

Overview of the Slovenian Oversight System: Agency for Public Oversight of Auditing (APOA)

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SLOVENIA some facts

Population: 2,1 mio

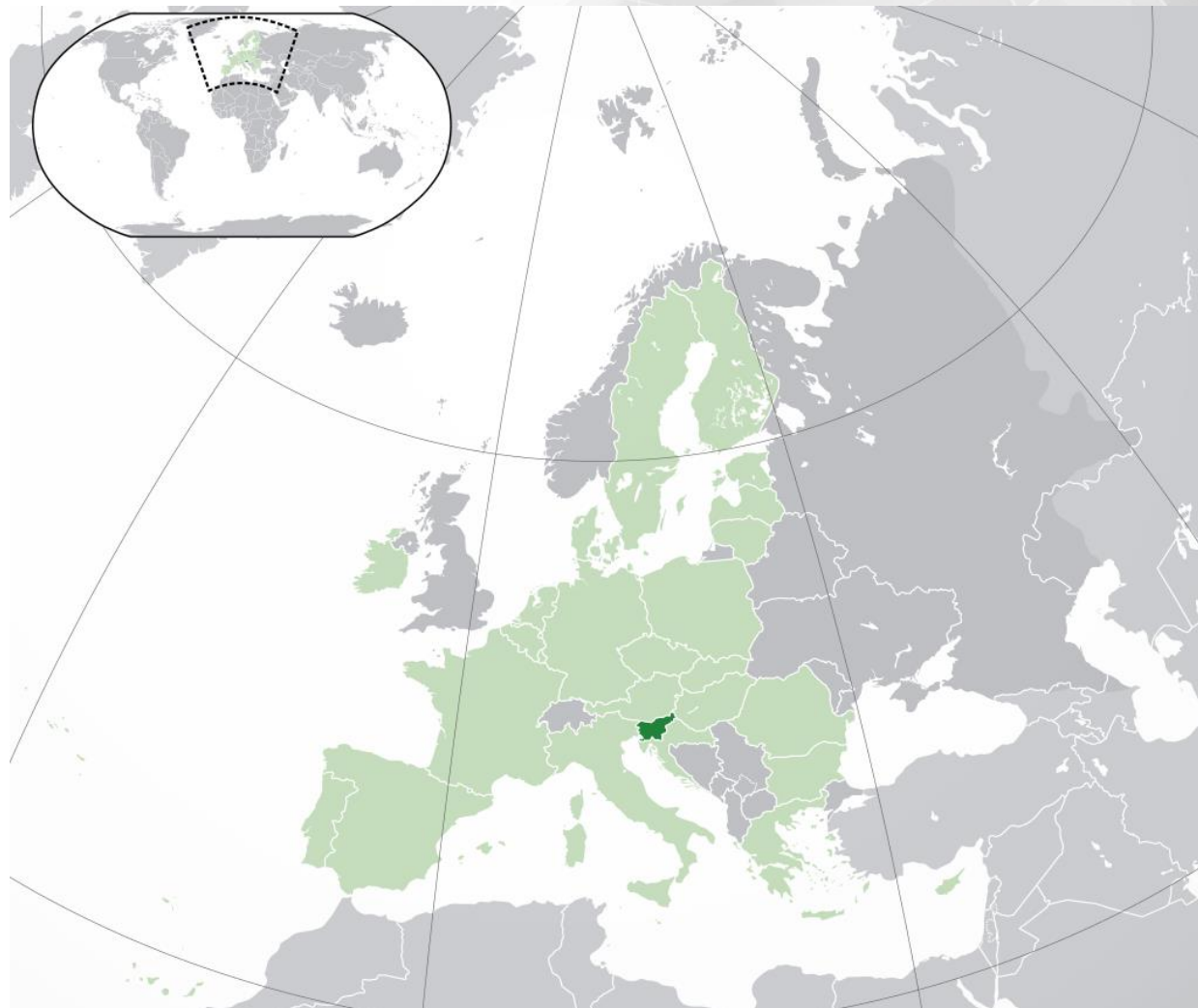
Area: 20.3 sq km

GDP: 52,3 bn USD

EU member s. 2004

EUROZONE s. 2007

industrial sector
tertiary sector (ITC,
financial and
commercial services,
retail business,
tourism)



44 audit firms

173 certified auditors

18
audit firms,
which are PIE
auditors

1575 AUDITED
FIRMS IN 2021

172 PIEs

Audit market in Slovenia in 2021

33,5 M EUR
Total revenues
(5,2% growth to 2020)

23,4 M EUR
Revenues from financial
statements audits

3,7 M EUR
Revenues from assurance
engagements other than
audits or reviews of historical
financial statements

