

Public oversight over audit as a determinant of its quality

Javni nadzor nad revizijom kao determinanta njenog kvaliteta

Milica Đorđević*, Tadija Đukić^a

^aUniversity of Niš, Faculty of Economics, Niš, Serbia

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Abstract

Ensuring a high level of audit quality is a basic prerequisite for fulfilling its purpose - increasing the credibility of information contained in financial reports and functioning in the public interest. Since the self-regulation of the audit profession has not proven to be a sufficient mechanism for ensuring the quality of audits in the last two decades the need and importance of establishing and effectively functioning public oversight over audits is especially highlighted. The aim of the authors of this paper is to assess the compliance of the institutionalization of public audit oversight in the Republic of Serbia with the relevant European Union regulations and the manner of its functioning. In order to examine the direction of further development of public oversight and, in particular, its impact on audit quality, an analysis of the practice of public oversight in the Republic of Serbia for the last four years was carried out.

Keywords: audit quality, chamber of authorized auditors, the securities commission, the audit public oversight board, eighth directive

Sažetak

Obezbeđivanje visokog nivoa kvaliteta revizije osnovni je preduslov ispunjavanja njene svrhe – povećanje kredibiliteta informacija sadržanih u finansijskim izveštajima i funkcionisanje u javnom interesu. Kako se samoregulacija revizorske profesije nije pokazala kao dovoljan mehanizam obezbeđenja kvaliteta revizije u poslednje dve decenije posebno se apostrofirira potreba i značaj uspostavljanja i efikasnog funkcionisanja javnog nadzora nad revizijom. Cilj autora ovog rada je sagledavanje usklađenosti institucionalizacije javnog nadzora nad revizijom u Republici Srbiji sa relevantnom regulativom Evropske Unije i način njenog funkcionisanja. U nameri ispitivanja pravaca daljeg razvoja javnog nadzora i, posebno, njegovog uticaja na kvalitet revizije izvršena je analiza prakse javnog nadzora u Republici Srbiji za poslednje četiri godine.

Ključne reči: kvalitet revizije, komora ovlašćenih revizora, komisija za hartije od vrednosti, odbor za javni nadzor nad obavljanjem revizije, osma direktiva

1. Introduction

Audit as a process of systematic collection and evaluation of evidence that is the basis for an opinion on whether financial statements in all material respects present realistic and objective business results and financial position of the company is one of the key participants in the financial reporting quality supply chain. High level of assurance in the auditor's opinion can only come from a high quality organized and conducted audit. Otherwise, the consequences of a poorly conducted audit are multiple and have a negative impact, both on those who make business decisions based on audit reports, and on the financial market and economy at the national and global

levels. As audit contribution to the quality of financial reporting can be achieved only if the audit itself is carried out efficiently, the issue of audit quality control stands out as very important.

Audit quality control involves overseeing audit profession in relation to the application of high-quality auditing standards, which minimizes the risk of poorly performed audit and ensures meeting stakeholder expectations in terms of high credibility of information in financial statements. Audit quality control is the focus of attention of all entities interested in reliable audit reports and high-level audit, and represents a multi-layered mechanism (Andrić, Krsmanović & Jakšić, 2012, p. 65). We first

*Corresponding author

E-mail address: milica.djordjevic@ekonomski.rs

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distinguish between external and internal quality control. Internal quality control carried out at audit firm level and audit engagement by establishing and implementing an adequate quality control system required by International Standard on Quality Control 1. However, a particularly important level is external quality control whose ultimate responsibility is to ensure auditors perform their tasks with due care and independently (Soltani, 2009, p. 477). This control is exercised by regulatory bodies through a system of public oversight that allows oversight of auditors' and audit firms' approval and registration, adoption of ethical and internal quality control standards, continuous training, investigation and disciplinary action. As such, audit public oversight is a powerful mechanism to ensure public confidence in audit profession and audit quality.

