

**PROBLEMATIC ASPECTS REGARDING CREATION OF SYSTEM FOR  
SUPERVISION OF ACTIVITY AND QUALITY OF AUDIT WORKS****PhD student Diana RENCHECI***Academy of Economic Studies of Moldova, Republic of Moldova  
diana.rencheci@gmail.com***Abstract**

*While aligning the audit legislation to the norms and standards of the European Union, the Republic of Moldova has adopted new laws and regulations to increase the effectiveness of the audit system and therefore increase the quality of audit works. This article highlighted and described some issues from this domain, such as the need to establish benchmarks for determining the duration of external control of audit quality and the number of verified audit dossiers, the need to develop sanctions for auditors or audit entities that did not highlight serious frauds and the ensuring of transparency in the activity of council and audit entities for the prevention of frauds in the financial and banking system. The opinions of scientists in the field, as well as the provisions of legislation in force, were analyzed in order to formulate the conclusions and recommendations related to solving the mentioned problems.*

**Keywords:** *audit; supervision; quality; financial statements; mission*

**JEL:** *M42*

**I. INTRODUCTION**

A quality audit starts with an efficient system for supervising the activity and quality of audit works, that is ensured by a strong legislative and regulatory framework, well structured and in line with European standards. Not less important are also other factors that include the quality of audit works, such as the auditor's professionalism, close knowledge of the audited economic sector, and also a transparency of the bodies supervising the activity and quality of audit works and audit entities.

With the connection of audit legislation to the norms and standards of the European Union, the Republic of Moldova has adopted new laws and regulations to increase the effectiveness of the systems of audit activity supervision and therefore increase the quality of audit works.

This article describes the basic elements of the system for supervising the activity and quality of audit works in the Republic of Moldova in the light of the Law on Audit of Financial Statements no. 271 of 15.12.2017 (hereinafter - Law no. 271/2017) adopted on the basis of recommendations and provisions of the Directive 2006/43/EC, the Regulation on Activity of Public Audit Supervision Council (hereinafter - the Council) and the Regulation on External Audit Quality Control.

At the same time, borrowing the experience of other authors, scientists and economists in this field, were described certain issues in Moldovan legislation regarding the need to establish benchmarks for determining the duration of external control of audit quality and the number of verified audit dossiers, the need to develop sanctions for auditors or audit entities that did not highlight serious frauds and the ensuring of transparency in the activity of council and audit entities for the prevention of frauds in the financial and banking system.

The method of documents analysis was used in the elaboration of this research, as the analysis of bibliographic sources used and interpretations of the field specialists permit a content decomposition of the approached problems. Subsequently, through the method of synthesis, the author argues truthfully and rationally the positions of domestic and foreign scientists on the approached subject, allowing the formulation of conclusions on each issue separately.

**II. CONSIDERATIONS RELATED TO THE ORGANIZATION AND FUNCTIONING OF THE AUDIT ACTIVITY**

In accordance with the provisions of the Directive 2006/43/EC, EU Member States should organize an efficient public supervision system for statutory auditors and audit firms based on control in the origin country. Regulatory agreements for public supervision should allow for effective cooperation at community level between Member States' supervision activities. The public supervision system should be managed by non-practitioners who have knowledge in areas related to legal audit.

These non-practitioners may be specialists who have never been involved in the audit profession or former auditors who have quitted the profession. Member States may, however, permit a small number of practitioners to be involved in the administration of public supervision system. The competent authorities of the

Member States should cooperate with each other, whenever necessary, in order to fulfill the supervisory obligations of statutory auditors or audit firms authorized by them. Such cooperation can make an important contribution to consistently ensuring a high quality of legal audit at community level. The designation of a single entity responsible for ensuring the cooperation should not affect the ability of each authority to cooperate directly with other competent authorities of the Member States, as it is necessary to ensure effective cooperation and coordination at European level between the competent authorities designated by the Member States.

In the Republic of Moldova, according to the provisions of the Law no. 271/2017, all auditors and all audit entities are subject to public supervision, and the public audit supervision body is the council, that operates in accordance with the provisions of this law and the Council Activities Regulation, approved by the Government.

According to the provisions of the mentioned Regulation, the Council is an autonomous public institution with the status of a legal person, responsible for the public audit supervision. At the same time, this Regulation clearly specifies that the Council also fulfills the function of audit quality assurance, as well as supervises and controls the activity of audit trainees, auditors and audit entities (GD no. 807/2018).

In its turn, the Council approved the Regulation on External Audit Quality Control, the purpose of which is to establish the principles, the mode of organization and conduct of external audit quality control, the rights and obligations of the audit entity and external audit quality control specialists within the Council, the types of controls and their planning, the scope of external control, the mode of organization, documentation and reporting of external controls results, the mode of applying disciplinary measures as a result of finding non-conformities following external quality control, as well as the external control performed by the professional organization in the audit domain, selected by the Council (Decision no. 17/2019).

