

**6<sup>TH</sup> REGIONAL CROSS-BORDER MEETING**

Chişinău, June 21-23, 2012

# Regulation of the Profession

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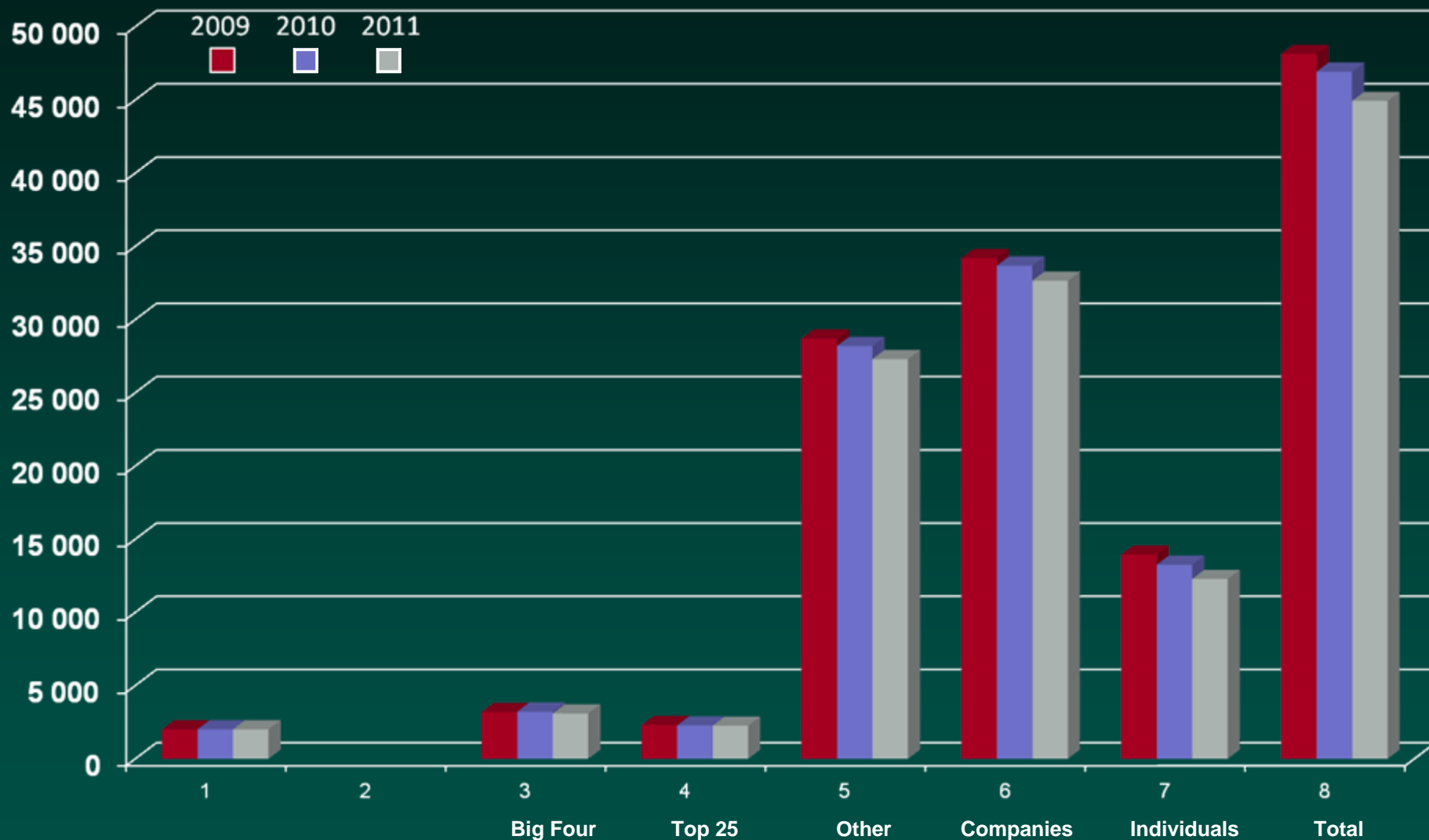
**Chamber of Hungarian Auditors**