Ernst & Young
The biggest audit firm by total
revenues

Ernst & Young
The biggest audit firm by
revenues from financial
statements audits

Deloitte
The biggest audit firm by
revenues from financial
statements audits of PIE

10 biggest audit firms
75,5% share of audit market
total revenues

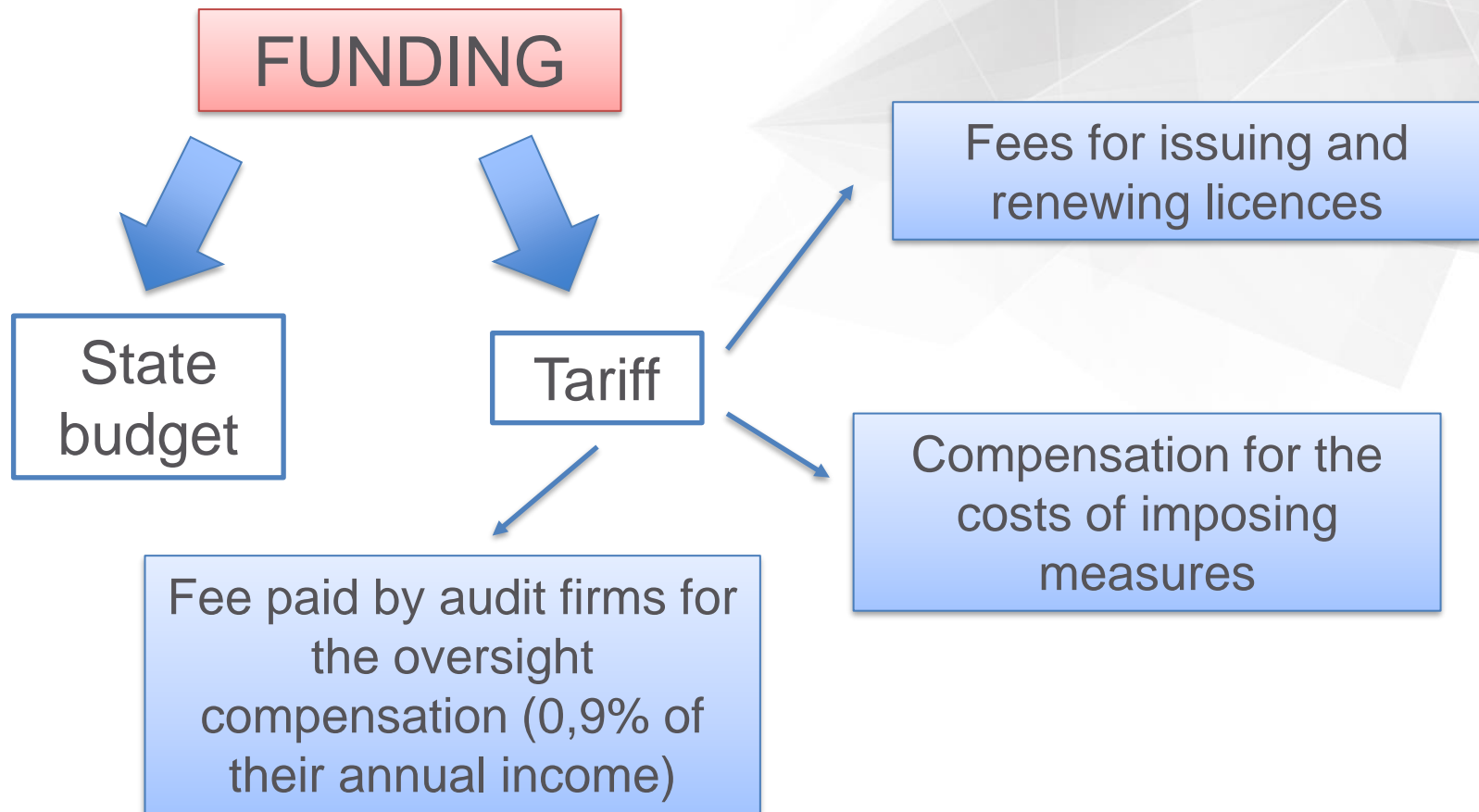
BIG 4
58,6% share of audit market
total revenues

427 employees
(BIG 4: 234)