The author Iachimovschi (2018) considers that these functions ensure the strengthening of audit system. In this way, issues conditioned by the fragmented accountability in the public supervision of audit missions were resolved. Thus, the Council is responsible not only for ensuring that auditors and audit entities comply with relevant audit standards, the code of ethics and quality assurance requirements, but also for authorizing market participants to audit services. At the same time, it should be mentioned that the Council acts as an institution that regulates the mode of exercising the public audit supervision function.

In past, the Council acted as an advisory body to regulations in the field of audit. According to the new provisions, the Council has the right to delegate to professional organizations in the domain of audit the function of external audit quality control of their members - audit entities - that perform the audit at entities that are not of public interest.

In the opinion of economists from the Republic of Moldova (Iachimovschi & Grumeza, 2019), when initiating the process of applying in practice the new provisions on exercising external audit quality control, it is necessary to establish benchmarks for determining the duration of external audit quality control and number of verified audit dossiers. The pre-establishment of a fixed duration for exercising the external quality control and its indication in the external control program would be correlated with the volume of audit entity's activity and respectively with the total number of audit entity's dossiers during the external control period.

We support the opinion of the mentioned economists, because the time factor has a great importance on the exercise of an external control, that must be framed within certain limits and that cannot last indefinitely. Therefore, we consider it necessary to amend the above-mentioned regulations and supplement them with certain benchmarks when determining the duration of external audit quality control and the number of verified audit dossiers.

However, we believe that a qualitative audit consists not only in the system of state's supervision of auditors and audit entities, but, as expressed by the scholar Tache (2020), the quality of audit is also represented by the ability of auditing firm to find and report errors at the client's level, to make decisions by providing expertise in the client's information system and, finally, to provide an opinion transmitted in the audit report.

According to the International Standard on Quality Control 1 "Quality control for firms that perform audits and reviews of financial statements, as well as other assurance missions and related services" (hereinafter - ISQC 1), the firm must establish procedures and policies to promote an internal culture, based on the idea that quality is essential for carrying out missions. Such policies and procedures provide for the executive director of the firm (or its equivalent) or, as the case may be, the directing council of partners (or its equivalent) to assume the final responsibility for the quality control system within the firm.

At the same time, according to ISQC 1, the firm must establish policies and procedures so that any person or persons invested by the executive director or the directing council of partners with operational accountability for the quality control system within the firm have the appropriate and sufficient experience and skills, as well as the authority necessary to assume this responsibility.

The economist Grumeza (2017) considers that a qualitative audit has all the chances to have been carried out by a mission team, which:

- demonstrated appropriate values, ethics and attitudes;
- was sufficiently knowledgeable, qualified and experienced and had sufficient time to carry out the audit

work;

- applied a rigorous audit process and quality control procedures that complied with applicable law, regulations and standards;
- provided useful and prompt reports; and
- interacted appropriately with relevant stakeholders.

ISQC 1 also involves reviewing mission quality control. A review shall assess and determine whether:

- the activity was carried out in accordance with the professional standards and with the applicable legal and regulatory provisions;
- significant issues were reported for being treated;
- appropriate consultations took place and the resulting conclusions were documented and implemented;
- it is necessary to review the nature, timing and scope of the activity carried out;
- the activity carried out supports the formulated conclusions and it is adequately documented;
- the evidence obtained is sufficient and adequate to support the report; and
- the objectives of mission procedures have been met.

In the study conducted by scientists from "Trisakti" University in Indonesia (Sailendra, Murwaningsari, Mayangsari, 2019), it was found that the quality of audit depends on the following factors:

- the natural logarithm of the annual audit fees paid by an audit company to the auditor;
- the total duration of the auditor's mandate within the company;
- the percentage of the total market share of the auditor by industry;
- the total number of auditor's clients;
- the total number of years since the establishment of company;
- natural logarithm of total assets at the end of the year, etc.

Other authors note the auditor's specialization by industries represents his/her increased competencies for certain industries, so that specialized auditors have more skills to detect significant misstatement as a result of fraudulent financial reporting, what may be an indicator of audit's quality that can increase the company's performance (Cosmulese, 2020).

The same idea is supported by Manoli (2015) and Cosmulese & Socoliuc (2019) who considers that the auditor must gain knowledge of the entity and its environment, including its internal control, sufficient to identify and evaluate the risks of material misstatement in financial statements, whether they are due to fraud or errors and sufficient to develop and apply additional audit procedures. He/she also uses professional judgment to determine the level of knowledge required from the entity and its audit environment, which is usually lower than that of management for the entity's conduct.

We agree with what the mentioned scientists presented, because each entity, depending on the economic sector in which it operates (agriculture, industry, construction, banking, etc.) has its specifics. Therefore, a qualified auditor in a particular field would be more appropriate for the given field and would add significant value to the audit report than an auditor who is unfamiliar with the specifics of the entity in the audited sector. Thus, we recommend that audit entities train their auditors for certain sectors of the economy, in order to increase their level of professionalism and to provide a more detailed picture of the activity of audited entity.

