



Implementing European Regulations in Romania

CHAMBER OF FINANCIAL AUDITORS OF ROMANIA

The Audit Reform - Status of the Implementation in Romania

The draft law for transposing Directive 2014/56 and for implementing the optional provisions of Regulation (EU) No. 537/2014

- The draft was issued by the oversight body – Council for the Public Oversight of the Accounting Profession/Consiliul pentru Supravegherea in Interes Public a Profesiei Contabile (CSIPPC)
- The draft was discussed with the professional body (CAFR) and with representatives of financial auditors
- The draft was submitted to the entity who has legislative initiative at national level, namely the Ministry of Public Finance /Ministerul Finanțelor Publice (MFP)
- The draft was analyzed and modified by MFP, following up discussions with CAFR and CSIPPC
- May 2017 - The draft law was approved by the Romanian Government, as legislative initiator and submitted to the Romanian Parliament for adoption
- Current status - The draft law is registered in the Parliament of Romania, has been approved by the Senate, the Chamber of Deputies committees gave a favorable opinion and is submitted for the vote of the Chamber until the end of June 2017.



Implementation of the options included in the Regulation (according to the Draft)

○ **Rotation**

- Maximal duration 10 years; it is possible to extend to 20 years (in the case of a public procedure for the appointment of statutory auditors, in compliance with Art. 16 of the Regulation).
- The extension of the rotation's duration as a result of joint audits is not allowed.

○ **Non-Audit Services**

- The list of non-audit services, as it is included in the Regulation, is approved
- The oversight authority may prohibit other non-audit services, if they believe that those services threaten the statutory auditor's independence.
- Certain non-audit services may be authorized under the terms and conditions set under Art. 5 par. 3 of the Regulation

Implementation of the options included in the Regulation (according to the Draft)

○ **Delegation of tasks to the professional body (CAFR)**

- The law allows delegation for a period of no more than 5 years – it is possible to renew it. The delegation may be performed by decision of the statutory audit oversight authority, in compliance with certain conditions and may be withdrawn (at any time), also by decision of the oversight authority
- When the law becomes effective, the delegation of tasks shall be carried out de jure, for one year
- For PIEs- all tasks may be delegated, except for the system for quality assurance, investigations and sanctions applied to statutory auditors
- For Non-PIEs – all tasks may be delegated except for the investigations and sanctions applied to statutory auditors

○ **Legal statutes of the oversight authority**

- Public institution, coordinated by the Ministry of Public Finance.
- The Organizational and Operational Guidelines are approved by the Ministry of Public Finance.
- The Board of the Oversight Authority – 5 persons (representatives of the Ministry of Public Finance, the Ministry of Justice, the National Bank of Romania, the Financial Supervisory Authority).

Draft law – positive and negative aspects

Positive aspects

- The provisions included in the Directive and Regulation have been taken over, without adding new restrictions (regarding the external rotation, non-audit services)
- Introducing certain coercive measures for the lack of audit committees at PIEs and for the lack of internal audit at private entities which undergo statutory audit
- The law sets the possibility to delegate certain tasks to the professional body

Negative aspects

- The financing of the POB does not comply with the principle of independence from the profession, given that a major part of the financing is provided by the professional body
- Uncertainties arise from the fact that the conditions for the delegation of tasks are not clearly set by law as they can be set at a later date
- We are not sure that the inspectors who will verify the audit firms will have the required professional experience and knowledge

Uncertainties – the date when the draft law will be transposed at national level

The Audit Reform in the European Union - Conclusions

BENEFITS

- audit quality
- reliable framework regarding the auditor's independence and corporate governance
- transparency

CONCERNS

- mandatory rotation of the audit firm combined with significant restrictions on non-audit services will inevitably diminish the possibilities related to the selection of service providers and, at the same time, will lead to an increase of the costs and of the complexity



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