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If a whole or part of a paragraph has been amended, the date of the amending regulation appears in square brackets at the end of the paragraph. If a whole paragraph or sub-paragraph has been deleted, the date of the deletion appears in square brackets beside the deleted paragraph or sub-paragraph.

Republic of Latvia

Cabinet

Regulation No. 75

Adopted 7 February 2017

**Regulations for Work Organisation of Sworn Auditors and Commercial Companies of Sworn Auditors**

*Issued pursuant to*

*Section 31.1 of the Law On Audit Services*

**I. General Provisions**

1. This Regulation prescribes the requirements for work organisation, resource planning, document management, establishment of registers and files for sworn auditors and commercial companies of sworn auditors.

2. This Regulation shall apply to a sworn auditor who provides audit service as an individual merchant or self-employed person (hereinafter – the self-employed sworn auditor) and a commercial company of sworn auditors which provides an audit service.

3. The self-employed sworn auditor and commercial company of sworn auditors which provides audit service to a public-interest entity shall apply also Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (hereinafter – Regulation No 537/2014) in addition to the requirements laid down in this Regulation and the Law On Audit Services (hereinafter – the Law) in respect of work organisation, document management and internal quality control of audit tasks.

4. When applying the requirements of the Law, Regulation No 537/2014 and of this Regulation, it shall be taken into account that the audit (review) laid down in the laws and regulations governing drawing up an annual financial statement and consolidated financial statement which has been carried out in accordance with the requirements laid down in the Law, International auditing standards recognised in Latvia and this Regulation, and also an auditor’s report drawn up regarding such audit (review) do not guarantee a client’s capacity to continue his or her activity in the future or effectiveness or efficiency of the previous or further activity of the management of the client.

**II. Work Organisation and Resource Planning**

5. The self-employed sworn auditor and commercial company of sworn auditors have a duty to dedicate sufficiently long time for each audit service in order to fulfil the liabilities of the audit services contract by complying with the requirements laid down in the Law, and also to ensure the resources necessary for qualitative provision of the audit service. Where necessary, experts, specialists or assistants the competence, capacities, motivation and compliance with the requirements of ethics of which are sufficient in order to provide the audit service in conformity with the requirements of the Law, but if a client is a public-interest entity – also in conformity with the requirements of Regulation No 537/2014 shall be involved for carrying out certain audit procedures.

6. A commercial company of sworn auditors in which professional activity is carried out by two or several sworn auditors, in applying the requirements of Section 31 of the Law, shall appoint a sworn auditor who is responsible for the provision of the audit service (hereinafter – the responsible sworn auditor). The main criteria which the commercial company of sworn auditors has to comply with upon appointing the responsible sworn auditor shall be quality assurance of audit service, independence, objectivity and competence.

7. The self-employed sworn auditor and the responsible sworn auditor shall retain professional scepticism during provision of audit service and allow a possibility that a substantial non-conformity may be present in a financial statement of the client within the meaning of the International auditing standards recognised in Latvia which has arisen due to mistake or fraud, therefore he or she shall assess all the circumstances and audit evidence which could indicate to substantial non-conformity caused by a potential fraud and mistakes.

8. Within the meaning of this Regulation, professional scepticism shall be considered to be – doubting credibility of information provided for in the financial statement of the client and other information provided in relation to such statement, vigilance in respect to circumstances which could indicate to potential misstatement, fraud or mistake, and also critical assessment of the audit evidence.

9. Professional scepticism shall be retained during provision of the audit service regardless of the experience from previous co-operation of the self-employed sworn auditor, commercial company of sworn auditors or responsible sworn auditor with a relevant client, or opinions regarding integrity of the client’s management or relevant officials of the client, especially when assessing estimates made by the client’s management in respect of fair value of assets and reduction in it, reserves and cash flow expected in the future which are essential for continuation of the activity of the client in the future.

10. In accordance with the requirements laid down in Section 26 of the Law, in order not to jeopardise the independence and objectivity of the responsible sworn auditor, a commercial company of sworn auditors shall develop policy and procedures complying with the scope and complexity of its activity by ensuring that members, stockholders or shareholders, members of the executive body of the commercial company of sworn auditors and a party related to such commercial company do not intervene in any way in the provision of the audit service of the responsible sworn auditor and preparation of an auditor’s report.

11. Within the meaning of this Regulation, relevant principles, methods and regulations shall be regarded to be policy, but the activities to be carried out in order to implement certain policy developed by a commercial company of sworn auditors shall be regarded to be procedures.

