

The Body of Expert Accountants and Licensed Accountants in Romania (CECCAR)
Additional Information Relating to the IFAC “Assessment of the Regulatory and Standard-Setting Framework” Questionnaire

Background information

CECCAR is a self-regulating body for professional accountants in Romania. Its membership is obligatory for all expert and licensed accountants in this country. Providing accounting services to the public is regulated in Romania. Those services can be provided by expert and licensed accountants – members of CECCAR. Statutory audit services may be only be provided by financial auditors, members of Chamber of Financial Auditors of Romania.

Audit systems in Romania

There are two complimentary audit systems in Romania one for listed and large entities audited by financial auditors who follow ISAs and the other for entities with balance sheet total under 5 mln EUR audited by censors. Audits for smaller entities are voluntary and are performed by censors - persons who are expert accountants and are elected by the shareholders of the respective entity. Standards used for those audits are auditing standards issued by CECCAR, harmonized with International Auditing Standards (ISA).

Simplified financial reporting system for enterprises with balance sheet total under 5 mln EUR

The present regulations in Romania stipulate the following:

1. For the 2004 financial exercise, entities that complied with the following requirements: turnover of over 7 300 000€ total assets of 3 650 000€ and an average employees number of 50 and those that had been created through the Ordinance of the Minister of Public Finance (no. 94/2001), had the obligation to audit financial statements by financial auditors.
2. As of 2005 financial exercise, through an Ordinance issued by the Minister of Public Finance, there was a requirement that, besides the entities that complied with two of the requirements above, the following categories of legal persons would prepare financial statement according to IFRS and would be audited by financial auditors:
 - (a) legal persons who apply accounting regulations harmonized with the European Economic Community 4th Directive and with the International Accounting Standards, approved by the Ordinance of the Ministry of Public Finance no. 94/2001;
 - (b) institutions regulated and supervised by the National Securities Commission;
 - (c) credit institutions;

- (d) insurance companies, insurance-reinsurance companies and reinsurance companies as well as insurance brokers;
- (e) national companies and firms, public companies and other public interest legal persons designated by the Ministry of Public Finance through an Ordinance issued by the Minister of Public Finance;
- (f) legal persons belonging to a group of entities who are subject to consolidation by a parent that applies International Financial Reporting Standards;
- (g) legal persons that, at the end of the preceding year, surpass two of the following three criteria:
 - turn over over 7 300 000 €
 - total assets over 3 650 000€
 - average employees number over 50;
- (h) legal persons, other than those stipulated in (a)-(g), based on the approval given by the Accounting Regulation Department within the Ministry of Public Finance, following their decision to apply IFRS. These legal persons can apply the provisions of the International Financial Reporting Standards immediately after inception.

3. As of November 2005, a new Ordinance of the Minister of Public Finance is being submitted for approval, which will be effective on January 1, 2006, that will abrogate all the provisions mentioned above and which stipulates that Romanian accounting regulations should comply with European Directives. The Ordinance stipulates the following:

“Art. 1 The Accounting Regulations complying with the European Directives comprise the Accounting Regulations complying with the Forth EEC Directive and the Accounting Regulations complying with the Seventh EEC Directive.

Art. 2 – (1) The Accounting Regulations complying with the Forth EEC Directive must be applied by the legal entities mentioned by the Accounting Law no. 82/1991, republished.

(2) Sub-units that do not have legal personality located in a foreign state and belonging to legal entities headquartered or resident in Romania, as well as Romanian permanent offices of legal entities headquartered or resident in a foreign state, organize and manage their own accounting on a trial balance basis, without preparing financial statements.

The foreign activities of the sub-units with no legal personality, belonging to legal entities headquartered or resident in Romania, are included in the financial statements of the Romanian legal entities and are reported in Romania, according to the present Regulation.

Art. 3 – (1) The legal entities that, at balance sheet date exceed two of the following three thresholds (called hereinafter size criteria):

- *total assets: 3 650 000 Euro;*
- *net turnover: 7 300 000 Euro;*

- average employee number during the financial year: 50

Prepare annual financial statements consisting of:

- balance sheet;
- income statement;
- statement of changes in equity.
- cash flows statement
- explanatory notes.

(2) At the balance sheet date legal persons that do not exceed two of the three thresholds stipulated by the paragraph (1), prepare simplified annual financial statements which contain:

- summarized balance sheet;
- profit and loss account;
- explanatory notes to the simplified annual financial statements.