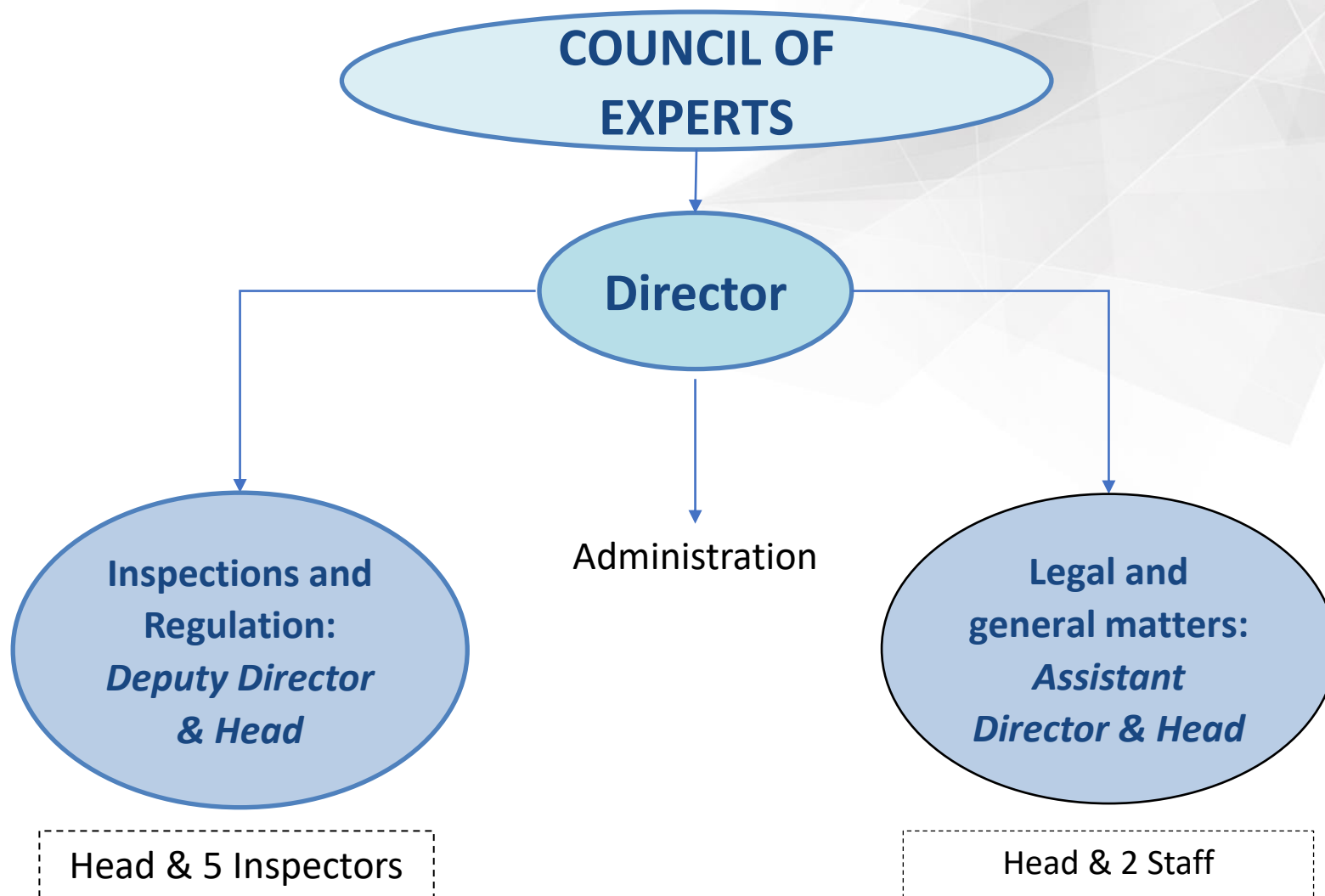
Overview of APOA

Name of organization	Agencija za javni nadzor nad revidiranjem (ANR) Agency for Public Oversight of Auditing (APOA)
Foundation	With the enforcement of the Auditing Act on July 15, 2008; started operating on March 1, 2009
Founder	the Republic of Slovenia, the founding rights and obligations are exercised by the Government of the Republic of Slovenia
Number of employees (30.6.2022)	10 (plan 2024: 13)
Decisions taken by	Expert council / director
Main responsibility	The only supervisory and regulatory body in the field of auditing in Slovenia
Funding	<ul style="list-style-type: none">• state budget• revenues in accordance with a fee schedule (fees from audit firms, sanctions, licencing, other)
Annual budget	EUR 735.000 (2022) 60% : 40%
Website	www.anr.si
E-mail	info@anr.si

- Revenue 2021: 610.461 EUR; plan 2022: 735.000 EUR



- The **only supervisory and regulatory body** in the field of auditing in Slovenia (since the new Auditing Act in January 2019)
- APOA is responsible for **carrying out inspections of all audit firms** and statutory auditors in Slovenia
- APOA is **an autonomous and independent body**
- The founder of the Agency is the Republic of Slovenia
- The **Agency's bodies** are:
 - the Expert Council
 - director
- The members of the council are **appointed and dismissed by the Government** of the Republic of Slovenia at the proposal of the finance minister: **6 years term**