Proceeding from the need to point out the importance, area and scope of public oversight over audit in the Republic of Serbia, this paper contains three parts. The first part of the paper, first of all, emphasizes the complexity of the phenomenon of audit quality and, consequently, the need to establish public oversight of audit as its determinant. The second part of the paper reviews the institutional analysis of public audit oversight in the Republic of Serbia, and finally, the third part of the paper points out the scope of this type of audit quality control.

2. Audit quality and the need to establish a system of public oversight

Audit quality is a very complex phenomenon with no recognized and adopted definition despite numerous attempts. Thus, audit quality means "delivering an adequate professional opinion based on the necessary evidence and objective judgment. Auditors provide high-quality service to their stakeholders if they provide them with a report that is independent, reliable and based on adequate audit evidence" (ICAEW, 2010, 15). Another definition is that "a well-conducted audit implies the collection of sufficient appropriate evidence that will ensure the conclusion on which the auditor's report will be based and the adoption of an objective opinion. Audit quality also includes adequate and complete audit report that allows the Audit Committee and the Board of Directors to properly perform their responsibilities" (Financial Reporting Council, 2005). Audit quality implies procedures in accordance with auditing standards and regulations, adequate risk assessment based on a thorough understanding of the auditee and their environment, the absence of conflicts of interest in conducting procedures, strong application of due professional care and established quality control system (Financial Reporting Council, 2019). The above definitions point to two inseparable dimensions of audit quality: actual and perceived audit quality (Hosseinnikani, Inacio & Mota, 2014, p. 244). Actual quality implies audit ability to reduce the risk of material misstatement of financial statements, while perceived or apparent quality presupposes the assurance of the users of financial statements that audit has the ability to reduce material misstatements in financial statements.

This is a very complex phenomenon and audit is conditioned by a large number of factors. Many authors in the field of audit have researched this issue, so Ghadhab et al. (2019) indicate that audit quality is conditioned by: audit firm size (larger audit firms are more motivated to conduct better audits and do not want to risk losing their reputation); audit fee amount (higher fee is associated with larger audit firms that invest significant resources in employee education and specialization and information and technical solutions that are a prerequisite for higher quality audit); competition between audit firms (greater competition between audit firms also contributes to higher audit quality due to the fact that one of the conditions for retaining clients is high-quality service). On the other hand, Hosseinnikani et al. (2014), in addition to audit firm size and audit fees, state the following as audit quality factors: auditor specialization in relevant industries (greater auditor expertise in the relevant industry leads to better audit); a period of cooperation between the auditor and the client (long-term cooperation, i.e. repetition of engagement, may threaten auditor's independence and thus reduce audit quality); providing non-audit services (providing services of any kind to the client's management may create higher risk atmosphere and jeopardize auditor's independence, which, in turn, reduces audit quality).

Professional organizations have also been involved in identifying audit quality factors, so FCR points to four main factors of audit quality:

- The culture within the audit firm is the key factor of quality because it creates an environment in which high-quality audit is valued, which opens room for investment and reward;
- Employee skills and personal characteristics related to technical skills, business knowledge and expertise combined with judgment skills, integrity, objectivity, skepticism, strict approach, experience in making reliable judgments;
- Audit effectiveness, reflected, first of all, in ensuring adequate structure, expertise and knowledge of the audit team for appropriate engagement; high-quality technical support; well-structured work methodology and, finally, effective audit quality control procedures within the audit firm;
- Reliability and usefulness of audit reporting that users will trust, which is achieved by a standardized form of report with all the corresponding elements, to point to signals rather than be a source of new information (Financial Reporting Council, 2006, pp. 17-41).

Also, the International Auditing and Assurance Standards Board (IAASB) groups a large number of identified factors into: input, process and output factors, and observes the qualitative characteristics of these factors both at the level of audit engagement and at the level of audit firms. What is more, given that audit is one of the key links in the financial statement supply chain, audit quality is largely conditioned by the interaction of all participants in the process of financial reporting (audit, client management, authorized persons, financial statement users, regulatory bodies). Finally, a significant role in audit quality belongs to contextual factors, i.e., the

environment in which financial reporting and audit is conducted.