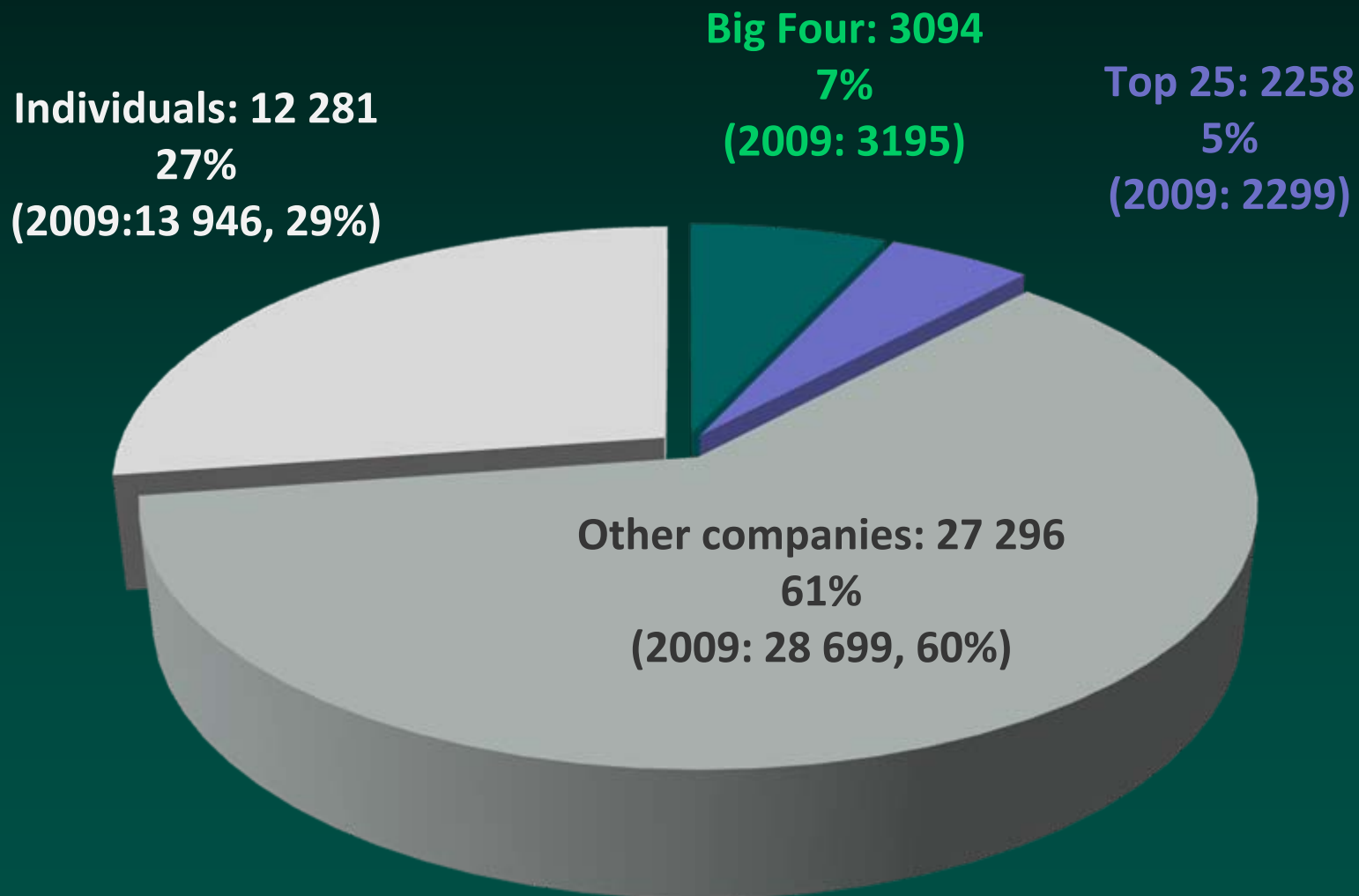
*Chamber of Hungarian Auditors*

# Number of Audit Reports

(48 139 in 2009, 44 929 in 2011; decrease is 6,7%)

