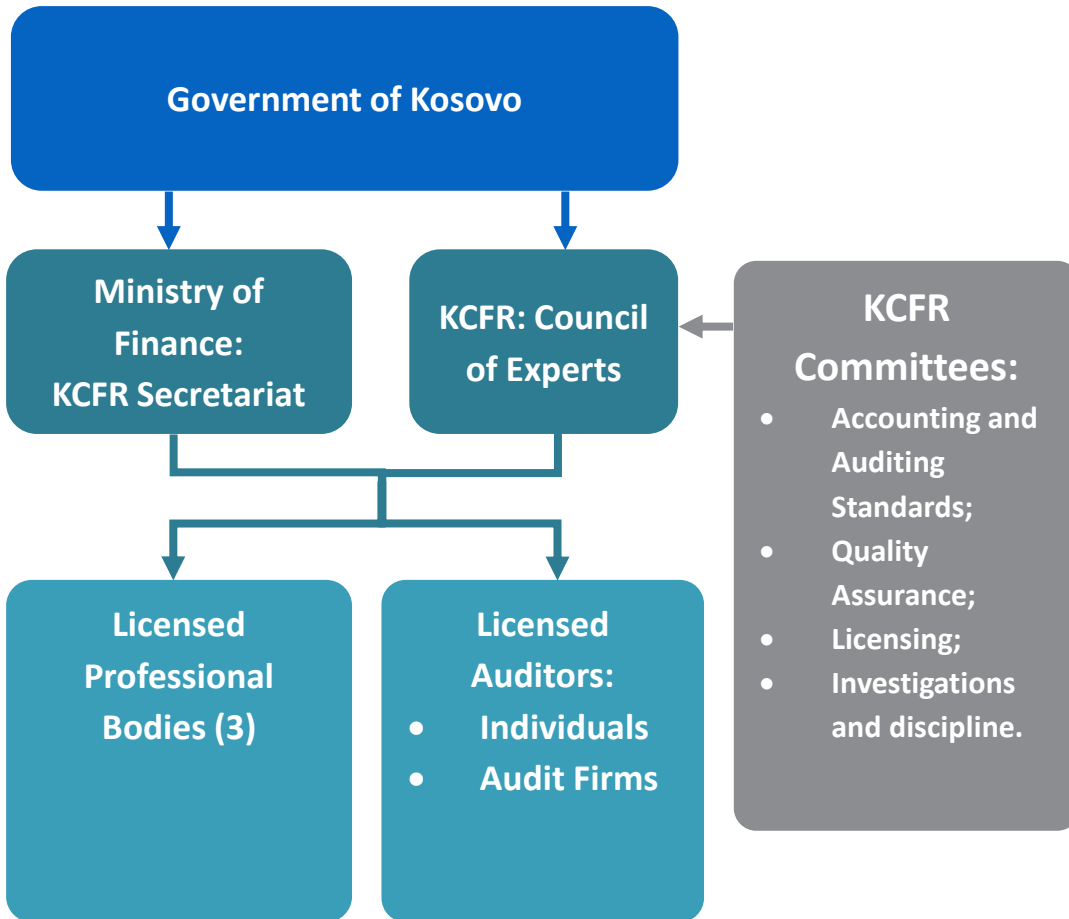
Manual to guide KFRC on its role vis-à-vis professional bodies

Off-site manual for risk assessment

Manual for on-site quality assurance reviews

Current status and gaps in existing regulations

Overall Framework in Kosovo:



Findings:

- » Small audit market and size of audit profession:
 - » up to 300 companies in Kosovo subject to statutory audit requirements.
 - » 46 companies who will meet the definition of PIEs and at present 6 audit firms audit the financial statement of those entities
 - » 70 individual auditors, 24 audit firms.
- » Lack of sustainable and sufficient resources for KCFR to operationalize the mandate and responsibility for Public Oversight and Quality Assurance
- » KCFR has not yet performed any on-site quality assurance inspection
- » The PAOs in Kosovo are at various stages of maturity that is an important consideration that KCFR should consider when delegating Quality Assurance review responsibilities to the profession.
- » Ongoing revisions of the Law should consider achieving consistency with EU acquis in the area of Audit Oversight and Quality Assurance.



Options and recommendations for delegation principles

1. The costs of the Quality Assurance System are mainly operating in nature and positively correlated with the number of engagements reviewed, number of firms visited and the length of the visit cycle
2. Revisions to the Law propose a narrow definition of PIEs resulting in a low number of PIEs for Kosovo, allowing a focus of the KCFR resources on the companies with highest public interest and oversight risk.
3. The quality of audits in Kosovo should be significantly improved and much remains to be done in this respect among smaller audit firms and practitioners.
4. An acceptable long-term strategy would be for Kosovo's PAOs to perform the quality assurance of audits of non-PIEs while KCFR performs the quality assurance of audits of PIEs.
5. The current capacity of KCFR to perform Quality Assurance over auditors and audit firms is low and at present some capacity for Quality Assurance is available with the profession.
6. Delegation of Quality Assurance should be considered only in cases when PAOs have demonstrated the adequate capabilities for performing quality assurance and address any issues of conflict of interest.



Recommendations for funding model

1. For the KCFR to discharge fully its responsibilities, and especially in regard of Quality Assurance, adequate and sustainable sources of financing are necessary.
2. The KCFR cannot presently access the entire income it generates and therefore jeopardizes the ability to realize its legal mandate, including performing Quality Assurance activities.
3. The KCFR should develop an action plan to raise additional funding in order to close its projected funding deficit as a necessary prerequisite to implement a Quality Assurance System in Kosovo.
4. An “ideal” Quality Assurance System should be selected only after careful considerations of the costs associated with the Quality Assurance model.
5. In the medium-term period, until capacity is built in KCFR, a purely independent system from the profession is not possible or desirable.



Costs for Maintaining a Quality Assurance System

The costs for the Quality Assurance System are mainly operational and are correlated with the following:

- » Number of PAOs involved in the Quality Assurance system;
- » Number of audit firms to be visited;
- » Number of estimated engagements to be reviewed / days to carry out each visit;
- » The visit cycle;
- » Number of Quality Assurance and support staff;
- » Employment costs (including training, communications, etc.)

Costs increase with the increase of the number of PAOs and audit firms involved, with the length of each visit and the number of staff employed in the Quality Assurance process. Shorter visit cycles are more expensive relative to longer ones as firms will be visited in shorter periods with more frequent Quality Assurance inspections.

Quality Assurance for Audit – A Good-Practice Guide, CAPA; See: http://www.capa.com.my/wp-content/uploads/2017/11/CAPA_MM_Guidance_QAuditGPG_2017_FINAL.pdf

Comparative statistics for POB funding in selected countries

Country	Location of regulator	No. of POB members	No. of POB staff	Funding of POS (€)	Sources of funding of POB	No. of PIE audits	No. of audit firms of PIEs	No. of audit firms
Kosovo (pop 1.8m)	Part of govt. dept.	7	6	2018 budget: 0.06m	Auditors	46	6	24
Macedonia (pop 2.1m)	Independent regulator	8	7	2016 actual: 0.15m	State, auditors	170	Not known	25
Albania (pop 2.9m)	Part of govt. dept.	5	10	2018 budget: 0.2m	Auditors	100	Up to 20 max.	61
Finland (pop 5.3m)	Part of govt. dept.	14	5	1.0m	Auditors	600	16	66
Netherlands (pop 16.4m)	Part of govt dept.	4	Not known	6.8m	State, Auditors	1049	10	356
Sweden (pop 9.2m)	Part of govt dept	9	Not known	2.4m	Auditors	280	7	150

Questions?