The fact that audit quality is a very complex category and a condition of trust in audit results indicates the need to take the issue of audit quality control very seriously. Audit quality control includes overseeing the audit profession, establishing rules to ensure audit quality control, and imposing the use of high-quality auditing standards for all audit engagements. Audit quality control aims to ensure that audit fulfills its purpose, i.e., meets stakeholder expectations, as well as to adequately respond to all challenges it faces (Bonić & Đorđević, 2012, p. 339). Adequately established quality control system minimizes the risk of poorly performed audits that can cause serious disturbances in the capital market and loss of investor confidence.

In its long history, the auditing profession has been providing high-quality services with its reputation, professionalism and strict application of standards and professional ethics. However, in the late 20th and early 21st centuries, after falsified financial statements and their audit in the United States and other developed countries, the confidence of capital market participants in the audit was lost. At that time, external audit quality assurance gained in importance because the previous self-regulation of the audit profession could no longer be accepted unconditionally. States and regulators found an answer and established an appropriate form of public oversight outside the audit profession. The goal of public oversight is to ensure the confidence of interested users and the public in the audit, to provide assurance of the accuracy of audited financial statements and to achieve greater protection against corporate scandals. Public oversight is seen as one of the main means of convincing the public and regulatory bodies that auditors and audit firms operate in compliance with auditing standards and ethical rules. The model of public audit oversight has been accepted, both within the framework of international auditing standards and by the European Union, primarily in order to raise the quality of financial reporting, harmonize regulations and practices, improve financial discipline and avoid the involvement of auditors, i.e., audit firms, serving public interest, in possible financial scandals.

Recognizing the importance of establishing public oversight over audit, in 2006 the European Commission made significant changes to the Eighth Directive on the audit of financial statements, which was originally adopted in 1984. The new Eighth Directive, which aimed to harmonize audit legislation, regulates the obligations of certified auditors and audit firms in conducting audits and introduces requirements for public oversight of the audit profession. Establishing an effective system of public oversight implies meeting the appropriate minimum criteria. The basic condition is that the system of public oversight is under the jurisdiction of one or more bodies authorized by the state that are independent of audit firms and certified auditors that are subject to audit. In order to ensure this independence, public oversight bodies need to have secure sources of funding that are not influenced by the audit profession. Also, the system of public oversight

must be managed by competent experts who have adequate knowledge and experience in the field of audit and financial reporting, as well as specific education in the field of quality assurance. The Eighth Directive stipulates that the system of public oversight should enable supervision over the procedures of approval and registration of auditors and audit firms, adoption of ethical and internal control standards, undertaking investigative actions and disciplinary measures. In particular, the Directive determines the frequency of quality control, at least once every six years, with the Decree additionally defining that for audit firms that conduct audits of public interest entities it should be at least once every three years.

The 2006 Eighth Directive was partially amended in 2014. One of its amendments refers to the frequency of quality control – quality control should be carried out on the basis of risk analysis, i.e. the scope and complexity of work of a certified auditor or audit firm that is subject to audit. Also, more attention in the 2014 Directive is focused on the system of investigative actions and disciplinary measures and the criteria that public oversight bodies must take into account when implementing disciplinary measures and sanctions.

The provisions of the Eighth Directive reflect the European Commission's initiative in setting a reference level for audit quality assurance systems and achieving a high level of compliance for statutory audit, leaving member states free to set stricter requirements. The Eighth Directive emphasizes that audit quality assurance systems and disciplinary regimes must be linked at the national level, and by carrying out activities within their competence, public oversight bodies will significantly influence the improvement of audit quality.