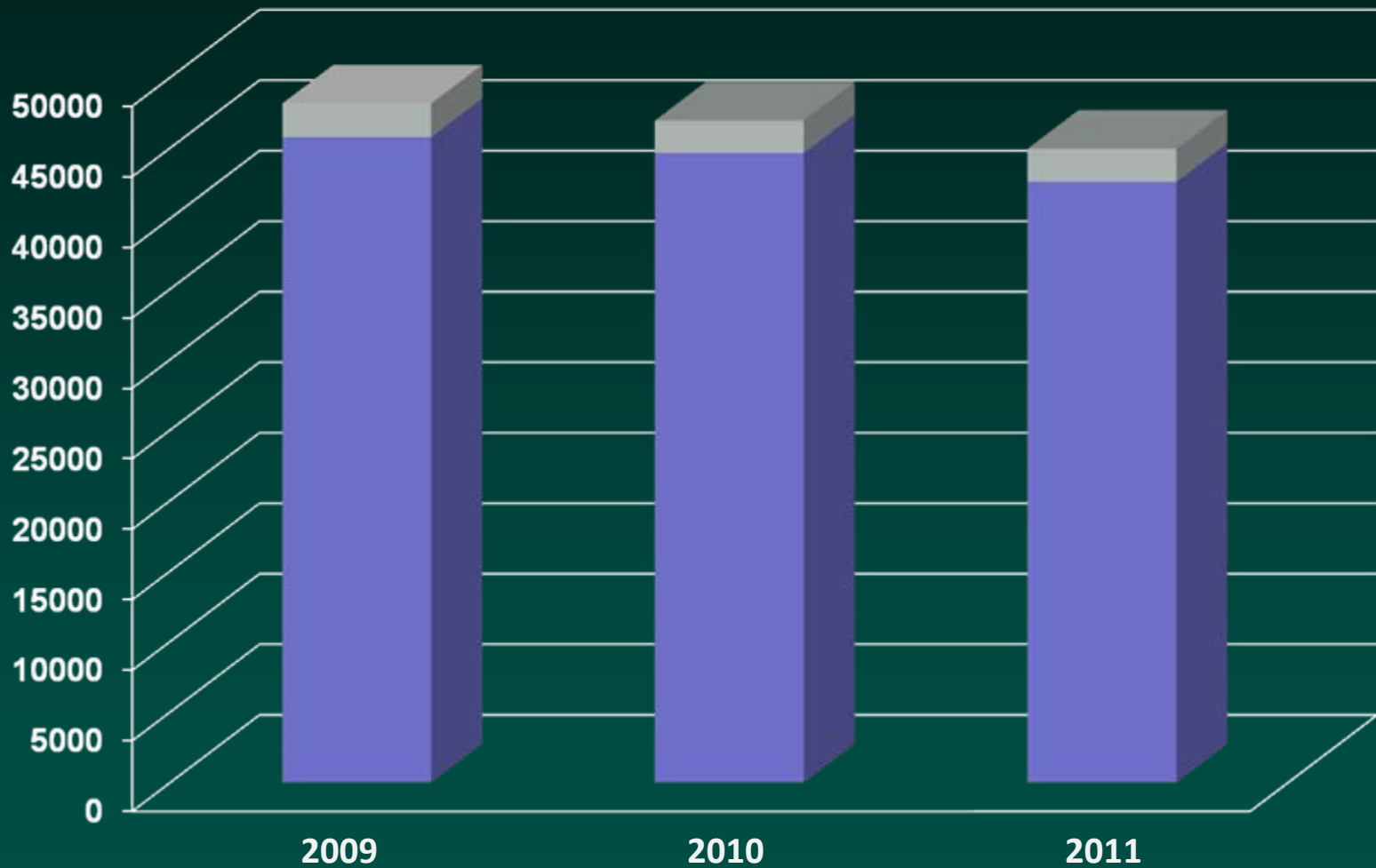


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