12. The self-employed sworn auditor and commercial company of sworn auditors shall establish an internal control system complying with the scope and complexity of their activity and internal control system for quality assurance of audit services (hereinafter – the internal quality control system), develop relevant procedures for risk assessment, risk mitigation measures and the safeguards for information processing systems. The systems, procedures and measures referred to in this Paragraph shall ensure control over the conformity of activity of the self-employed sworn auditor, the responsible sworn auditor, employees of the self-employed sworn auditor or commercial company of sworn auditors, and also of all experts, specialists or assistants invited by the self-employed sworn auditor and commercial company of sworn auditors with the decisions, policies and procedures taken by the self-employed sworn auditor or commercial company of sworn auditors. In a commercial company of sworn auditors an employee responsible for the internal quality control system shall be a sworn auditor.

13. The self-employed sworn auditor and commercial company of sworn auditors shall develop also other policies and procedures complying with the scope and complexity of their activities in addition to the policy and procedures referred to in Paragraph 10 of this Regulation, insofar it is necessary to ensure that:

13.1. employees of the self-employed sworn auditor and commercial company of sworn auditors and any other natural persons whose services are used by the self-employed sworn auditor or commercial company of sworn auditors and who are directly involved in the provision of the audit service have knowledge and experience appropriate for the duties to be carried out;

13.2. delegation of material activities carried out within the framework of the audit service by using outsource services does not decrease the possibilities of the self-employed sworn auditor or commercial company of sworn auditors to carry out internal quality control, and also the possibilities of the Ministry of Finance and Latvian Association of Sworn Auditors to supervise directly or in mutual co-operation the conformity of the self-employed sworn auditor and commercial company of sworn auditors with the requirements laid down in the Law and if the self-employed sworn auditor or commercial company of sworn auditors provides audit services to a public-interest entity – in Regulation No 537/2014. The condition that the self-employed sworn auditor or commercial company of sworn auditors uses outsource services does not exempt it from the liability laid down in the Law and audit services contract entered into – the self-employed sworn auditor and commercial company of sworn auditors shall be responsible for the activities of the provider of outsource services and results thereof to the same extent as for its own activity.

14. The self-employed sworn auditor if he or she involves other employees in the provision of the audit service and commercial company of sworn auditors shall develop policy and procedures for the provision of audit service, policy for training of employees, internal control policy for work quality of the employees involved in the provision of audit service, and also the procedures for ensuring establishment of the audit file referred to in Paragraph 25 of this Regulation.

15. The self-employed sworn auditor and commercial company of sworn auditors shall introduce organisational and administrative measures complying with the scope and complexity of their activity which are necessary in order to be able to:

15.1. detect, discover and prevent the threat to independence and objectivity of the self-employed sworn auditor, the responsible sworn auditor and commercial company of sworn auditors which is referred to in Paragraph 26 of the Law and to fulfil the requirement regarding indicating the conditions (if any detected) jeopardising independence and objectivity in audit working papers;

15.2. control whether independence of the self-employed sworn auditor, the responsible sworn auditor or commercial company of sworn auditors and conditions jeopardising it are assessed before entering into the audit services contract with the client, and also during provision of the audit service provided for in such agreement;

15.3. control whether the restrictions for holding a position laid down in Section 29, Paragraph five of the Law are not infringed.

16. In order to ensure the quality of the audit service, the self-employed sworn auditor and commercial company of sworn auditors shall establish a staff motivation policy and remuneration (salary and bonus system related to profit) system complying with the scope and complexity of their activities. Income which the self-employed sworn auditor or commercial company of sworn auditors receives for the provision of non-audit services to a client cannot form a part of the remuneration which is received by the person involved in the audit service provided to the same client or by such person who can influence the result of the audit.

17. The self-employed sworn auditor and commercial company of sworn auditors shall carry out necessary organisational and administrative measures in order:

17.1. by using the resources and procedures complying with the activity thereof to carry out necessary measures in a timely manner which ensure continuity of the activity and regularity (consistency) of the provision of the audit services;

17.2. to prevent and register all incidents which have or may have significant influence on the quality of the provided audit service.

18. The self-employed sworn auditor and commercial company of sworn auditors shall, each year, examine and assess operation of the internal quality control system, register deficiencies detected and recommendations received, and also carry out necessary actions for improvement of such system. The self-employed sworn auditor and commercial company of sworn auditors shall regularly assess also effectiveness and efficiency of other measures carried out in accordance with the Law or Regulation No 537/2014 and carry out necessary measures in order to prevent detected deficiencies.

[*28 July 2020*]

19. The self-employed sworn auditor and commercial company of sworn auditors have the following duties:

19.1. to make the employees familiar with the policies, procedures and measures referred to in Paragraphs 10, 12, 13, 14, 15 and 16 of this Regulation. If a relevant written request is received from the Ministry of Finance or Latvian Association of Sworn Auditors, to provide evidence that the policies and procedures comply with the scope and complexity of its activity;

19.2. to develop appropriate internal notification procedures and ensure necessary means in order to enable the employees to notify regarding potential infringements of the Law and Regulation No 537/2014.