3. Institutionalization of public audit oversight in the Republic of Serbia

Until 2013, the Law on Accounting and Auditing ("Official Gazette of the RS", Nos 46/2006 and 111/2009) was in force in the Republic of Serbia, and its article 51 entrusted the Chamber of Certified Auditors, among other things, with quality control of audits in accordance with the Code of Ethics for Professional Accountants and the methodology established by the Chamber. The new Law on Audit ("Official Gazette of RS", No. 62/2013), which entered into force in July 2013, brought a number of novelties, among them being the abandonment of auditing as a self-regulating profession and the introduction of independent public oversight over the work of the Chamber of Certified Auditors, audit firms and auditors. In accordance with the Eighth Directive, the public oversight system should have the ultimate responsibility for overseeing: approval and registration of auditors and audit firms, adopting professional ethics standards and internal quality control and audit standards, as well as continuous education, quality control and investigative and disciplinary action. Given the above, the new Law on Audit envisages the establishment of the Audit Public Oversight Board, an independent body composed of non-practitioners (persons independent of the influence of the audit profession and the Chamber of Certified Auditors),

elected by the Serbian Government, at the proposal of the Minister of Finance, the National Bank of Serbia and the Securities Commission. In this regard, the Audit Public Oversight Board was established in 2013 and, together with the Ministry of Finance and the Chamber of Certified Auditors, should direct and control the work of the audit profession and thus assure the public that this profession works and functions in the public interest. More precisely, according to Article 71 of the Law on Audit, the Chamber controls the quality of work of audit firms, independent auditors and licensed certified auditors, and the performed quality control is subject to supervision by the Public Oversight Board. The Board's scope of work is defined by the Law on Audit and includes the supervision of:

- 1) Implementing a program for taking, recognizing and organizing examinations for the title of certified auditor;
- 2) Determining and implementing the program of continuous professional development of licensed certified auditors;
- 3) Issuing, renewing and revoking licenses to certified auditors;
- 4) Issuing and revoking licenses to audit companies and independent auditors;
- 5) Application of ISAs;
- 6) Application of the Code of Professional Ethics of Auditors;
- 7) Implementation of disciplinary procedures and other measures in order to eliminate and sanction irregularities.

This model of audit public oversight was in line with international best practice in the field and significantly improved transparency and financial discipline. However, the new Law on Audit, which entered into force on 1 January 2020, merged audit oversight and quality control of the audit profession into one body – the Securities Commission (hereinafter the Commission). Therefore, the Commission takes over the responsibilities in the field of audit quality control, which according to the previous Law on Audit belonged to the Chamber of Certified Auditors, and also performs audit public oversight. The Audit Public Oversight Board continues to work and provides expert assistance to the Commission in order to implement the provisions of the Law on Audit and considers and approves general and individual acts adopted by the Commission within its competences. In that sense, the Commission started working after adopting important acts in the field of quality control of audit firms, independent auditors and licensed certified auditors in 2020, with the prior consent of the Public Oversight Board:

- Guidelines on the selection criteria for audit firms, independent auditors and licensed certified auditors to check the quality of performed audits;
- Methodology for quality control of performed audits, quality control of audit firms, independent auditors and licensed certified auditors;
- Rules of procedure of the Audit Public Oversight Board and
- Work Program of the Audit Public Oversight Board.

To examine the level of compliance of public oversight in the Republic of Serbia with the requirements of the Eighth Directive, we apply the criteria set by the Directive that

indicate the efficiency and effectiveness of the system of audit public oversight. The criteria can be grouped into the following: (1) establishment and scope of work, (2) composition of bodies, (3) financing, (4) transparency in work, (5) oversight measures and (6) sanctions.

Establishment and scope of work of the public oversight body – the Securities Commission is an independent and autonomous body of public oversight over the Chamber of Certified Auditors, audit firms and certified auditors. In order to perform quality control, the Commission adopts the methodology, and the scope of work of the Commission includes issues related to:

- 1) licensing (oversight over the implementation of the program for taking, recognizing and organizing examinations for the title of certified auditor; determining and implementing the program of continuous professional development of licensed certified auditors; issuing, renewing and revoking licenses to certified auditors and issuing and revoking licenses for audit firms and independent auditors);
- 2) performance control (oversight of the application of International Standards on Auditing and the application of the Code of Professional Ethics for Auditors); and
- 3) conducting disciplinary and other proceedings (directly, in cooperation with other bodies or by submitting requests to the competent judicial authorities the Commission orders elimination of irregularities, issues a public warning, conditionally revokes a license or imposes a fine).

