



**Improving Audit Quality in Western Balkans Countries
Through Regional Cooperation
Quality Assurance System**

REPARIS for SMEs
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**Public Oversight Board
Albania Case**

Quality Assurance Inspections

- POB is the designated authority to perform quality assurance inspections
 - Auditors/Audit Firms engaged in PIE Audits
 - Auditors/Audit Firms engaged in non-PIE Audits
- May delegate non – PIE Audit reviews to the Professional Organization of Statutory Auditors

Appointment requirements of Statutory Auditors

Article 41 – Albanian Audit law 10091/2009 : Are obliged to carry out the statutory audit of annual financial statements, prior to their publication, by statutory auditors or audit firms:

- a) all commercial companies, regardless of their form, which apply international financial reporting standards;
- b) all joint stock companies, which apply for financial reporting the national accounting standards;
- c) limited liability companies, which apply for financial reporting the national accounting standards when, **over two consecutive years**, exceed two of the following three indicators:
 - (i) the **total of assets** at the end of the respective accounting period amounts to or exceeds **Lek 50 million** (eq. Eur 430K);
 - (ii) the **revenue from the activity** (turnover) in that accounting period amounts to or exceeds the amount **of Lek 100 million** (eq. Eur 860K);
 - (iii) there are, on average, **30 employees** during the accounting period.

Public Interest Entities (PIEs)

Article 2(23) – Albanian Audit law 10091/2009:

“Public Interest Entities” are:

- a) All entities whose transferable securities are admitted to trading on a regulated market;
- b) Banks and non-bank institutions supervised by Bank of Albania;
- c) Insurance and reinsurance companies, companies managing investment funds and pension funds, as well as investment funds and pension funds;
- d) Other state or private companies, which are important to public interest, because of the nature of the activity, business size or number of the employees, according to the criteria set forth by the decision of Council of Ministers.

Public Interest Entities (PIEs) - entities designated

DCM no.17 – 16.01.2019 A PIE shall be classified those public or private entities which meet at the same time the conditions of the article 41 of Audit Law (must appoint a statutory auditor) and one of the following :

- ✓ **Classification due to the nature of the entity;**
- ✓ **Classification due to the size of the entity (large and medium companies);**
- ✓ **Classification due to the number of their employees.**

Quality Assurance Systems requirements

(a) Quality assurance which is organized within the audit firm

Must comply with Quality assurance standards effective during the engagement audit (Regulation 7/2018, Article 3/1)

The statutory auditor or audit firm is subject of a quality assurance system aiming in ensuring for the quality of the audit work.

The internal quality control system is mandatory for all audit firms / statutory auditors (Regulation 7/2018, Article 3/3)

The individuals responsible for quality assurance reviews within the audit firms must be statutory auditors.

Quality Assurance Systems requirements

(b) Quality assurance organized by the Public Oversight Board

Public Oversight Board may delegate the quality assurance review of non-PIE audits to the professional body

(Non-PIE Audit engagements / audit firms, Adequate capacities, conflict of interest criteria)

The Public Oversight Board approves the quality assurance methodology

*Regulation No.7, 02.10.2018
"Procedures and methodology for quality control of statutory audit",
amended;*

Statutory auditors and audit firms that carry out statutory audits of PIE and of non-PIE engagements are subject to quality assurance inspections from POB

Quality Assurance Inspections

Quality assurance organized by the Public Oversight Board

Selection of reviewers for quality assurance is done 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

The quality assurance review, is realized by checking of the selected audit files, and includes an assessment on the level of the compliance with applicable auditing standards; ethics and independence requirements; an assessment of the quality and quantity of resources spent; audit fees charged and the assessment of the internal quality control system of the audit firm

The quality assurance review shall be the subject of a report prepared by the reviewer, which shall contain the main conclusions of the quality assurance review.

Quality Assurance Inspections

The quality assurance review is done based on a risk analysis

At least every three years for statutory auditors and audit firms that perform PIE audit engagements

At least every six years for auditors and audit firms that perform Non – PIE audit engagements

Statutory auditors who have less than 5 years of experience, every two years, until the required level of experience is reached

Quality Assurance Inspections

The quality assurance inspection reporting

When quality assurance inspections are delegated, the professional body reports to the Public Oversight Board every year the results of the quality assurance reviews of the non-PIE audit engagements

The general results of the quality assurance reviews are published every year by the Public Oversight Board.

Recommendations given by the end of the quality assurance review process should be implemented by the statutory auditor or the audit firm within a reasonable period.

