Republic of Latvia

Cabinet

Regulation No. 136

Adopted 7 March 2017

**Regulations Regarding an Inspection of the Compliance with the Requirements for the Audit Services Quality Control and Qualification Requirements of Authorised Representatives**

*Issued pursuant to*

*Section 35.1, Paragraph four of the Law On Audit Services*

**I. General Provisions**

1. This Regulation prescribes the procedures by which an authorised representative of the Ministry of Finance (hereinafter – the authorised representative) shall inspect the compliance with the requirements for the audit services quality control for those commercial companies of sworn auditors and sworn auditors who are providing audit services to public-interest entities, qualification requirements of authorised representatives, information to be included in the inspection report, and also content of inspection programme.

2. The terms used in this Regulation comply with the following terms included in Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (hereinafter – Regulation No 537/2014):

2.1. inspection of the compliance with the requirements for the audit services quality control – with the term “inspections” within the meaning of Article 26(1)(a) of Regulation No 575/2014;

2.2. authorised representative – with the term “inspector” within the meaning of Article 26(1)(b) of Regulation No 575/2014.

**II. Inspection of the Compliance with the Requirements for the Audit Services Quality Control**

3. The authorised representative shall carry out a regular or extraordinary inspection of the compliance with the requirements for the audit services quality control (hereinafter – the inspection):

3.1. regular inspection shall be carried out not less than once in three years in accordance with the inspection programme prepared and approved by the Ministry of Finance in order to inspect:

3.1.1. whether a sworn auditor or commercial company of sworn auditors has provided an audit service to a public-interest entity in accordance with the requirements of the Law On Audit Services and Regulation No 575/2014 by complying with the International auditing standards recognised in Latvia;

3.1.2. whether a sworn auditor and commercial company of sworn auditors comply with the internal quality control policy and procedures developed in conformity with the scope and complexity of the activity of practice of sworn auditors;

3.2. extraordinary inspections shall be carried out in the following cases:

3.2.1. if Category 3 or 4 is granted to a sworn auditor or commercial company of sworn auditors during a regular inspection;

3.2.2. if the Ministry of Finance, in examining a submission regarding the audit services provided by a sworn auditor or commercial company of sworn auditors to a public-interest entity, has substantiated suspicions regarding infringements of the requirements of the Law On Audit Services, Regulation No 575/2014 or International auditing standards recognised in Latvia;

3.2.3. if it is necessary for inspection of certain audit service provided to a public-interest entity or inspection of compliance with the requirements of the Law On Audit Services, Regulation No 575/2014 or International auditing standards recognised in Latvia.

4. The authorised representative shall carry out the inspections referred to in Sub-paragraph 3.1 of this Regulation in the scope laid down in Article 26(6) of Regulation No 537/2014 by inspecting also the following:

4.1. whether a sworn auditor or commercial company of sworn auditors has established and comply with the internal control system and internal control system for assurance of the quality of audit services conforming to the scope and complexity of its activity;

4.2. whether a sworn auditor or commercial company of sworn auditors complies with the requirements of independence and objectivity laid down in Section 25, Paragraphs one and three and Section 26, the confidentiality requirements laid down in Section 27 and the requirements for receipt of fee for non-audit services laid down in Section 37.7 of the Law On Audit Services, and also the requirements in respect of audit fees laid down in Article 4 of Regulation No 537/2014;

4.3. whether a sworn auditor or commercial company of sworn auditors complies with the requirements laid down in the laws and regulations regarding work organisation, resource planning, document management, establishment of registers and files for sworn auditors and commercial companies of sworn auditors;

4.4. whether a sworn auditor has continued his or her education and improved his or her professional qualification in a continuing education process recognised by the Latvian Association of Sworn Auditors.

5. In performing the inspection, the authorised representative shall:

5.1. become acquainted with the audit working papers of a sworn auditor or a commercial company of sworn auditors to be inspected;

5.2. acquire necessary information by carrying out the survey and find out facts (for example, whether a rotation of sworn auditors exists, whether the requirements regarding independence of the responsible sworn auditor or commercial company of sworn auditors from a client is complied with);

5.3. hear the sworn auditor to be inspected or authorised representative of the commercial company of sworn auditors to be inspected.

6. After the inspection the authorised representative shall provide assessment of the sworn auditor or commercial company of sworn auditors and include it in the inspection report.