Composition of public oversight bodies – EU Directive stipulates that the public oversight system is regulated by persons who are not professionally engaged in audit, but who have knowledge relevant to the audit. In order to ensure the independence of the members, it is important that the bodies be organized in a way that prevents any conflict of interest, which means that the process of electing members must be objective and independent of the audit profession. In this regard, members of public oversight bodies should be elected by the government of the country or the line ministry and most members must be inactive auditors, i.e., the conditions are that the person did not perform audits for three years before joining the body. If we look at public oversight in the Republic of Serbia, according to the Law on Audit, quality control and public oversight are performed by Commission's full-time employees, licensed certified auditors with at least five years of experience in auditing. The mentioned persons may not perform quality control of the audit firm, i.e., independent auditor with whom they had ownership share, management, employment or other relationship with the audit company, i.e., independent auditor.

Financing of public oversight bodies – The Directive stipulates that the financing of public oversight bodies must be secure and independent of the undue influence of audit firms or statutory auditors. In accordance with the Law on Audit (Art. 106), the Securities Commission is financed from: (1) a special contribution for performing quality control of audit companies with the prior consent

of the Ministry and (2) other sources in accordance with the law.

Transparency in work – one of the conditions for the efficiency of public oversight bodies is transparency, and the Directive stipulates that the oversight body should publish an annual work program, activity reports and measures taken and sanctions imposed on statutory auditors and audit firms. The Securities Commission publishes the annual work program and the annual work report on its website, and at least twice a year it reports to the Ministry on the implementation of the competencies entrusted to it by the Law on Audit.

Supervisory measures – one of the main supervision measures of the audit profession is to review the audit firm's and independent auditors' operations. In this regard, the Securities Commission is responsible for (1) reviews of the internal quality control system; (2) verifying the independence of the licensed statutory auditor, independent auditor, and audit firm with respect to the auditee; (3) verifying the compliance of audit procedures with the law and ISAs; (4) quality assessments in terms of resources engaged (audit team composition and working hours); (5) review of prices for audit services; and (6) direct verification of the licensed certified auditor's quality of work. Regarding the frequency of controls, audit public oversight in the Republic of Serbia has been adjusted to the Directive, which stipulates those controls be conducted at least once every six years, and in the case of audit firms auditing public interest entities at least once every three years. Regular control is performed on the basis of risk analysis, and extraordinary controls can be initiated after receiving notifications from the National Bank of Serbia, the Chamber of Certified Auditors, competent courts and other bodies if there is reasonable suspicion that there are omissions and irregularities in the work of certified auditors and audit firms.

Sanctions – In accordance with the Eighth Directive, the Law on Audit stipulates the Securities Commission's responsibility for sanctioning and taking disciplinary measures against audit firms and certified auditors, namely: ordering the elimination of identified irregularities, issuing a public reprimand, conditional revocation of license for conducting audit, issuing a temporary or permanent ban on conducting audit and imposing a fine. In doing so, the Commission may implement the measures: directly, in cooperation with other bodies and by submitting requests to the competent judicial authorities.

Observing the organization, competencies and responsibilities of the Securities Commission, it can be concluded that the system of public oversight in the Republic of Serbia is in line with the provisions of the Eighth Directive and best international practice.

4. Scope of audit public oversight in the Republic of Serbia

In order to assess the scope of audit public oversight in the Republic of Serbia, the subject of analysis will be the 2020 and 2021 reports on the work of the quality control sector of the Securities Commission. Since in those years, among other things, quality controls involved audit firms and certified auditors that were subject to control three years earlier, the analysis will include reports on the work of the Audit Board for 2017 and 2018. Such an analysis will enable consideration of development trends of audit public oversight practice and, consequently, the impact on audit quality.