Council of Experts composition

- The director of the Agency is also the president of the Council of Experts
- 9 members, nominated by the following institutions:

APOA director	Bank of Slovenia	the Insurance Supervision Agency
the Slovenian Institute of Auditors	Ljubljana Stock Exchange	Ministry of Finance
Ministry of the Economy	University of Ljubljana or Maribor	the Securities Market Agency

- Civil servants
- Mandatory government approval to increase the staffing plan
- Challenging to recruit the experienced certified auditors to become inspectors (work life balance)
- Currently: 10 employees (5 inspectors)
- Plan in 2024: 13 people (6 inspectors)

Key changes made to comply with the EU Audit Reform (new Auditing Act in January 2019)

APOA

- The last country in EU to adopt new Auditing Act to comply with ARD (21th December 2018)
- Slovenian Institute of Auditors does not have any powers left regarding auditors and auditing issues
- All direct authorities to APOA
- Only 6 months to comply with new tasks (new policies, employment of new staff, IT support)
- New way of financing: fees from audit firms and state budget (before the new audit legislation financed only by the state budget)

Competence and responsibilities

- Defining the hierarchy of auditing rules
- Supervisions of all audit firms and certified auditors (PIE and non PIE)
- Supervision of audit committees performance
- Translations of ISAs
- Defining the professional competencies and experience, required to perform audits
- Organising trainings:
 - Professional trainings
 - CPD
- Licencing and registrations of audit firms and auditors
- Sanctioning

