

INTERNATIONAL PRACTICES IN AUDIT SUPERVISION

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Abstract

The supervision of audit activity can be performed through different regulatory models. Depending on the specifics of each country, it uses its own model or regulatory system. In this article, the author describes several models for regulating the systems of audit activity supervision, lists some problematic aspects, presents different legislative provisions and highlights the opinions of several specialists in this field. Therefore, here are researched the significant differences between countries regarding the mode of public audit supervision, is analyzed the problem of financing the systems of audit activity supervision in different countries and is studied the obligativity of auditing financial statements through the regulations of the Republic of Moldova, EU and the USA.

Keywords: *audit, supervision, regulation, audit entities, control.*

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I. INTRODUCTION

A quality audit is the key to success for an efficient economy. With this purpose, each state regulates its different audit supervision system. Even if it seems that the EU states start from the same point, each of them has different systems, depending on their specificity. The Republic of Moldova also has its own audit supervision system.

In this article, a theoretical research is elaborated in which are presented the similarities and differences of the audit supervision systems from different states, the opinions related to each system and their comparison with the system of the Republic of Moldova. At the same time, the issue of financing the audit supervision activity in different states is approached and the obligativity to audit the financial statements through the prism of regulations in the Republic of Moldova, the EU states and the USA is studied.

The above mentioned objectives result from the provisions of the Law on Audit of Financial Statements no. 271 of 15.12.2017 (hereinafter - Law no. 271/2017), Law on Accounting and Financial Reporting: no. 287 of 15.12.2017 (hereinafter - Law no. 287/2017), Directive 2014/56/EU, Directive 2013/34/EU, as well as from the publications of researchers in the field.

This research expresses a predominantly descriptive character, and the predominantly used research method is the comparative method. The arguments justifying the application of this method are that it allows the identification of both similarities and dissimilarities between the supervision systems of the EU, USA and the Republic of Moldova.

The method of document analysis was not omitted either, as the analysis of the bibliographic sources used, as well as the interpretations of the specialists from the specialized literature allow a content decomposition of the approached issue.

II. RESULTS AND DISCUSSIONS

In the Republic of Moldova, according to Law no. 271 (2017, art. 36), the public audit supervision body is the Public Audit Supervision Council (hereinafter - the Council), which carries out its activity in accordance with provisions of the mentioned law, but also of the Council Activity Regulation, approved by the Government. Thus, all auditors and all audit entities are subject to public supervision.

One of the basic tasks of the council according to Law no. 271 (2017, art. 41) is represented by the external quality control, which is carried out by the Council in order to manage the quality assurance system of the audit, as well as to ascertain the existence and application mode of:

- a) audit quality control policies and procedures at the level of the audit entity;
- b) audit quality control policies and procedures at the level of the audit mission.

Therefore, each audit entity is subject to external quality control at least once every 6 years, and the entities that perform the audit to the public interest entities - at least once every 3 years. The mode of carrying out external quality control and the application of disciplinary measures is set out in the Regulation on External Quality Control of Audit, approved by the Council.

In more depth, the tasks of the Council are set out in the Regulation of Council Activity, approved by Government Decision no. 807 (2018, pt. 2). At the same time, this regulation stipulates that the Council is an

autonomous public institution with the status of legal person, responsible for public audit supervision, has an autonomous budget, bank accounts in the single treasury account of the Ministry of Finance and operates based on the principles of self-management (GD 807, 2018, pt 3).

In the opinion of economist Ciobanu (2016), an important issue related to the proper organization of the audit activity supervision system is the financing of these activities. The sources available for this purpose must be sufficient to remunerate the work of inspectors, who must have a high level of professional training, accordingly, must be well paid for their work.

In the Republic of Moldova, the Council is financed from payments and dues made by auditors and audit entities, from subsidies from the state budget received through the Ministry of Finance and from other payments and dues (Law 271, 2017, art. 39).

EU countries use three forms of financing the organization's activity with audit supervision functions (Ciobanu, 2016):

(a) financing from the state budget: Austria, Bulgaria, Latvia, Lithuania, Croatia, Estonia;

(b) funding by the audit profession: audit firms and/or auditors: Denmark, Finland, France, Germany, Sweden, USA;

(c) mixed funding from the state budget and from the audit profession (audit firms, auditors): Hungary, Italy, Ireland, Luxembourg (90% - state budget; 10% - fees from audit firms), Malta (50% - state budget; 50% - audit profession); Poland (80% - state budget; 20% - audit firms), Romania (40% - state budget; 60% - accounting profession (CECCAR [Body of Expert and Licensed Accountants of Romania] - 38%) and audit (CAFR [Chamber of Financial Auditors of Romania] - 22%).