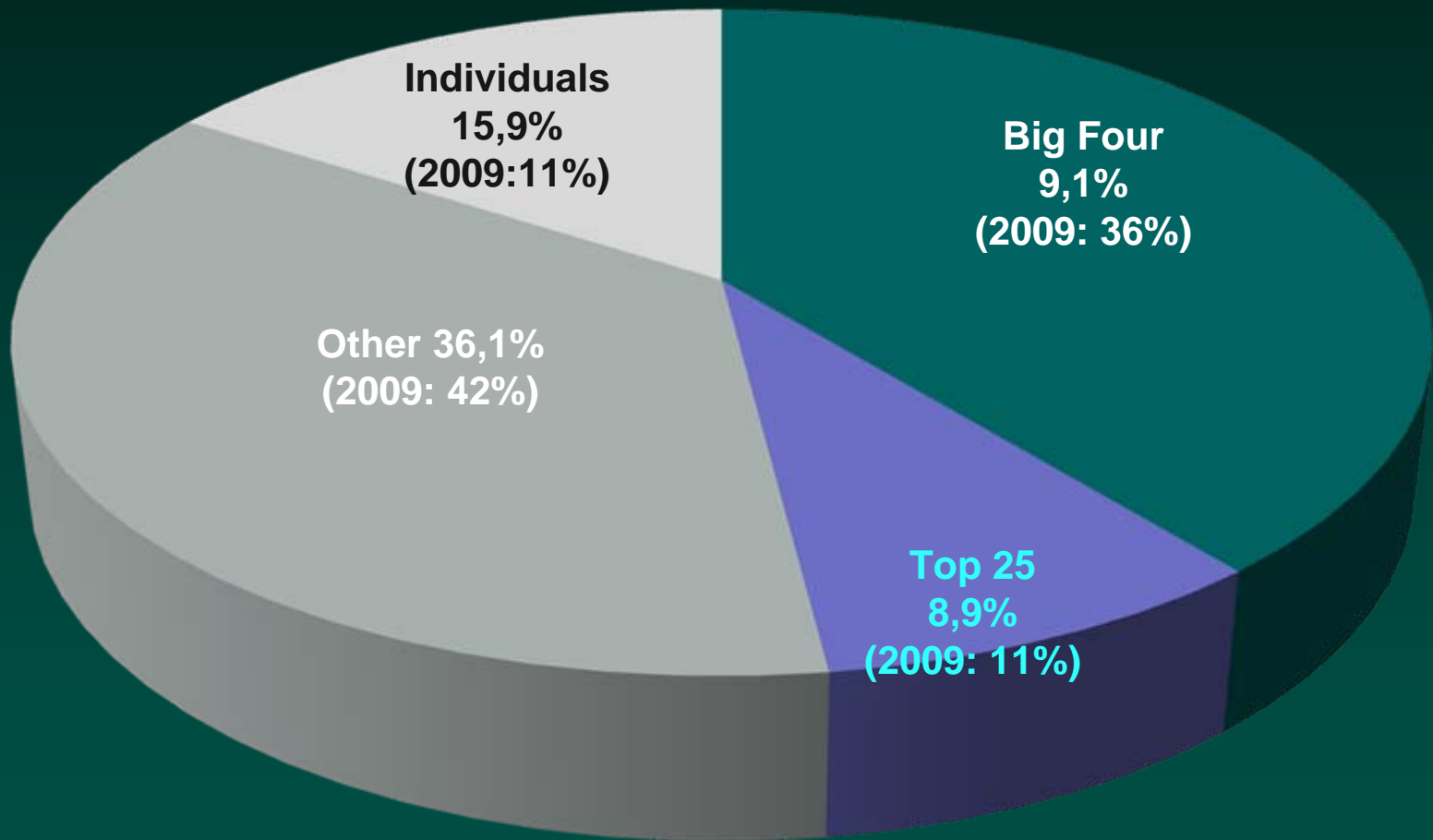
# Audit reports

5% special, 95% not special  
(decrease is 7%, and 1,7%)