7. The internal quality control system of the sworn auditor or commercial company of sworn auditors shall be assessed in conformity with the following categories:

7.1. Category 1 – operates well: deficiencies have not been detected or minor deficiencies have been detected which do not affect the internal quality control system of the inspected commercial company of sworn auditors or sworn auditor;

7.2. Category 2 – operates but some improvements are required: some deficiencies have been detected which have medium influence on the internal quality control system of the inspected commercial company of sworn auditors or sworn auditor; Recommendations have been expressed for improvement of the system, and the commercial company of sworn auditors or sworn auditor has developed a plan of measures for implementation of the recommendations;

7.3. Category 3 – operates partly, significant improvements are required: systematic deficiencies have been detected which have influence on the internal quality control system of the inspected commercial company of sworn auditors or sworn auditor. Recommendations have been provided for improvement of the system, and the commercial company of sworn auditors or sworn auditor has developed a plan of measures for implementation of the recommendations;

7.4. Category 4 – does not operate: deficiencies which have been detected indicate that the internal quality control system of the inspected commercial company of sworn auditors or sworn auditor does not operate. Recommendations have been provided for improvement of the system, and the commercial company of sworn auditors or sworn auditor has developed a plan of measures for implementation of the recommendations.

8. The authorised representative shall establish an inspection file for each inspection. The inspection file shall include documents obtained or prepared during the inspection.

9. The authorised representative shall, within one month after the end of the inspection, prepare a draft inspection report and draft plan for rectification of deficiencies where recommendations and time periods for its implementation for rectification of the deficiencies detected in the inspection shall be included, and send them to the inspected sworn auditor or commercial company of sworn auditors.

10. The authorised representative shall determine the time period for implementation of the recommendations referred to in Paragraph 9 of this Regulation by taking into account the influence of the relevant deficiency on the internal quality control system of the sworn auditor or commercial company of sworn auditors and priority of the implementation of the recommendation. The abovementioned time period shall not exceed 12 months from the date of approval of the inspection report.

11. The inspected sworn auditor or commercial company of sworn auditors shall, within 10 working days after receipt of the information referred to in Paragraph 9 of this Regulation, prepare and electronically submit the following information to the authorised representative:

11.1.comments and substantiated objections to the draft inspection report and recommendations. Where possible, substantiate them with documents;

11.2. the measures to be taken for rectification of the detected deficiencies and implementation of recommendations by indicating a person responsible for implementation of the recommendations.

12. Where objective circumstances exist due to which it is not possible to submit the information referred to in Paragraph 11 of this Regulation within 10 working days, after a written agreement with the Ministry of Finance the time period for submission of the information may be extended for a time period required additionally for preparation of information however not more than for 10 working days.

13. If the information referred to in Paragraph 11 of this Regulation is not received within the time period referred to in Paragraphs 11 or 12 of this Regulation, it shall be considered that the inspected sworn auditor or commercial company of sworn auditors recognises the inspection report as justified.

14. The authorised representative shall assess the comments referred to in Paragraph 11 of this Regulation, substantiation thereof and measures to be taken for rectification of the detected deficiencies and implementation of the recommendations, prepare an inspection report and append a plan for rectification of the deficiencies thereto.

15. If the authorised representative has received the information referred to in Paragraph 11 of this Regulation but has not changed the substance of the recommendations after assessment thereof, a coordination meeting shall be organised with the inspected sworn auditor or commercial company of sworn auditors which does not agree with the recommendations. If the agreement is not reached and recommendations are not coordinated or the authorised representative does not obtain evidence for change of the recommendations, the relevant recommendations of the plan for rectification of deficiencies shall be indicated as non-coordinated in the inspection report.

16. An inspection report and plan for rectification of deficiencies shall be signed by the authorised representative who has carried out the inspection and approved by an official of the Ministry of Finance responsible for the course of the inspection process. The authorised representative shall send the approved inspection report and plan for rectification of deficiencies to the inspected sworn auditor or commercial company of sworn auditors.

17. A person responsible for implementation of the recommendations who is indicated in Sub-paragraph 11.2 of this Regulation shall be responsible for implementing the measures included in the plan for rectification of deficiencies within the time periods referred to in Paragraph 9 of this Regulation. A commercial company of sworn auditors or sworn auditor shall, within 10 working days after the time period for implementation of the relevant recommendation, inform the Ministry of Finance regarding implementation of the recommendation by submitting a documentary proof.

18. The Ministry of Finance shall supervise implementation of the provided recommendations and within 10 working days after receipt of the information referred to in Paragraph 17 of this Regulation shall assess how the recommendations are implemented, where necessary, request additional information and (or) take a decision to carry out extraordinary inspection in order to assess implementation of the recommendations.