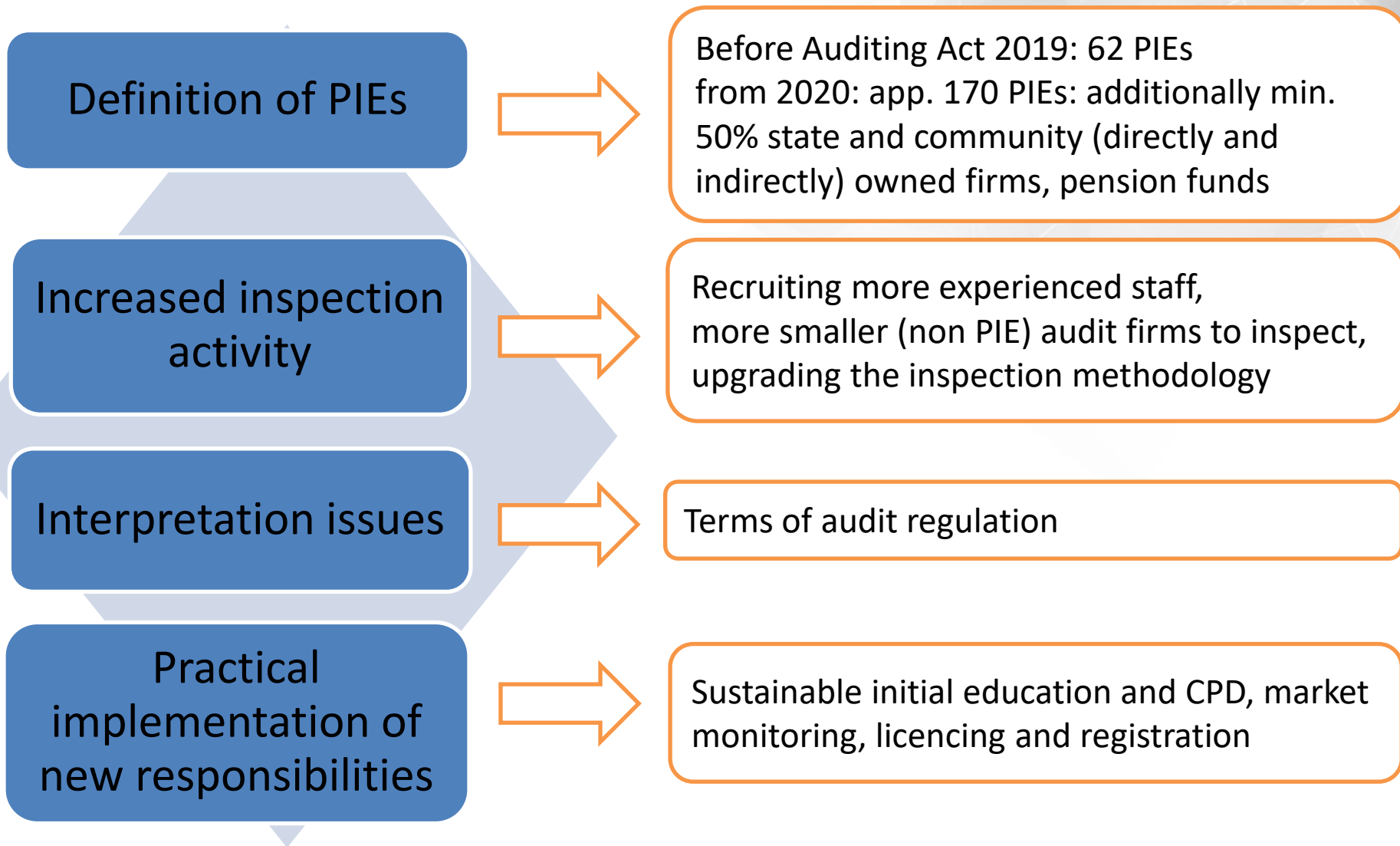
Inspections

- Increase in the number of audit firms inspected: APOA became competent authority for PIE and non PIE audit firms and auditors (before the new legislation the Slovenian Institute was also responsible for inspections of non PIE audits)
- Risk based approach

Sanctions

- APOA is directly responsible for sanctioning procedures of all audit firms and certified auditors.
- Administrative courts are responsible for appeals only
- Pecuniary sanctions (natural/legal persons)

Key challenges of implementing the EU Audit Reform



Key challenges: Practical implementation of new responsibilities

Education (initial and CPD)



Possibility of delegating these tasks; APOA Rules (initial: delegated to SIA for 6 years; CPD: different organisations)

Licensing and registration



Application of IT support, registry from the Slovenian Institute of Auditors (outdated and incomplete data regarding the new act)

Auditing rules



Hierarchy of audit rules, ISA translations (recommendations, good practice)

Adoption of the regulations



Tariff for audit firms, prohibited services, CPD rules, audit firms monthly reporting

- Before 2019: public companies, banks, insurance companies (number of PIEs: 62)
- **EXTENDED DEFINITION OF PIEs FROM 1.1.2020:**
- pension companies
- audited majority state owned companies
- **30.6.2022:** 172 PIEs
- publication of quarterly data on the status of PIE on the APOA website: <https://www.anr.si/subjekti-javnega-interesa>
- 18 audit companies are PIE auditors – obligatory 3 year inspection cycle
-

1	Banks	14
2	Insurance companies	15
3	Public companies (that are not 1 or 2; otherwise 31)	27
4	Bank assets management company	1
5	Pension companies	3
6	Companies, subject to mandatory audit with majority state and/or municipalities ownership	112
	Together	172