Methodology

- Manual for the oversight of quality assurance and Regulation Nr.7 of 02.10.2018 “Procedures and methodology for quality control of statutory audit”, as amended.
- Quality assurance inspection types
 - Comprehensive quality control
 - Limited(thematic) quality control
- Inspections cycle
 - Quality assurance inspection for audit firms/auditors for PIEs audit is based on a 3 year cycle inspection
 - Quality assurance inspection for audit firms/auditors for non PIEs audit are envisaged to be performed in a 6 year cycle inspection
 - For auditors with less than a 5 year experience in practice the quality assurance inspection shall be performed every two years

Methodology (continued)

- Setting the scope of inspection
 - Inspection of Internal quality control system
 - Inspection of selected audit engagement quality
- Risk Analysis is based in two main elements :
 - Risk factors of PIE/non PIE audit engagements
 - Risk factors for Audit Firms / Auditors

Risk Matrix of PIE/non PIE audit engagements

Risk Analysis							
Risk Factors			Risk Assessment			Ref	
PIE audit engagements	Industry	Banking	Low	Medium	High		
		Financial institutions non banks licensed by BoA					
		Financial Companies licensed by FSA					
		Production company					
		Commercial Company					
		Service Company					
		Other					
	PIE Structure	Listed (Yes /No)	Low	Medium	High		
		Foreign Branch					
Market share							
Legal form (SHPK, SHA)							
Ownership (Principal owner							
Opinion Type	Unqualified	Low	Medium	High			
	Qualified						
	Adverse Opinion						
	Disclaimer of Opinion						
Audit Issues		Low	Medium	High			
		Low	Medium	High			
Financial Reporting Issues		Low	Medium	High			
		Low	Medium	High			
Compliance issues		Low	Medium	High			
Other risk factors		Low	Medium	High			

Risk Matrix of Audit Firms / Auditors

Risk Analysis						
Risk Factors			Risk Assessment			Ref
Audit Firms/Auditors	Structure	Part of Network	Low	Medium	High	
		Audit partners number				
		Engagement staff member number				
		PIE audit engagement number				
		PIE audit hours				
		PIE audit fee engagements				
		Non Pie audit engagement number				
		Non PIE audit hours				
		Non PIE audit fee engagements				
	Internal Quality Control System	No deficiencies	Low	Medium	High	
Deficiencies evidenced						
Compliance with general standards <ol style="list-style-type: none"> 1. Leadership responsibility for quality 2. Ethics 3. Acceptance/Continuance of audit engagements 4. Monitoring 5. Audit Engagement performance 6. Human Resources 						

Fieldwork inspection

The inspection process is performed through 3 main phases :

□ First Phase - Planning and Preparing for inspection

- Selection of Audit firms
- Selection of Audit Engagements

- Notice of inspection and audit firm meeting
- Promoting a collaborative environment
- Scope and content of the Quality Assurance Program
- Preliminary information gathering

Fieldwork inspection

□ Second Phase – On site inspection

- Opening meeting with the firm/office managing partner and senior manager.
- A detailed discussion on the operation of the firm's internal quality control monitoring structure and program.
- Discussion and review of the general, audit and ethical standards, including independence, to assess the level of compliance with applicable requirements.
- Introduction to the firm's audit methodology, including the manuals and the software tools (where used) and how the approach is applied practically to an audit engagement.
- Review of previously selected PIE audit engagements, including the assessment of the quality and quantity of resources spent and the consistency of audit fees charged.
- Meetings and interviews with a range of firm personnel, mainly those involved in the performance of the engagements selected for review.
- Closing meeting, with preliminary discussion of the findings

Fieldwork inspection

□ Third Phase- Reporting

- The first phase of reporting consists in the preparation of the draft report, which is sent to the audit firm for comment/observations.
- Second phase of the report addresses the audit firms' comments through long and constructive discussions between audit firms and POB inspectors to ensure a transparent and impartial process.
- The inspection process is finalized by submitting the final report and action plan as an integral part of this report.

The Findings – Internal Quality Control System

❑ Review of the internal quality control system at the audit firm level

- Internal quality assurance control manuals in sole practitioner audit firms are not detailed in:
 - policies or procedures designed to ensure the achievement of objectives related to the quality control system
 - Small audit firms/sole practitioners do not implement an internal quality control system monitoring program.
 - Deficiency in fulfilling the recommendations by network monitoring, such as:
 - i) review by the engagement partner before issuing the report;*
 - ii) performing on a cyclical basis the internal review of quality control;*
 - iii) Lack of formalization or implementation of monitoring procedures for quality reviews (cold review) of engagements*

The Findings – Internal Quality Control System

□ Review of the internal quality control system at the audit firm level

- *Assemble, archiving and sign-off of the engagement file*
 - Archiving system in sole practitioner audit firms does not provide assurance as to the completeness of the engagement file and reaching the same conclusions as the audit team if the engagement file were subject to review by an authorized third party.
 - Sole practitioner audit firms do not have an adequate filing system that provides compliance with ISQC 1 and filing best practices.
- *The structure of human resources*
 - Lack of the role of experienced auditor / supervisor;
 - Acceptance/continuation of audit engagements, for economic entities with complex activity, by audit companies with an insufficient structure of human resources.
- *Law and regulatory incompliance findings*
 - Deficiency in drafting and publishing the transparency report
 - Failure to notify the supervisory authority and the professional organization within the stipulated time limits in cases of termination of the audit engagement.

The Findings – Internal Quality Control System

- Monitoring of quality control system are applied at the regional level and not at the individual level of the member firm.
- Lack of formalization or implementation of monitoring procedures for cold reviews of engagements.
- Evidence in the engagement file indicates that the process of reviewing the audit program, audit work papers and audit evidence, the engagement partner, and reviewing partner has been carried out at the date of issuance of the report. This method does not provide assurance that the review process occurs during the audit process.