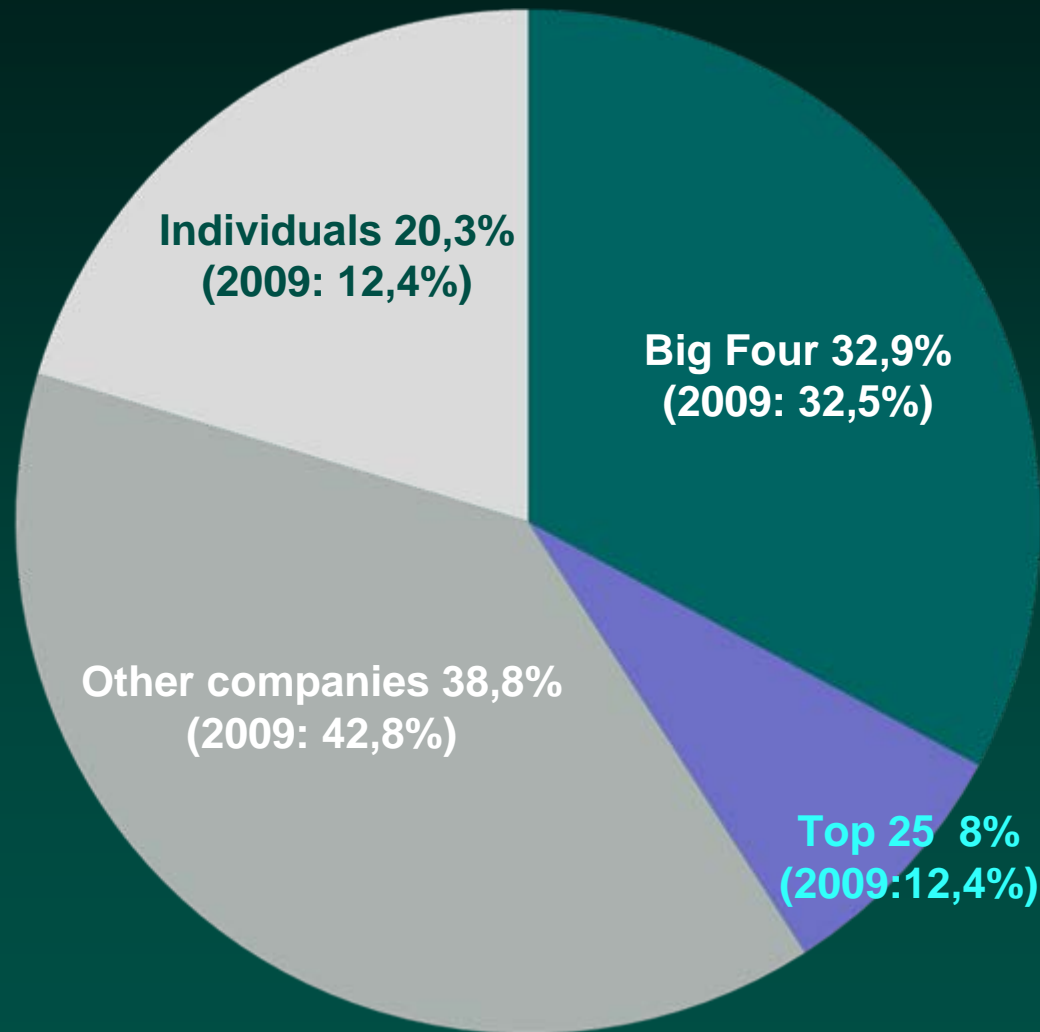


# Total Revenue

(2009: 300 M EUR, 2011: 264 M EUR, 12% decrease)



**Revenue from audit activity**  
**(in 2009 EUR 145,78 M, in 2011 EUR 142,3 M – 2,4% decrease)**



# Challenges faced by assessed entities

## Questions over assessments

- lack of active market
- increased estimation uncertainty
- greater subjectivity

## Main doubts over going concern

- non-execution of bank contracts
- other financial or liquidation problems
- bankruptcy of important buyers or suppliers

## Increased risk of fraud



# Answers from the auditors

## Challenges:

- Questions over assessments
- Main doubts over going concern
- Increased risk of fraud

## Answers:

- Increased involvement of assessment experts
- Emphasized control concerning publication of estimation uncertainty in the report
- Increased importance of management's statement of integrity
- Enhancing unpredictability of procedures



# Tightening environment regulating auditors

Initiatives to  
re-think  
responsibilities  
and role of  
auditors

Strengthening  
independent  
supervision of  
auditors

Strengthening  
quality control of  
auditors



# Public Oversight Body

- Public Oversight System is operated by the Public Oversight Body (POB)
- POB monitors and evaluates:
  - a) the procedures for the granting of authorizations to carry out statutory audits, the records and registers of the Chamber;
  - b) the drafting and approval of Hungarian national accounting standards, the Chamber's code of ethics, and the national standards relating to quality control;
  - c) the functioning of the continuing professional training program and the quality assurance system;
  - d) the disciplinary proceedings



# Public Oversight Body

- in the report concerning the implementation of its annual action plan
- addresses the major discrepancies found
- during the inspection and
- assessment of the quality assurance system, and
- during the quality assurance review of registered statutory auditors and audit firms engaged in carrying out statutory audits of public-interest entities
- as well as the measures adopted.



## Public Oversight Body - operation

if noticing any situation where the interests of entities audited are jeopardized, upon the analysis, assessment and evaluation of the facts available and consistent with the degree of endangerment, the body:

- a) presents recommendations to the Chamber or the Minister concerning potential solutions to eliminate situations where the interests are jeopardized;
- b) initiates proceedings at the Chamber;
- c) initiates judicial oversight proceedings.



