

THE QUALITY OF AUDIT, CURRENT SITUATION AND IMPORTANCE IN THE AUDIT ACTIVITY

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Abstract: *This article covers the legal background, current situation and issues related to quality control of the audit activity of the private and public sectors. The following research methods were applied to the research, such as: comparison, inference, analysis method and synthesis method, etc.*

Key words: *supervision, audit activity. quality of audit, audit quality, international financial reporting standards.*

JEL CLASSIFICATION: G

1. INTRODUCTION

The quality of audit work is a current issue that is always discussed in both the private and public sectors. The current legislation is intended to monitor and supervise the audit activity in order to establish and improve the control process of audit services. The new normative acts will create a rich platform for the evolution of a new level of instruments related to the quality control of the audit activity.

2. REGULATION AND NORMATIVE ACTS GOVERNING THE CONTROL OF AUDIT ACTIVITY

The quality control of the audit activity is governed by the provisions of the Financial Statement Audit Law, which is in force since 01.01.2019 [1, Law no.271 of 15.12.2017]. It is noteworthy that this legislative act was drawn up on the basis of the concept of transposition into the legislation of the Republic of Moldova of Directive 2013/34 / EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types by businesses.

The Financial State Audit Act of 15.12.2017 compared to the Law on Audit Activity of 16.03.2007 [2, Law no.61 of 16.03.2007] provides a European concept of quality control of the audit activity.

According to the current legislation, which regulates audit activity in the Republic of Moldova, the following aspects of the quality control of the audit activity are covered:

- the way of establishing the quality control policies and procedures, which are executed by the subjects of the audit activity;

- documenting the content of the quality control procedures;

- reporting compliance with quality control policies and procedures requirements.

Both legislative acts, provide the same requirements for the establishment and documentation of the policies and procedures of the audit quality control, as well as reporting requirements to the conformity supervisory authority in policies and procedures quality control. When examining the provisions of Article 24 of Law no.271 of 15.12.2017, compared to Article 10 of Law no.61 of 16.03.2007, some clarifications for the organization and exercise of the quality control of the audit activity can be observed:

- Who is the person responsible for internal audit quality control;
- What are the conditions for carrying out audit quality control;

- Periodicity of evaluation of the effectiveness of audit quality control policies and procedures;
- Types of audit missions, which are obliged to be subject to quality control.

3. INTERNAL OR SELF-CONTROL OF THE QUALITY IN THE AUDIT ENTITY

Thus, in accordance with the new legislative provisions, the audit entity in accordance with Article 24 (3) of Law no. 271 of 15.12.2017 designates an auditor responsible for internal audit control, and the quality of the audit mission is carried out by the auditor or partner who did not take part in the audit. If the audit entity does not have the such a person, the new law suggests to appeal to another audit entity by concluding a contract, in order to respect the provisions and maintain of confidentiality and professional secret.

The new legislative provisions also set the periodicity of assessing the effectiveness of audit quality policies and procedures. Article 24 (7) of Law no. 271 of 15.12.2017 requires that the audit entity will assess the effectiveness of its audit quality policies and procedures every year. And the results of this assessment should include the proposed measures to be taken. The nominated law does not materialize under what conditions, the assessment of the effectiveness of its own quality control policies and procedures is achieved. A recommendation in this respect would be that this assessment should be performed by the professional association whose member is the audit entity.

The provisions of the new law also specify the types of audit missions which are obliged to be subject to quality control. The quality control of the audit mission is carried out in the audit entities that have performed the audit in public interest entities and large entities, established in accordance with the Accounting and Financial Reporting Act no. 287/2017, until the auditor's report or the additional report addressed to the Audit Committee, as appropriate.

4. EXTERNAL CONTROL OF THE QUALITY OF THE AUDIT ACTIVITY

The above-mentioned aspects refer to the internal or self-control of the quality in the audit entity. Additionally, in parallel with internal quality control, legislation provides the establishment and functioning of an external control of the quality of the audit activity. The authority responsible for the exercise of the external control of the quality of the audit activity is found both in Law no. 61 of 16.03.2007 and in the provisions of the new Law no. 271 of 15.12.2017.

4.1. Audit Supervisory Board

The audit supervisory Board is the authority empowered to ensure the quality assurance function based on the provisions of Chapter VIII of Law no.61 of 16.03.2007. It is noteworthy to mention that the Audit Surveillance Board being administrative authority is not considered autonomous because it was created by the Ministry of Finance and does not operate on the principles of self-government.

Currently, this authority is in the process of recasting and is to be replaced, according to Article 37 of Law no.271 of 15.12.2017 with a new public institution, namely the Public Audit Supervisory Board.

Until now, the external audit control is exercised by the audit supervisory board of the Ministry of Finance through the Control and Verification Service. But starting with 01.01.2019, the external control of the quality of the audit activity is assigned, on the basis of Article 41 of Law No. 271, to an autonomous and financial authority, which will have the opportunities to stimulate quality control inspectors.

At the same time, the Public Supervisory Board of the Audit has the right to delegate the professional audit organizations the external control function of the quality of their members' audits, i.e. audit entities, which are audited to entities that are not of public interest. The frequency of external control of the quality of the audit activity was not specified in Law no.61 of 16.03.2007. The external quality control activity results from the Internal Activity Plan of the Board of Supervisors of the Audit Activity, which was prepared and presented annually for approval to the Minister of Finance.

In the future, according to Article 41 (3) of Law No. 271 each audit entity shall be subject to external quality control at least once every six years, and the audit entities in public interest entities - at least once in three years.