20. The self-employed sworn auditor and commercial company of sworn auditors may choose to document the policies and procedures referred to in Paragraphs 10, 12, 13, 14, 15 and 16 of this Regulation electronically or in a printed form, and also in one or several appropriately named documents (for example, internal rules of procedure).

21. The self-employed sworn auditor and commercial company of sworn auditors may not apply the requirements referred to in Paragraph 19 of this Regulation if the following conditions are complied with:

21.1. the self-employed sworn auditor and commercial company of sworn auditors provide audit services only to small commercial companies the performance indicators of which do not exceed the thresholds of the criteria referred to in Section 5, Paragraph three of the Law On the Annual Financial Statements and Consolidated Financial Statements;

21.2. the small commercial company referred to in Sub-paragraph 21.1 of this Regulation is not a public-interest entity;

21.3. the self-employed sworn auditor and commercial company of sworn auditors develop (electronically or in a printed form) the internal quality control system, quality control policy and procedures related to provision of audit services in conformity with the requirements of the International auditing standards recognised in Latvia – International Standard on Quality Control 1 approved by the Latvian Association of Sworn Auditors.

**III. Document Management, Establishment of Registers and Files**

22. The self-employed sworn auditor and commercial company of sworn auditors shall ensure registration of all infringements referred to in the Law, but in respect of public-interest entities – registration of infringements referred to in Regulation No 537/2014 in a relevant register. The self-employed sworn auditor and commercial company of sworn auditors shall register also information regarding any consequences arising from infringements of the abovementioned laws and regulations, including measures carried out in order to prevent the abovementioned infringements and to make necessary changes in the internal quality control system. The self-employed sworn auditor and commercial company of sworn auditors shall, once a year, prepare a review regarding the measures referred to in this Paragraph and inform their employees thereof.

23. If the self-employed sworn auditor or commercial company of sworn auditors has requested opinion of an external expert, it shall document (electronically or in a printed form) the request sent and opinion received.

24. The self-employed sworn auditor and commercial company of sworn auditors shall conduct (electronically or in a printed form) one or several client registers. The following information shall be entered in the register (registers) regarding each client:

24.1. the client’s name and type, registration number, legal address (if a client must be registered in accordance with the Law or laws and regulations of another country) or the address equal to legal address (if the client need not be registered in accordance with the Law or laws and regulations of another country), and the place (if any) of performance of economic activity where the management of the abovementioned client is located and where the main administrative decisions related to performance of economic activity are taken;

24.2. for a commercial company of sworn auditors – the name, surname of the responsible sworn auditor and certificate number of the sworn auditor;

24.3. remuneration received in a relevant reporting year regarding services and non-audit services in distribution by the types of abovementioned services.

25. In order to ensure that independence and objectivity of the self-employed sworn auditor and the responsible sworn auditor are not jeopardised, and also in order to enable the Ministry of Finance to supervise directly or in co-operation with the Latvian Association of Sworn Auditors compliance with the requirements of the Law and Regulation No 537/2014, the self-employed sworn auditor and commercial company of sworn auditors shall arrange a separate audit file for each audit task.

26. The information referred to in Section 26, Paragraph nine of the Law shall be indicated in the file referred to in Paragraph 25 of this Regulation, but if the client is a public-interest entity also the information referred to in Articles 6, 7 and 8 of Regulation No 537/2014. Other audit working papers shall also be included in the file which are significant in order to substantiate the information indicated in the drawn up auditor’s report or review report, but if the client is a public-interest entity also the information indicated in the reports referred to in Articles 10 and 11 of Regulation No 537/2014.

27. The file referred to in Paragraph 25 of this Regulation shall be closed not later than 60 days after the auditor’s report referred to in Section 1, Paragraph one, Clause 7 and Section 32 of the Law, but if a client is a public-interest entity – after the day of signing the audit report referred to in Article 10 of Regulation No 537/2014.

28. The self-employed sworn auditor and commercial company of sworn auditors have an obligation to register (in a separate register or client register) all written claims and complaints received in relation to provided audit services, and also on the basis of the received written request to provide information on them to the Ministry of Finance and Latvian Association of Sworn Auditors.

**IV. Closing Provision**

[*28 July 2020*]

29. The requirement referred to in the first sentence of Paragraph 18 of this Regulation in relation to the term shall be applicable from 1 January 2021.

[*28 July 2020*]

**Informative Reference to Directive of the European Union**

This Regulation contains legal norms arising from Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

Prime Minister Māris Kučinskis

Minister for Finance Dana Reizniece-Ozola