# Judicial Supervision over the Chamber

The Minister exercises judicial oversight, when the Minister:

- monitors whether the Chamber's statutes and other rules of self-governance conform to legal regulations and if the resolutions adopted by the bodies of the Chamber violate any legal regulations, the statutes of the Chamber or other rules of self-governance.
- within the scope of his oversight authority, supervises the implementation of the chartered certified auditors' training program and the examination procedures.



# Quality Assurances



# Legislative Framework

- *Act LXXV of 2007* on the Chamber of Hungarian Auditors (Quality assurances: Sections 149 – 173)
- Methodology Manual of the Quality Control Committee
  - Rules of Procedure
  - Finances



# Rules of Procedure

- Define the operative framework of quality assurance system
- Specify quality control procedures
  - controllers' designation, notification of auditors, selection of assignments, conduct of control, evaluation of results, documentation
  - Continuing education of quality controllers
  - Annual report of the Committee
  - control of the controller by the Committee



# Finances

- Remuneration are charged to the Quality Assurance Budget appropriated in the Chamber's financial plan
- Remuneration consists of: (1) fees; (2) expenses



# Types of investigation

- Individual jobs
- Internal quality control system
- investigation of the activities subject to the Act on the Prevention and Combating of Money Laundering and Terrorist Financing
- **All are REGULATORY PROCEDURES!**



# Hungary in numbers

- Members of the Chamber: 5499
  - active: 3219
  - Currently inactive: 2280
  - firms: 1943
- Quality controllers 74
- Committee members 7



# Annual Quality Control Plan

- approved after collection of data is finalized
- made public on the website of the Chamber no later than 31 July
- As far as Listed Companies are concerned consultation with Public Oversight Authority is needed
- Includes names and registration numbers



# Quality Control Results

## Internal Quality Control

Result	No. of controls	% of Results	No. of controls	% of Results	Difference in %
	2009	2009	2010	2010	
Passed	340	91,89	345	88,01	95,78
Passed with notice	21	5,68	35	8,93	157,22
Failed	9	2,43	12	3,06	125,93
Sum	370	100	392	100	



# Quality Control Results Individual Jobs

Result	No. of persons controlled	% of Results	No. of persons controlled	% of Results	Difference in %
	2009	2009	2010	2010	2010/2009
Passed	280	70,71	371	77,78	110,00
Passed with notice	89	22,47	74	15,51	69,03
Failed	27	6,82	32	6,71	98,39
Sum	396	100	477	100	



# Quality Control Results Listed Companies

Result	Individual jobs (persons)	% of Results	Internal Quality Control (number)	% of Results
Passed	41	87,23	19	95,00
Passed with notice	5	10,64	1	15,00
Failed	1	2,13	0	0
Sum	47	100	20	100

Quality control of listed companies is carried out by the Public Oversight Body from 2011!



# Quality Control Results AML Act

Result	AML controls (persons)	% of Results	AML controls (persons)	% of Results	Difference in %
Procedure ceased	268	70,71	283	72,19	102,10
Call for ceasing deficiencies	111	29,29	109	27,81	94,93
Sum	379	100	392	100	



# Deficiencies – Individual Jobs

- Less attention to gain owner's consent before making acceptance statement
- Planning phase causes most problems: uncertainty around defining investigation target, critical and important issues, applied procedures
- Important: Surveying risks of fraud and counterfeit
- In case of new assignments checking opening balance is missing
- Special attention is needed to IT systems and business procedures
- Identification of related partners and regulation of trade with them
- Documents are missing that auditors should acquire (confirmations, bank letters)



# Typical faults – Internal Quality Control

- Rules are defined according to the Chamber's Model Rules, but are not modified according to the operational form
- Based on experiences auditors still do not feel the importance of internal quality control. Also they do not apply steps included in the Model Rules saying that they do not meet the situations, cases included in the Model Rules in their practice



# Deficiencies – AML Control

- Controlled persons accepted the Chamber's Model Rules
- Appointment of responsible persons is missing
- Notification of responsible person towards Customs and Finance Guard is missing and/or
- Documentation of the two above is missing
- Completed identification data sheets are stored separately in a „closed” place for data protection
- Important: Audit contracts updates and completion with references to AML Act



# Further Measures, Improvements

- Cooperation with Oversight Authority regarding developing quality assurance system of listed companies
- Development of simplified quality assurance system that takes into account the nature and specialties of SMEs
- Organizing training both at national and regional level



# Questions?



Thank you for your attention