19. If within the time period referred to in Paragraph 17 of this Regulation a sworn auditor or commercial company of sworn auditors has not taken measures for improvement of the internal quality control system, the Ministry of Finance shall:

19.1. within a month after the end of the time period referred to in Paragraph 18 of this Regulation, publish the information regarding deficiencies of the internal quality control system of the sworn auditor or commercial company of sworn auditors on its website and inform the Latvian Association of Sworn Auditors thereof in writing;

19.2. assess influence of the non-implemented recommendation on the internal quality control system of the inspected sworn auditor or commercial company of sworn auditors and, where necessary, take a decision to carry out an extraordinary inspection.

20. The documents included in the inspection file and the inspection report shall be stored in the relevant file in the archives of the Ministry of Finance.

21. The Ministry of Finance shall prepare description of the internal procedures by determining the procedures for:

21.1. planning the inspections based on a risk approach;

21.2. carrying out the inspections by determining also the inspection sheets intended for carrying out the inspection;

21.3. compiling inspection results, providing assessment for inspected sworn auditor or commercial company of sworn auditors and preparing an inspection report.

**III. Information to be Included in an Inspection Report**

22. Information to be included in an inspection report:

22.1. the place, date and time of drawing up the inspection report;

22.2. the given name, surname and position of the authorised representative who carried out the inspection;

22.3. the details (identification data) of the document in accordance with which the authorisation to carry out the inspection was received;

22.4. information regarding the inspection:

22.4.1. the period of performance of the inspection;

22.4.2. the substance of the inspection;

22.4.3. the conclusions of the inspection;

22.5. the plan for rectification of deficiencies where recommendations and time periods for their implementation for the rectification of the deficiencies detected during the inspection are included.

**IV. Qualification Requirements of Authorised Representatives**

23. A person may be appointed as the authorised person who:

23.1. is a citizen of Latvia;

23.2. is fluent in the official language at the highest level;

23.3. has acquired vocational (except first level) education or academic education in the field of economics, management or finances in the Republic of Latvia or abroad;

23.4. has an unimpeachable reputation – none of the conditions referred to in Section 9 of the Law On Audit Services being applicable;

23.5. has acquired professional experience of at least three years in preparation of financial statements and performance of audit (review) of such statements;

23.6. has listened to the inspection training course organised by the Ministry of Finance.

**V. Content of an Inspection Programme**

24. The following measures shall be included in an inspection programme which are necessary in order to:

24.1. ensure that the inspections are carried out not less than once in three years for those commercial companies of sworn auditors and sworn auditors who provide audit services to public-interest entities;

24.2. carry out the inspections by complying with the Law On Audit Services, the requirements of this Regulation and Article 26 of Regulation No 537/2014.

25. The following information regarding the inspections planned for the current year shall be indicated in the inspection programme:

25.1. the period of performance of the inspections;

25.2. tasks and terms for performance of the inspections;

25.3. sworn auditors and commercial companies of sworn auditors subject to the inspections.

26. An inspection programme shall not be accessible by the public and shall be at the disposal of the authorised representatives.

**VI. Report on Quality Control Assurance**

27. The Ministry of Finance shall, each year until 31 January, compile the results of the inspections carried out in the previous calendar year – the information regarding findings of all inspections carried out in the relevant year and recommendations provided – and publish them on its website.

28. The Ministry of Finance shall, not later than a month after publication of the inspection results referred to in Paragraph 27 of this Regulation on its website, prepare a report on quality control assurance. The information referred to in Article 28(c) of Regulation No 537/2014 shall be included in the report and the measures to be taken shall be indicated, including recommendations provided and planned supervision measures related thereto without mentioning a particular sworn auditor and commercial company of sworn auditors inspected, and also information regarding efficiency and usefulness of the quality control assurance in respect of the quality of audit services. Within two weeks after preparation of the report the Ministry of Finance shall publish it on its website.

**VII. Closing Provisions**

29. The Ministry of Finance shall prepare the description of internal procedures referred to in Paragraph 21 of this Regulation by 1 September 2017.

30. Cabinet Regulation No 536 of 17 June 2009, Regulations Regarding an Inspection of the Compliance with the Requirements for the Audit Services Quality Control (*Latvijas Vēstnesis*, 2009, No. 97; 2011, No. 178), is repealed.

Prime Minister Māris Kučinskis

Minister for Finance Dana Reizniece-Ozola