In our opinion, the type of financing is dictated by the budgetary possibilities of the state and the market of audit services in each state. Based on the level of development of audit services in the Republic of Moldova, as well as the size of market and the low demand for services, we consider that a full funding of the audit profession by audit firms and/or auditors would be too heavy a burden on their shoulders. At the same time, a total financing from the state budget would be too much a burden for the state, especially in the economic conditions of the Republic of Moldova. Therefore, we believe that mixed financing is the best solution at the moment.

At European Union level, the conditions for the authorization and registration of persons carrying out statutory audits, the rules applicable to those persons as regards their independence, objectivity and professional ethics, and the framework for their public supervision are laid down in Directive 2006/43/EC (Directive 2014/56/EU, 2006, pt 1).

Respectively, Directive 2006/43/EC recommends that in order to improve the credibility and transparency of quality assurance checks carried out in the EU, Member States' quality assurance systems should be monitored by the competent authorities designated by the Member States for public supervision of statutory auditors and audit firms. Quality assurance audits are intended to prevent and address any deficiencies in the conduct of statutory audits. In order to ensure that the quality assurance reviews are sufficiently comprehensive, the competent authorities should take into account, when making such reviews, the scope and complexity of the work of statutory auditors and audit firms (Directive 2014/56/EU, 2006, pt 14).

In the opinion of the scientist Hategan C.D. (2020), all EU Member States have transposed the provisions of the European Directive in a different way from country to country, and the analysis of practical implementation could not identify a common criterion for some countries, except the one that some countries were in the extreme of leaving all tasks to the supervisory authority, while other countries were in the opposite extreme to limit its powers and give more powers to professional bodies.

The Republic of Moldova is located more towards the camp of states where all the attributions are in charge of the supervisory authority. This form of supervision is more characteristic of Eastern European states (former socialist countries - Slovakia, Romania, Bulgaria, etc.), as well as Finland and Greece. To the opposite pole are the states of Central and Western Europe (Germany, France, the Czech Republic, etc.), in which most supervision responsibilities rest with professional bodies.

We believe that for developed countries, where professional bodies and auditors have a secular tradition and have an advanced culture of audit activity, they may assign audit supervision responsibilities to professional bodies. However, for countries in transition, such as the Republic of Moldova, where a tradition of auditing has not yet been formed, the supervision activity should be the total or majority task of the state authorities.

Researcher Lohlein L. (2015) identifies four institutional models of regulation, from self-regulated bodies to those regulated and formally and fully managed by the state:

1. *Regulation through an inter pares review system* - a system in which operational activities, for example, external quality assurance inspections, are delegated to a national body of professional accountants. The way in which professional bodies regulate and monitor their members is supervised by the supervisory authority in that country. This authority is not directly involved in the day-to-day regulatory process. This system can be found in Estonia, Ireland, Greece and Austria.

2. *Supervision undertaken on professional bodies* - professional bodies are supervised by a Council, Commission or Committee which has ultimate responsibility and has the right to access any information on supervision issues and to take part in any supervisory activity. This approach is taken over by most EU member states and can also be found in Belgium, Croatia, France, Romania, Portugal, etc.

3. *Regulation through independent regulatory agencies* - the integration of supervision system into a regulatory agency, either by adding audit supervision as an additional task to an existing financial market supervisory authority or by setting up a new authority. This approach is adopted by the USA, Italy, Great Britain, Bulgaria, etc.

4. *Regulation through administrative agencies* - regulatory authority equipped with its own resources and its own staff. These entities are organized "as a governmental authority" under the auspices of the Ministry of Justice (Sweden), the Ministry of Economy and Business (Denmark), the National Ministry of Economy (Hungary) or are part of the internal structure of a ministry, as is the case in Latvia.

Therefore, we note that there are significant differences between states regarding the way of public audit supervision. In our opinion, the model of the Republic of Moldova is more similar to that of regulation through administrative agencies.

In the Russian Federation, according to the Federal Law on Audit Activity no. 307-FZ of 30.12.2008 (2008, art. 22), it is mentioned that the control (supervision) of the state over the activities of the self-regulatory organizations of auditors is performed by an authorized federal body.

The powers of this body are to supervise the self-regulatory organizations' compliance with the requirements of the mentioned federal laws and other adopted legislative acts. Therefore, this body performs state control over the activities of self-regulatory organizations of auditors in the form of scheduled and unscheduled inspections, no more than once every two years, in accordance with the inspection plan approved by the authorized federal body.