Tasks and competencies of APOA

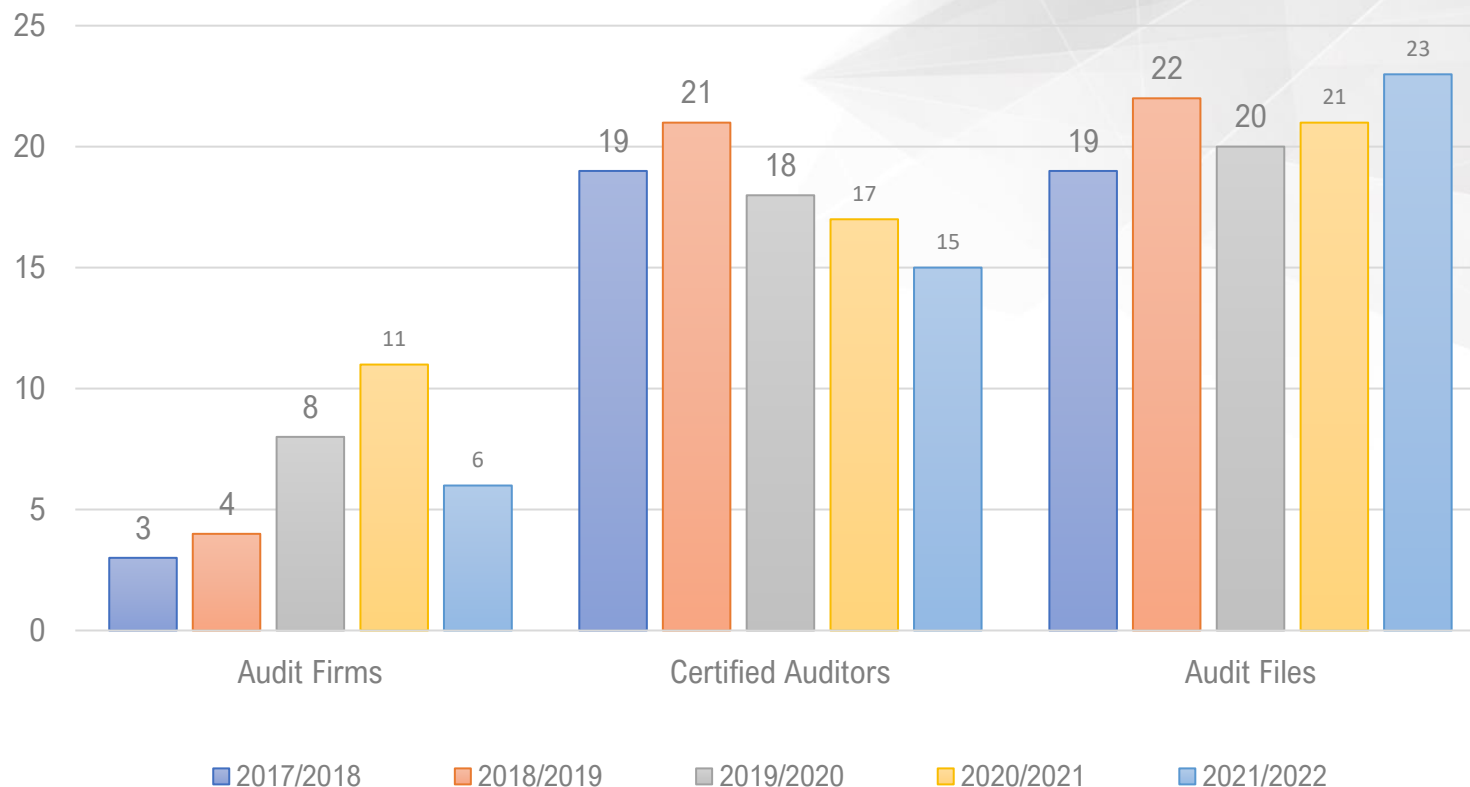
1. adopting **auditing rules** and providing translations of International Standards on Auditing, defining the hierarchy of auditing rules:
 - the use of ISAs (IFAC) is mandatory in all audit services
 - all ISAs are translated into Slovenian language
 - challenges: SIA is member of IFAC, with the copyright and the right to publish the translated ISAs on their website
 - International code of ethics (IFAC)
 - HIERARCHY OF AUDIT RULES [LINK](#)
 - Responsible for all the guidelines, explanations, good practice
2. **licensing** of certified auditors, audit companies and third country audit entities
3. keeping **registers** of certified auditors and audit firms

Tasks and competencies of APOA

4. organization of basic **training** for the title of certified auditor and organization of additional training for certified auditors
5. defining the **professional competencies** and **experience** required to perform the tasks of certified auditors
6. organising **professional training**, carrying out examinations of professional competence, and issuing certificates
7. **inspections** of the work of audit companies, certified auditors and certified appraisers
8. performance assessment of **audit committees**
9. **sanctioning**: imposing decisions in inspection procedures of the quality of work of audit companies and certified auditors and impose measures of inspections

Inspections carried out since 2017

Inspections in last 5 years



How often the quality of the work of audit firms must be inspected:

- audit firms which perform **audits of PIEs**: at least every **3 years**
- all **other audit firms**: at least every **6 years**

The Agency performs approximately 20 to 30 inspections of **key audit partners** per year.

Number of inspections of **audit firms** per year also varies and depends on the size and complexity of the operations of the audit firms under inspection in a particular year.

Agency uses the Common Audit Inspection Methodology (**CAIM**) and the CEAOB Guidelines for the selection of audit files and review areas. ([CEAOB - Common Audit Inspection Methodology \(CAIM\) | European Commission \(europa.eu\)](#)). This is used for PIE and non-PIE audits.

PREPARATION FOR INSPECTION-PLANING STAGE

The selection of audit firms and the number of key audit partners (KAP) to be inspected in a certain year is based on our **annual plan of inspections**.

SELECTION OF AUDIT FIRMS

- 3 and 6 year cycle
- risk based approach, whistleblowing, unpredictability

SELECTION OF KEY AUDIT PARTNERS AND NUMBER OF FILES FOR INSPECTION

- number of auditor's reports signed by each KAP
- number of PIEs in portfolio of each KAP,
- nature/size of the clients or engagements in portfolio of each KAP,
- expertise of the KAP in different industries
- other known information about KAP (whistleblowing)
- results from previous inspections

SELECTION OF AUDIT FILES

We prepare in-depth analysis of the portfolio of each key audit partner selected for inspection and document analysis and our decision (Excel format).