Manoli (2015) draws attention to the banking supervision system, especially to the external financial role, referring to the bank fraud that took place in 2014-2015 in the banking system of the Republic of Moldova, which led to the liquidation of three commercial banks. In his opinion, auditors can still be found responsible in some cases for financial scandals, to a greater or lesser extent. The complicity of large audit firms or their inability to detect fraud has been demonstrated, and they are ultimately ordered to pay compensation for the financial losses caused by the fraudulent entity.

From the perspective of credibility theory, auditors and audit firms are seen by the general public as vectors of increasing the credibility of financial statements, and based on the theory of inspired trust audit services must support the confidence of shareholders in audited entity managers and their actions. Audit services are part of the entity's monitoring activities and contribute significantly to reducing information asymmetries.

In view of the above-mentioned, we believe that the Council should develop certain sanctions for auditors or audit entities, whose audit engagements have not revealed such large deviations, such as the 2014-2015 banking system fraud in the Republic of Moldova, because such negligence leads to decreased trust of customers in audit missions.

At the same time, taking into account the conditions of ensuring transparency provided by the Directive 2006/43/EC, the author Iachimovschi (2018) proposes to include the requirement of annual publication of general results of the quality assurance system and their placement on the official website. Such information would complement the transparency of activity and its placement on the official page of the audit activity council, including:

- the annual activity plan;
- the semestrial external quality control plan;
- the annual activity report and other information reflecting the work of the Council.

Also, depending on the volume of activities performed by the audit entity, it recommends exercising quality control either in full or by sampling, taking into account the frequency of deviations previously found, as well as the certain representative number of reports and working documents of the auditor. The quantity of reports and documents selected for control must make it possible the following:

- to formulate sound conclusions on the adequacy of quality control system, compliance with it;
- to establish the findings regarding the manner of observing the normative requirements in the field of auditing financial statements, their revisions, insurance missions, other missions and professional services;
- assessing compliance with independence requirements.

We consider that by ensuring the transparency of the activity of Council and audit entities, frauds in the financial and banking system will be prevented, what will increase confidence in the business environment in the Republic of Moldova.

Russian authors (Sazhi & Pletneca, 2017) think that internal audit represents one of the most important processes of audit works' quality. In their opinion, internal audit is necessary for the continuous development of the quality management system, and internal auditors can, thus, become the factor of change and improvement of the vital sectors of an entity. To improve the quality of internal audit, they propose a control form, which would help auditors to act more effectively. This form would answer several questions, including the following:

- Is the process properly identified and described?
- Are functions and responsibilities defined?
- Are there levers of control over the processes?
- Are the processes efficient?
- Is there a desire to develop the processes?

This questionnaire is intended to be used in all subdivisions of the audited entity within the audit mission in order to improve the results of audit mission.

In our opinion, the existence of internal audit is indeed an important and useful element for the entity, but it is positioned at a lower level and relates only to the managerial activity of an entity, in order to make correct decisions in certain situations internally, such as the following: optimizations, processes development, improvements, etc. Therefore, there can be no external audit system for internal audit and, thus, it cannot be controlled by the competent state authorities.

### III. CONCLUSIONS

When initiating the process of applying in practice the new provisions regarding the exercise of external audit quality control, it is necessary to establish some benchmarks for determining the duration of the external audit quality control and the number of verified audit dossiers. The establishment in advance of a fixed duration for exercising the external quality control and its indication in the external control program would be rational to be correlated with the volume of audit entity's activity and respectively with the total number of audit entity's dossiers during the period subject to external control, because the time factor has a great importance on the exercise of external control, which must be within certain limits and cannot last indefinitely. Therefore, we consider it necessary to amend the legislation and supplement it with certain benchmarks when determining the duration of external audit quality control and the number of verified audit dossiers.

Because each entity (from agriculture, industry, construction, banking, etc.) has its specifics, we consider that a qualified auditor in a particular field would be more appropriate for the given field and would add significant value to the audit report than a auditor who is unfamiliar with the specifics of entity from the audited sector. Therefore, we recommend that audit entities train their auditors for certain sectors of the economy, in order to increase their level of professionalism and to provide a more detailed picture of the activity of audited entity.

Auditors may still be held responsible in some cases for financial scandals, to a greater or lesser extent. The complicity of large audit firms or their inability to detect frauds has been demonstrated, and they are ultimately ordered to pay compensation for the financial losses caused by the fraudulent entity. In order to avoid situations similar to the bank fraud in 2014-2015 in the Republic of Moldova, we consider that the Council should develop certain sanctions for auditors or audit entities, whose audit missions did not reveal such large deviations, and, by ensuring the transparency of the Council's activity and the audit entities, frauds in the financial and banking system will be prevented, what will increase confidence in the business environment in the Republic of Moldova.

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