The Findings – Audit engagements 1

❑ Preconditions for acceptance / continuation of client / audit engagement

Independence

- Use joint independence statements from the engagement team rather than individual independence statements.
- Lack of independence statement by experts engaged in the engagement team.
- In two cases, there was a lack of independence of one of the members of the audit team even though the declaration of independence was signed in the audit file.
- Network independence testing was not performed and documented at client acceptance;
- Acceptance of engagement in breach of the relevant Ethical requirements and in violation of the Audit Law 10091/2009.

Acceptance / continuation of engagement

- Deficiency in the form of acceptance / continued audit engagement regarding documentation of client searches and recognition and searches for control over the conflict of interest and independence of the client and inappropriate timing of performing such procedures.
- The letter of engagement had errors and shortcomings in content.

The Findings – Audit engagements 2

□ Risk assessment and response to assessed risk

- Defining the engagement risk level without a sufficient reasoned documented conclusion
- Selection of qualitative criteria by making an entity's inadequate classification (size and complexity), which further influenced the design of the overall audit strategy.
- Incomplete documentation has been ascertained with regard to management searches on various issues such as the implementation of the going concern principle, related party transactions, self-evaluation of the internal control system etc. (lack of meeting data, participating parties, feedback on the issues discussed).
- In some cases, there has been a lack of documentation on the self-assessment of the entity with regard to the internal control system / structures related to the risk of fraud and error. In other cases a partial analysis of the risk factors was found due to fraud and error.

The Findings – Audit engagements 3

- Liaison between the risks identified during the risk assessment phase, the aggregate risk matrix identified and the audit approach followed in response to these risks have been missing.
- Deficiencies in conducting preliminary analytical review procedures.
- Shortcomings in documenting or performing audit procedures on the verification of statements of financial statements (such as income, payables, recovery of accounts receivable, investments, commitments and contingencies).
- The subsequent event procedures have not been addressed timely or have not been completed.

The Findings – Audit engagements 4

□ **Reporting**

- Deficiencies in the use of disclosure checklists for financial statements presentation and notes to financial statements and control lists.
- In one case, it is noted that the date of issuance of the opinion is prior to the signing of the financial statements and notes to financial statements.
- Lack of communication with those charged with governance Deficiencies in the form of a management letter (it was drafted, not signed by the engagement partner, did not address the board of directors).
- Communication with the Audit Committee of the company was not carried out.
- Representation letter (in some cases the date after the release of the opinion, in some cases was missing).

Quality Assurance System - Findings

Inspection Year	2018	2019	2021	2022	Finding number	
Findings						
Quality Assurance Manual – (adaption with local law and regulation)	2	4	10	1		
Lack/Completeness of Quality Assurance Manual	3	6	9	3		
Actuation of policies and Procedures of the Quality Assurance Manual / ISQC 1 requirements	7	10	10	3		
Audit Methodology	2	7	10	4		
Lack of Audit Software	3	9	10	6		

Audit Engagements Findings

Audit Engagement Review Findings 2018- 2022	Audit Engagement Review Findings 2018- 2022
Testing of Internal Control Environment	Revenue Recognition
Related Party Transactions (Controls and Testing)	Inventory procedures
Going Concern	Adequacy of presentation of financial statements and explanatory notes
Fraud Procedures	Audit Evidence and Documentation
Audit Plan in response of the identified risks	Communication with Those Charged with Governance (Management Letter & Reppresentation Letter)
Use of external experts	Best Practices (Completion Checklist & Disclosures Checklist)
Risk Assessment for anomalies due to fraud or errors	

Law and Regulation Compliance Findings

Law and Regulation Compliance Findings 2018 - 2022

Article 47 -Independence
Article 46 –Audit Committee
Article 45 – Transparency Report
Article 44 – Dismissal and Withdraw
Article 43 / 1 – Audit Report
Article 37 – Auditing Standards
Article 38 – Quality Assurance Systems

Law and Regulation Compliance Findings 2018 - 2022

Article 42 - Appointment of Statutory Auditors
Article 33 – Conflict of Interest
Article 34 - Confidentiality and professional secrecy
Article 35 – Independence and objectivity
Article 20 & 21 – Audit Firm registration
AML/CFT Regulation
Failure to provide information / manuals

Inspection process – initial challenges

- Lack of timely access to the required information, generally not prepared in advance from the audit firms.
- Reluctance, denial or partial access to policies/procedures and audit manuals(especially from big 6 audit firms).
- Information relating to the list of the audit clients and non-audit services provided to them were not prepared. Information provided were related only to PIE audit clients and non-audit services provided to PIE audit clients.
- Information concerning, e.g., the number of audit partner and staff, the budgeted hours vs. the actual hours spent as well as the fees for all the engagements, have been generally not provided.
- Strong resistance to accept the deficiencies evidenced by the inspection process.

THANK YOU FOR YOUR ATTENTION

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