From the above-mentioned, we deduce that the form of audit supervision in the Russian Federation is closer to that of European countries such as: Belgium, Croatia, France, Portugal, etc. and is characterized by the form of supervision exercised over professional bodies (Council, Commission or Committee). This form has also some tangents with the form of supervision in the Republic of Moldova, especially through the Council, only that the Council directly controls auditors and all audit entities, but in the Russian Federation, this body controls auditors' self-regulatory organizations.

In the Republic of Belarus, according to the Law on Audit Activity no. 56-Z of 12.07.2013 (2013, art. 5), based on the specifics of this state, it is mentioned that the state regulation of audit activity is performed by the President of the Republic of Belarus, the Council of Ministers of the Republic of Belarus, the National Bank, the Ministry of Finance.

However, according to the mentioned law (2013, art. 9), the Audit Chamber is a single autonomous body of audit organizations and auditors - individual entrepreneurs. This is a legal entity that is a non-profit organization based on the mandatory membership of audit organizations, auditors - individual entrepreneurs. Therefore, all audit organizations and auditors must be members of this structure. The Audit Chamber has the right to exclude audit organizations and auditors from its composition in case of non-compliance with the legal provisions. In turn, the Audit Chamber of the Republic of Belarus is supervised by the Ministry of Finance of that state.

The form of organizing supervision of audit activity in the Republic of Belarus is exercised over professional bodies, following the model of the Russian Federation and other European countries such as Belgium, Croatia, France, etc.

A problematic situation is related to the obligativity to audit the financial statements. In the Republic of Moldova, according to Law no. 287/2017 (2017, art. 22), the individual financial statements of medium and large entities, of public interest entities and the consolidated financial statements of groups are subject to mandatory audit.

From the international practice (Botez, 2019), we notice that, for example, in the USA only public companies have the obligation to have audited financial statements, i.e. those companies that are of public interest (not only state companies). The other companies do not have this obligation, but good practices and contract provisions may establish that the financial statements be audited. Also, for companies requesting credits, banks may request the audit or even shareholders who do not permanently participate in the company's activities may request the intervention of the auditor.

In the European Union, according to Directive 2013/34/EU (2013, pt 43), annual financial statements and consolidated financial statements are recommended to be audited, except for the annual financial statements of small enterprises, which should not be subject to the auditing obligation whereas auditing can be an important administrative task for this category of enterprises, but for many small enterprises the same persons are both shareholders and management bodies and therefore need to a lesser extent third-party certification of the financial statements. However, this Directive does not prevent Member States from requiring an audit of small

enterprises in their territory, taking into account the specific conditions and needs of small enterprises and the users of their financial statements.

From the above-mentioned, we note that compared to the provisions of the Republic of Moldova and the USA, EU states do not pay special importance to public or public interest institutions. In our opinion, in the Republic of Moldova there is a need for an audit of institutions of public interest, especially after the events related to bank fraud that took place in 2014.

III. CONCLUSIONS

Following the analysis of regulations on audit supervision in several states, as well as the opinions of experts in this field, the similarities and differences of different audit supervision systems were studied, some issues related to the researched and transposed system of the Republic of Moldova were addressed.

An important issue related to the proper organization of the audit supervision system is the financing of these activities. EU countries use three forms of funding for the activity of organization with audit supervision functions: from the state budget, by the audit profession and mixed funding. In the Republic of Moldova, financing takes place from payments and fees made by auditors, audit entities and from subsidies from the state budget received through the Ministry of Finance.

In our opinion, the type of financing is dictated by the budgetary possibilities of the state and the market of audit services in each state. Based on the level of development of audit services in the Republic of Moldova, as well as the size of the market and the low demand for services, we believe that mixed financing is the best solution at the moment.

The institutional models for regulating the supervision of the audit activity is different from one state to another, from self-regulated bodies to those regulated and managed formally and integrally by the state. In our opinion, the model of the Republic of Moldova is more similar to that of regulation through administrative agencies, being characteristic of several European countries such as Sweden, Hungary, Denmark, etc.

A problematic situation is related to the obligativity to audit the financial statements. In the Republic of Moldova, the individual financial statements of medium and large entities, public interest entities and consolidated financial statements of groups are subject to mandatory audit, and from the analyzes performed, we note that compared to the provisions of the Republic of Moldova and the USA, EU states do not accord particular importance to public or public interest institutions. In our opinion, in the Republic of Moldova there is a need for an audit of institutions of public interest, especially after the events related to bank fraud that took place in 2014.

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