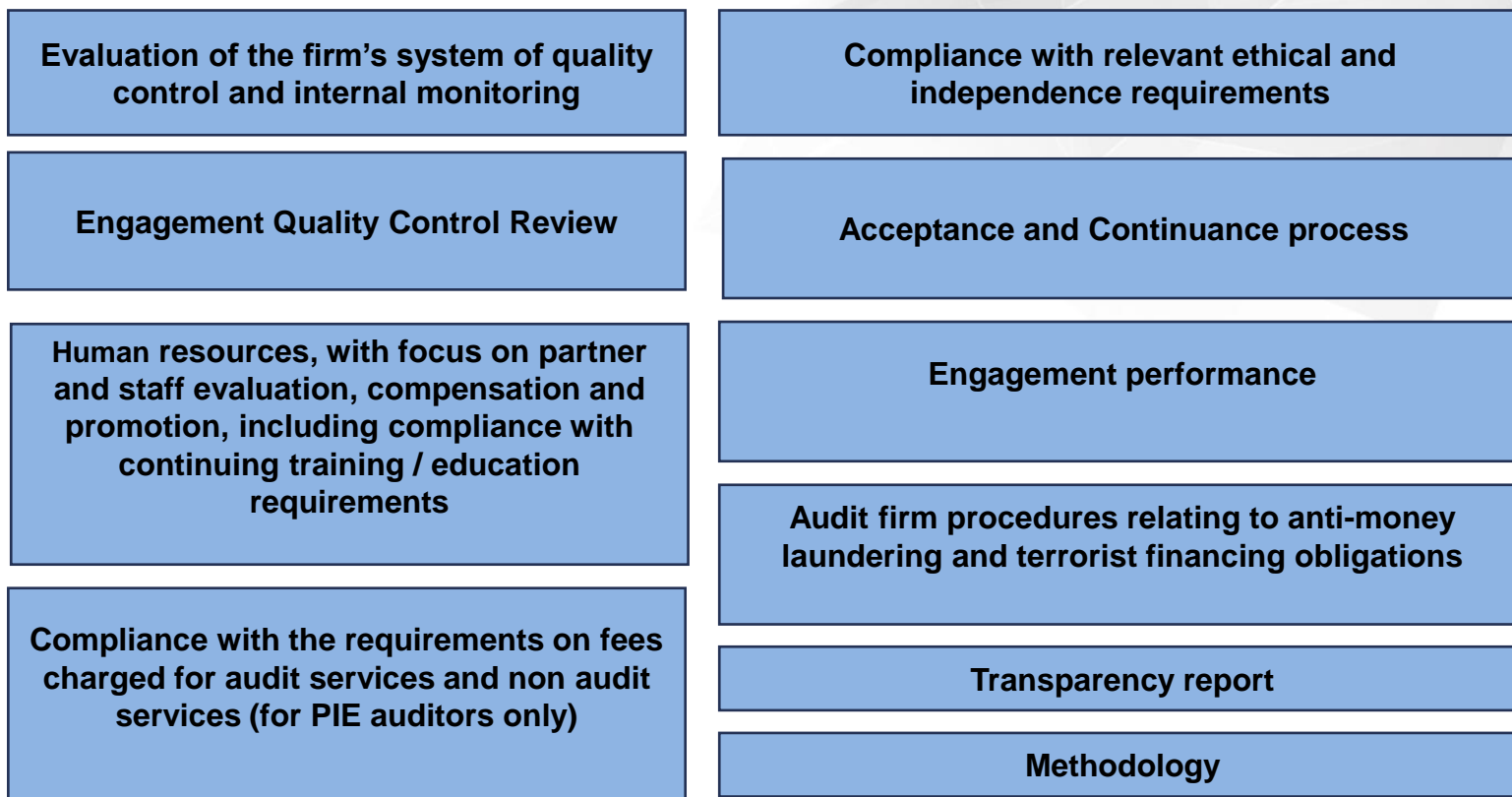
Our approach for selecting audit files (using CAIM guidance):

- risk-based selection approach for selecting audit files
- higher-risk audit areas of more complex PIEs,
- areas with elevated risk profiles or areas where the audit firm or KAP may have less expertise
- Large companies, PIEs, first year clients, engagements in specific industries...

The sample is determined based on o combination of risk-based characteristics and other selection criteria.

- Confirmed by director of APOA

Inspection of firm's system of quality control is focused mainly on the following areas:



Programs used for documenting the inspection procedures performed in respect of review of internal quality control:

- For inspections of BIG 4 audit firms we use CAIM work programs for all focus areas (procedures performed are documented in Excel),
- For small audit firms we use simplified work program, which includes all areas of quality control, as determined in ISQC 1.