The Chamber of Certified Auditors (as the then control body) adopted the quality control plan for 2017 and 2018, and the Securities Commission for 2020 and 2021. The Audit Public Oversight Board approved these plans. During 2017, 2018 and 2021, the plan was fully implemented. In 2020, the plan envisaged quality control in 17 audit firms, but due to the situation caused by the Covid-19 virus pandemic, the plan was reduced to 10 companies. Reports on the overall results of the quality control were reviewed and published by the public oversight body. Table 1 shows the structure of the subject of performed controls for the four observed years.

Table 1. Structure of the subject of performed controls

Controlled in	2017	2018	2020	2021
Number of companies	15	16	10	18
Number of certified auditors	21	30	18	32
Number of engagements	32	36	21	36

Source: Author's work

The given table shows that the number of controlled audit firms, certified auditors and the number of engagements is increasing from year to year, except for 2020, when the number of performed quality checks decreased for the mentioned reasons. The quality control of audit firms, certified auditors and audit engagements is performed through the control of audit engagements on certain issues of documentation and implementation of audit procedures. The reports of the control bodies individually show the identified:

- System errors – errors that are observed in individual companies in all controlled engagements on certain issues of documentation and implementation of audit procedures and
- Errors that are not systemic – errors identified in individual companies on certain issues of documentation and implementation of audit procedures, but not for each controlled engagement.

The reports of the control bodies do not present in detail the audit firms and the number of engagements in which non-systemic errors were noticed, which makes it impossible to determine their exact number. For these reasons, Table 2 presents the number of audit firms in which irregularities were observed and the total number of system errors.

Table 2. Audit firms in which irregularities were observed and the total number of system errors

	2017	2018	2020	2021
Number of firms with irregularities	8	10	4	9
Number of system errors	26	11	10	14

Source: Author's work

Table 2 indicates that every year the performed controls show irregularities in about half of the controlled firms. The number of systemic errors tends to decrease; however, their existence is confirmed by the Chambers of Auditors for 2017 and 2018 and the Securities Commission for 2020 and 2021 in such a way that “controlled audit companies, i.e., licensed certified auditors, put their audit judgment in the first place, and without other considerations make conclusions about the ways and procedures of the subject audit. Due to such an attitude, there is a failure in the application of the Audit Methodology and partially uncovered requirements and objectives of the International Standards on Auditing”. However, the Chamber of Certified Auditors is of the opinion that most of the irregularities observed in 2017 and 2018 do not affect the audit report – the auditor's opinion, while the Securities Commission emphasizes that inadequately implemented procedures have a significant negative impact on the quality of audit engagement.

One of the ways to directly consider the impact of control on audit quality is a comparative overview of the number of observed irregularities in audit firms that were inspected in 2017 and 2020 and those that were inspected in 2018 and 2021.

Specifically, in 2020, 8 audit firms were re-inspected, which were also controlled in 2017. The total number of identified errors in 2017 identified in 8 firms was 20. The total number of identified errors in 2020 was 36, with these errors identified in 3 firms that were re-controlled. The other 5 firms eliminated the errors from the previous period. Based on such findings, the Securities Commission found significant progress in the quality of audit procedures and internal quality control system in several firms, except for one firm and one licensed certified auditor.

The situation is similar with the performed controls of 14 audit firms in 2018 and 2021. The total number of identified errors in 8 firms in 2018 was 26 (no errors were noticed in 6 firms). The total number of identified errors in 2020 was 45, with these errors identified in 7 firms, while one firm completely eliminated the errors from the previous period. Based on such findings and the nature of the observed irregularities, the Securities Commission issued a general conclusion on significant progress in the quality of audit procedures and the internal quality control system.

Based on the above, it seems that public oversight has a significant positive impact on improving audit quality in the Republic of Serbia. However, if an additional analysis of the 2017 and 2018 Public Oversight Board reports and the 2020 and 2021 Securities Commission reports is

performed, it is possible to see facts that indicate, at least, the stagnation of the improvement of audit public oversight, which in turn may negatively affect audit quality.