Optionally, they can prepare the statement of changes in equity and/or the cash flow statement.

(3) In accordance to the accounting law, the annual financial statements must be accompanied by a written legal person management liability statement for the preparation of the annual financial statements in accordance to Accounting Regulations complying with the European Economic Community 4th Directive.

(4) The legal persons who have prepared simplified annual financial statements will prepare the annual financial statements stated by the art. 3 paragraph (1) unless during two financial consecutive years they exceed the threshold of two out of three size criteria stipulated by art. 3, paragraph (1).

Legal persons who have prepared annual financial statements stipulated by article 3 paragraph (1) will prepare simplified annual financial statements, unless between two financial consecutive years do not exceed the thresholds of two out of three size criteria stipulated by article 3, paragraph 1.

Art. 4 - For the 2006 financial statements, prepared in accordance to the Accounting Regulations in accordance to the European Economic Community 4th Directive, the compliance with the size criteria stipulated by article 3, paragraph (1) is done at the end of 2006 financial year, based on the indices resulted from 2005 financial statements.

Art. 5 - (1) Annual financial statements prepared by legal persons, stipulated by article 3, paragraph (1) are audited in accordance to the law.

(2) The annual financial statements prepared by the public interest entities are also subject of financial audit, as defined by the law.

(3) Simplified financial statements are reviewed in accordance to the law.

Art. 6 - The provisions of article 3, paragraph (2) of the present regulations does not apply by the companies whose securities are accepted for transaction on a regulated market, as defined by the capital market regulation in force.

Art.7 – (1) Consolidated annual financial statements are developed in accordance to Accounting Regulations complying with the European Economic Community 7th Directive.

(2) An entity must prepare consolidated annual financial statements if this entity, named parent company is part of an entity group and fulfils one of the following conditions:

a) it holds the majority of the shareholders or of the associated parties voting rights in another entity called a subsidiary;

b) it is a shareholder or associated party within one company and holds the unique control over the majority of the shareholders or of the associated parties voting rights, following an agreements with other shareholders or associated parties;

c) it is a shareholder or associated party and it has the right to exercise a significant influence over the subsidiary, on the basis of an agreement with the respective company or on the basis of a clause of the constitutive act or of the constitution, if the law applicable to the subsidiary permits such agreements or clauses;

d) the parent company holds the power to exercise or it actually exercises a significant influence or control over a certain subsidiary;

e) it is a shareholder or associated party and it has the right to name or to revoke the majority of the members within the subsidiary management, executive or oversight bodies; or

f) the parent company and the subsidiary are managed on basis unified by the parent company.

Art. 8 – (1) A parent company is exempted from preparing the consolidated annual financial statements if, at the consolidated balance date, companies that will be consolidated do not exceed, together, on the basis of their most recent annual financial statements, two of the following three thresholds:

- total assets: 17 520 000 €*
- net turnover: 35 040 000 €*
- average employees number within a financial year: 250*

(2) The exemption in paragraph (1) does not apply if one the subsidiaries that is about to be consolidated, is a company whose securities are available to sale on a regulated market, according to the legislation in force concerning the capital markets.

(3) The conditions in which a parent company is exempted from the obligation to prepare consolidated financial statements are stipulated within the accounting Regulations complying with the CEE 7th Directive.

Art. 9 – The National Bank of Romania, the National Securities Committee and the Insurance Oversight Committee develop, according to the law specific accounting

regulations complying with the European directives, applicable to entities that it regulates and oversights.

Art. 10 – Legal persons that, up to the 31st of December 2005, apply the accounting regulations harmonized with the European directives and with the International Accounting Standards use, when preparing the financial statements for 2005, the International Financial Reporting Standards – the 2005 version, comprised within the appendix list of the present ordinance.

Art. 11 – The present ordinance for the approval of the accounting regulations complying with the European directives, effective on the 1st of January 2006.

Art. 12 – On the effective date of the present ordinance, any other regulation issued in the accountancy domain, is repealed.”