Selection of inspection areas for audit files:

**Acceptance & Continuance
Independence**

**Identification and risk assessment
(assessing the Risks of Material
Misstatement)
Materiality**

The auditor's responses to assessed risks

**Auditing of accounting estimates in
connection with the using of the work of
Auditor's Expert**

**Appropriateness and sufficiency of audit
documentation of the auditor's procedures
performed, for certain account balances,
selected implementing risk based approach
and taking into account also the
unpredictability element**

**Other areas selected based on risk approach
– consolidation process, journal entries
testing, related parties, post balance sheet
events, reporting to audit comm.**

**Auditor's review of adequacy of disclosures
in annual report**

**Appropriateness of auditor's report and
compliance with ISA**

All findings which we identify during inspection are noted as deficiencies in meeting requirements of ISA, quality control, audit regulations or other applicable laws and regulations.

We divide them on **significant findings** and **findings**.

Significant firm-wide finding

- Relevant requirement in an auditing, quality control or ethical standard (or in a firm policy) was not met,
- circumstances indicate that there is a pervasive or systemic issue (rather than a one time deviation or isolated issue), and
- not only remote likelihood that the deficiency could affect the audit firm's independence or the quality of audits performed by the firm.

Firm –wide finding:

other deficiency identified, which does not affect the independence of the audit firm and does not significantly affect the quality of the audit and is mostly the result of a one-off event.

Significant file review finding:

- procedures of substance required by a standard were not performed and relate to a material account balance, class of transaction or disclosure,
- certified auditor failed to obtain sufficient and appropriate audit evidence for a key assertion.
- Significant deficiencies in documenting auditor's procedures

File review finding:

- certified auditor did not perform procedure required by a standard, but we assessed that he still obtained sufficient audit evidence for key assertion,
- minor deficiencies noted in documenting auditor's procedures.

GRADING DESCRIPTION: inspection report

GRADING DESCRIPTION	FIRM –WIDE	AUDIT FILE
GOOD	Small number of findings (less than 6)	Small number of findings (less than 6)
	Audit firm is compliant with all requirements	Good performance, KAP ensured compliance with all requirements
SATISFACTORY WITH MINOR IMPROVEMENTS NEEDED	very small number of significant findings (less than 3) and small number of findings (less than 6), minor improvements are needed	very small number of significant findings (less than 3) and small number of findings (less than 6), minor improvements are needed
	Audit firm ensures compliance with the applicable requirements on major part of the quality control system	Good performance with minor improvements needed, KAP still ensured compliance
PERFORMANCE IMPROVEMENT NEEDED	Small number of significant findings (less than 6) and large number of findings (less than 10)	Small number of significant findings (less than 6) and large number of findings (less than 10)
	Audit firm is not compliant with requirements in all parts of quality control system	Performance improvement need, it depends –professional judgment needed to evaluate if the KAP ensured compliance
UNSATISFACTORY	Large number of significant findings (more than 6) and large number of findings (more than 10)	Large number of significant findings (more than 6) and large number of findings (more than 10)
	Audit firm is not compliant with requirements of quality control system	Unsatisfactory performance, significant improvements needed, KAP is not compliant

APOA presents all its findings to the audit firm in **Inspection report**. In the report we also present a **final assessment of the compliance** of the audit firm's work with applicable requirements.

All KAP which were inspected also receive separate Inspections report: all the findings are presented together with the final assessment of the quality of audit.

In the **Inspections report** we also include:

- legal basis for performing inspection
- basic information about the audit firm inspected
- presentation of the selection of key audit partners and audit files
- an indication of the inspectors who performed the inspection
- focus areas of inspection for both firm wide controls and for audit file review
- a description which finding is considered significant

Reports of inspection are not published on internet (not public).

The Reports of inspections are the basis for potential measures.

- **Annual report**, must be audited on annual bases: to be approved by the Ministry of Finance, the Government and the National Assembly of the Republic of Slovenia
- **Annual financial and work plan**: to be approved by the Ministry of finance
- **Annual report on measures**
- **Annual report on the review of the quality of auditing** and business valuation, which contains the main findings of the review.
- **Annual report on all administrative measures and all sanctions imposed** on certified auditors and audit firms in summary form. Information on administrative measures and sanctions imposed is provided to the CEAOB (Committee of European Audit Authorities)

APOA ensures the publicity of the work by publishing the reports on its websites

- Staff shortage & recruitment
- Changes in auditing rules
- Reduction of the number of certified auditors
- Low audit prices
- Interpretation of EU legislation
- ACCA – mutual recognition process with EU