First, based on a detailed review of the findings of 2017 and 2018 quality controls, the Public Oversight Board analyzes the most common systemic failures and indicates that these shortcomings relate to the following areas:

- Planning the audit process (ISA 300);
- Identification and assessment of audit risks (ISA 315);
- Sampling (ISA 530);
- Documenting audit evidence during the audit process (ISA 500 and ISA 230);
- Reviewing criminal actions in audit and financial reporting (ISA 240) and
- Quality control (ISQC 1).

In its reports, the Oversight Board explains the identified omissions in the relevant areas and states the following as possible reasons for such omissions: (1) lack of professional capacity in audit firms in relation to the number of contracted engagements, (2) insufficient or inadequate professional education and (3) omissions related to the application of the International Standard on Quality Control. Thus, the Board points out that in order to raise the quality of audit reporting, it is necessary to systematically educate audit profession representatives, but also to constantly improve the audit quality control system and persist in its implementation.

On the other hand, the Securities Commission reports list a significantly smaller number of the most common areas in which the most significant shortcomings and omissions occur:

- Identifying and assessing audit risks (ISA 315) and
- Audit evidence (ISA 500) and audit documentation (ISA 230).

In addition, the Securities Commission does not indicate potential reasons for the observed omissions and does not indicate the ways to overcome the observed irregularities.

Second, the body that performs audit public oversight in accordance with the Law on Audit may impose measures due to violations of the Law and the rules of the profession. Accordingly, the Public Oversight Board in 2017 and 2018 summarized the following measures:

- Elimination of irregularities identified in the quality control procedure (three audit firms);
- Public reprimand (2 audit firms);
- Conditional revocation of the license (5 certified auditors for a period of two years) and
- Revocation of the license (one for a period of two years and one for a period of 5 years).

The 2020 and 2021 Securities Commission reports state that no measures were imposed on audit firms and licensed certified auditors in these years, taking into account that the process of adopting Guidelines for imposing measures under Article 82 of the Law on Audit

at the time of compiling these reports was under way, and that no measures had been proposed yet. At the time of writing this paper, the Guidelines have not been adopted yet.

5. Conclusion

Only a well-conducted audit can contribute to the quality of financial reporting by reducing doubts and uncertainties in the accuracy of information and increasing the trust of the audited entity and other stakeholders. Financial scandals in the United States and other developed countries with which the audit profession has been associated have necessitated stronger audit quality control through the establishment of public oversight independent of the audit profession. The 2006 Eighth European Union Directive amended in 2014 introduced mandatory establishment of a public oversight system that will be independent of audit subjects, managed by competent experts, transparent in work and comprehensive in control.

The Republic of Serbia has recognized the need for effective public oversight of the audit profession in order to increase audit quality, so, in 2013, it formed the Audit Public Oversight Board. In 2020, the responsibilities of public oversight were transferred to the Securities Commission. The analysis of the organization, assigned responsibilities and competencies shows that the system of audit public oversight meets the minimum requirements prescribed by the Directive relating to: independence of the oversight body and scope of its work, structure of supervisory body members, funding, transparency, oversight measures and sanctions. The analysis of the 2017, 2018, 2020 and 2021 competent supervisory bodies' reports show an increase in the number of conducted controls and a decrease in the number of systemic irregularities in the work of audit firms, which points to the positive impact of public oversight on audit quality. What is more, the number of audit firms with irregularities noticed in 2017 and 2018 decreased in the control re-conducted in 2020 and 2021.

As audit public oversight has been the responsibility of the Securities Commission for the past two years, it is noticeable that appropriate improvements in the work are needed. First, the Commission is expected to further analyze the causes of systemic errors in conducting audit and provide recommendations to audit firms for their elimination. Also, it is necessary to adopt as soon as possible Guidelines for imposing measures whose implementation would make the Commission more effective in improving the quality of the audit profession in the Republic of Serbia.

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