Organization of CECCAR’s quality assurance system

- All CECCAR members are subject to the quality assurance system, according to the provisions of “The Quality Audit Chart” in the area of accounting services, 2nd edition, reviewed.
- Quality audit on accounting services provided by the Body members is based on the following normative principles:
 - (1) IFAC International Standards
 - International Quality Control Standard (ISQC) 1;
 - The International Professional Practice Statement (IPPS) 1 entitled “Professional Services Quality Assurance”;
 - The statement on membership obligations (SMO) 1 approved by the IFAC Board in November 2004.
 - (2) The EEC Recommendation from November 15, 2000 (no. 2001/256/EEC), regarding the minimal requirements in the field of professional services quality control.
EEC methodology stipulates two approaches of quality control:
 - control through individuals employed by the professional body, by another authority or entity;
 - control through active members with adequate training.
 - (3) Government Ordinance no. 65/1994, approved and amended by the Law no. 42/1995, with the following adjustments and supplements:
 - art.19: “The Body of Experts and Licensed Accountants of Romania has the following attributions:
(...)
(c) insures the proper development of the expert and licensed accountants’ activities.”
(...)

- (4) The organizing and functioning regulations of the Body of Experts and Licensed Accountants of Romania,
 - (5) The National Code of Ethics for professional accountants approved through the Decision of the National Conference of Expert and Licensed Accountants, no. 02/50 of the 22nd of September 2002, Chapter IV “Services Quality”;
 - (6) National audit norms, approved by the Body High Council Decision no. 99/24/1999, published within the Official Journal of Romania, Part I, no. 75 bis, of the 23rd of February 1999;
 - Audit regulation No. 22 “Audit engagement quality control” – pt. 4: “The accounting expertise firm must design and apply quality control procedures and policies”.
- The quality system is implemented by The Body of Expert and Licensed Accountants of Romania since 2000 and its main objectives are: to provide the public with a good perspective about the quality of services; to harmonize the CECCAR members’ professional conduct; to contribute to the good organization of practices and to the improvement of the working methods; to consider the way rules and professional standards issued by the Body are applied for each activity, by randomly reviewing selected work documentation; and to increase the solidarity among professionals by promoting frequent meetings and by increasing their respect for the Body’s organisms.
 - In accordance with the EEC methodology for professional services quality control, starting with 2002 the quality audit of CECCAR members services switched from pier control to specialized CECCAR staff control combined with submitting “Annual reports” regarding the quality audit.
 - *Quality audit* refers to a set of actions undertaken by the Body of Expert and Licensed Accountants of Romania for reviewing the organization and operation of a private practice and for considering its application of professional regulations issued by the Body.
 - Quality audit is applied to the practices and to each professional accountant registered in the Body’s Table. It is applied at the main office of the practice, as well as at secondary offices, registered or not registered in the Body’s Table.
 - The objective of quality audit is to ensure the compliance of all Body members with the professional standards established by the Body for each activity, accounting service or type of work realized.
 - Quality audit includes:
 - understanding the organizational structure of the practice, the systems and procedures (structural audit);

- considering the way the professional standards are applied by randomly reviewing selected engagement documentation (technical audit);
 - compliance with continuous professional training and development standards and with the members obligations (compliance audit);
- Quality audit refers to the professional practices and to the professional standards and regulations applicable at the moment when the engagement is carried out.
 - The stages in carrying out a quality audit are:
 - a) *Preparation.* The time necessary for the audit depends on the significance of the practice and is established only after filling in and analyzing the investigation questionnaire.
 The practice chosen for the quality audit is informed, by mail, at least 60 days before the audit date. The letter is accompanied by a questionnaire that includes a series of information referring to the general organization of the practice, to its engagements and to the compliance with membership obligations.
 The answers to the questionnaire must be sent to the CECCAR Branch in the next 30 days from its reception. Once the questionnaire is sent, the practice may choose to apply the provisions of this regulation that refer to the challenge of the auditor, in which case the audit will be conducted by auditors outside that Branch.
 - b) *Types of audit.* Each quality audit engagement includes three complementary stages: structural audit, technical audit and compliance audit. The quality audit is conducted in accordance to the Guidance issued by the Superior Council of the Body of Expert and Licensed Accountants of Romania.
 - The structural audit represents an organizational diagnostic of the practice for considering whether the organization ensures the compliance of the engagements with the standards, regulations and professional practices, issued or adopted by the Body, emphasizing both positive aspects and deficiencies in respect of the methods and work procedures of the practice.
 - The technical audit represents the reviewing of a set of engagement documentations and permits the evaluation of the quality of the methods used by the practice. The selection of the documentation is made on the basis of the conclusions and information obtained from the structural audit. The technical audit is conducted considering the applicable professional practices, standards and regulations.
 - The compliance audit consists of verifying the compliance of the practice with the membership obligations for the professional training and development, of submitting the annual statements and of payment of financial obligations.
 - Each CECCAR member is checked at least once every 3 years.