4.2. Audit Supervisory Board remuneration

Until now, the remuneration costs of the specialists in the control and verification service and members of the Council, during the examination of the normative acts related to the audit activity and their participation in its meetings, other expenses related to the work of the Council were incurred from the means provided for in the budget of the state.

Starting with 2019, the Financing of the Board of Supervisors of Audit Activity is determined by a diversified range of sources, such as:

- Annual payments of audit entities;
- Annual contributions to auditors and trainees;
- Payments for obtaining professional auditor qualification;
- Payments for recording auditors in the auditors' public register;
- Payments for registering audit entities in the audit entities.
- Subsidies from the state budget;
- Tariffs set for services provided in accordance with the legislation;
- Receipts obtained from the sale of their own publications;
- Other sources uninterrupted by legislation.

It is expected as a basic source for the financing of the audit surveillance Board's activity to be the annual payments of audit entities and annual contributions.

Under the conditions of Directive 2006/43 / EC is foreseen in advance of influences on audit quality and surveillance systems as a result of its funding by auditors and audit entities. Therefore, in order to comply with this condition, the Financial Statement Audit Law no. 271 establishes fixed payments for each auditor's report issued for the audit of financial statements. The amount of the payment is constant and does not vary from one auditor to another but is the same and therefore cannot be considered that this funding provides a possibility to influence the quality of the audit.

4.3. Public oversight of audit activity requirements

The public oversight of the audit activity, in accordance with the requirements of the European Community, is based on certain principles indicated in Article 32 of Directive 2006/43 / EC. Even if these principles are not presented and listed separately, however, the regulations set out in this legislative act concerning the organization and functioning of the public oversight system were designed taking into account the good practices in the field, namely:

- Cannot exceed a legal supervision or a legal auditor or audit firm;
- Managing the public oversight system is carried out by persons that are not practicing audit activity.

The public surveillance system must be managed by persons that are not practicing audit activity, but this does not mean that the persons concerned have not practiced the audit and that

they were not involved in this system with relevant knowledge in the field of legal audit. This principle envisages the engagement in the public oversight system of only the audit activity of persons who are arranged as during the participation period in the activity of the system not to operate at the same time and in practice.

That is why the Executive Director of the Public Supervisory Board of Audit According to art. 38 of the Law no. 271 must not practice audit activity at least ten years in the economic or legal field. And the staff of the Council, based on the principles of Directive 2006/43 / EC should be competent in the legal audit and is also proposed that they have specific training in quality control.

At the same time, for the purpose of correspond with provisions of Article 29 of Directive 2006/43 / EC is established that auditors and audit entities must comply with the following requirements:

- The object of quality control is auditors and audit entities;
- Conclusions of the quality control are documented through a report; - avoiding conflicts of interest between those who carry out quality control and subjects of audit activity;
- Quality control is carried out at least once every six years, and the results are published.

Article 41 of Law No. 271 on the audit of financial statements, sets out certain terms for the production of quality control area. Each audit entity is subject to external quality control at least once every six years, and entities conducting audit in public interest entities - at least once every three years.

Quality Assurance, under the conditions of the new legislative provisions, is found in the external quality control of the Council for Public Supervision of Audit Activity and is also the object of its own internal quality control system within the audit entity according to the ISQC 1 "Quality Control for Companies conducting audits and revisions of financial statements as well as other insurance missions and related services". International quality control standards apply for internal quality control within the audit entity. These standards have been issued by the International Standards and Insurance Council and have been accepted in order to be applied in the territory of the Republic of Moldova.

In Directive 2006/43 / EC on the legal audit of annual accounts and consolidated accounts does not specify, after which the principles are selected, the audit files are selected in order to be subject to quality control. In my view, quality control can be carried out totally or by poll, depending on the volume of activities carried out by the audit entity, as well as the frequency of deviations previously found, comprising a representative number of auditor's reports and documents. At the same time, European rules also emphasize on transparency, so it is principally as the overall results of the quality assurance system to be made public. According to the nominated article, the general results of the quality assurance system are published annually. In this context, the Law no. 271 on the audit of the financial statements refers to the Regulation on the external audit control. The regulation at issue, at the moment, is not yet elaborated, but with the entry into force of Law no. 271, it will be approved by the Council for Public Supervision of Audit Activity.

5. CONCLUSIONS

Taking into account the conditions for the transparency provided for in Directive 2006/43 / EC, it is proposed to include the annual publication requirement of the general results of the quality assurance system and their placement on the official website. Such information would fill in the transparency of the activity and their placement on the official website for public oversight of the audit activity, including:

- Annual activity plan;
- The semi-annual external control plan;

- Annual activity report and other information reflecting the work carried out by the Council.

Depending on the volume of activities carried out by the audit entity, quality control is recommended either in total or by the survey, taking into account the frequency of deviations previously found, as well as a certain representative number of auditor's reports and documents. The quantity of reports and documents selected to be controlled must provide the possibility:

- To formulate conclusions on the adequacy of the quality control system and compliance with it;
- Establish findings on how to comply with the normative requirements in the field of audit financial statements, their revisions, insurance missions, other missions and professional services;
- Evaluate of compliance with independence requirements.

The testing of the selected audit files, under the conditions of Article 29 (1) of Directive 2006/43 / EC, must also aim at an assessment of the quantity and quality of the resources spent, the perceived audit fees and the internal quality control system within the the audit entity.

Avoiding conflicts of interest between those who carry out quality control and subjects of audit activity, under the conditions laid down by Directive 2006/43 / EC on the legal audit of annual accounts and consolidated accounts, in my view, can be achieved on the basis of an objective procedure Selecting those who will exercise quality control missions. Such missions must be carried out by appropriate vocational training and relevant experience in legal auditing and financial reporting combined with specific quality control.

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