

According to articles 13, 14, and 30 from the Statute of the Institute of Certified Auditors of the Republic of Macedonia, and article 12 and 13 from the Law on Audit, the Assembly of the Institute, upon proposal of the Management Board, on its session held on 20.12.2008, adopted the following

RULEBOOK ON THE MANNER AND PROCEDURE OF QUALITY CONTROL OF THE AUDIT COMPANIES AND INDIVIDUAL CERTIFIED AUDITORS

According to article 7, paragraph 1, line 23 from the Statute of the Institute of certified auditors of the Republic of Macedonia (ICARM), the Institute is competent for conduction of quality control. Adequate response to the system of quality control is very important for provision of audit services of high quality, and at the same time, as a result of the high quality of the audit related activities, the reliability of the issued financial information, thus the audit means higher value and protection for shareholders, investors, trustees and other users of reports.

The objective of the system of quality control, realized by ICARM, is improvement of the quality of the auditor's work and the members of the Institute, and as a result of that, strengthening of the social status of audit related activities and auditors, and increase of the social legitimacy of audit.

I. General provisions

Purpose of the Rulebook

1. The purpose of the Rulebook on the manner and procedure of quality control of the audit companies and individual certified auditors (hereinafter as The Rulebook) is to define the basic principles regarding the inspections of quality control under the supervision of the Institute, the procedures for quality control and the procedures applied during valuation of their results, as well as the conditions for employment of persons who shall perform quality control.

The scope of quality control

2. The quality control inspections performed on behalf of the Institute shall cover the audit activities as stated in item 3, as well as valuation of the efficiency of the procedures and the systems for assurance of the quality of audit services established by auditors.

3. For the purpose of this Rulebook, the term audit activities shall mean audits and inspections of financial historical information and assignments for assurance, performed according to the international standards of Audit, the International standards for assignments for inspection and the International standards for assignments for assurance, published in the Official Gazette of the Republic of Macedonia.

4. The following shall not be considered as assignment for certification

- Assignments for agreed procedures and compilations of financial or other information,

- Preparation of Tax reports, with conclusion for statement of certification,
- Consultations (or advice) assignments, such as managerial and tax consulting,
- Assignments for witnessing in legal procedures related to accounting, audit, taxation or other issues, and
- Assignments involving expert opinions, positions or text wherefrom the user can draw conclusion, if applicable, from the following:
 - Such opinions, positions or texts shall be only ancillary in relation to the overall task,
 - All published written reports shall be explicitly limited for use only by intended users as determined in the report,
 - According to the written agreement with the intended users, the task shall not be intended as task for assurance, and
 - The assignment shall not be a task for assurance in the report of the certified auditor.

5. The inspections for quality control shall be performed with Audit companies and individual certified auditors, registered in ICARM. In case of temporary expelled members, the inspection shall not be performed for the non-active period, however, the inspection which has been delayed due to the temporary exclusion should be completed before the next registration as active member.

Terms and definitions

6. In this Rulebook:

(1) *Person who performs quality control* is the auditor who performs quality control inspection and is employed in ICARM.

(2) *Auditor* is an individual certified auditor or an Audit firm, authorised to sign the report of the independent auditor.

(3) *Individual Certified auditor* is a physical entity registered according to the Law on Audit and the Law on Trade companies, who holds a Certificate for authorised auditors, who works independently or with economic association where he/she is a single auditor with authorisations to sign or he/she does not share the risks with another auditor.

(4) *A participating auditor*: who is not a member and is not employed in the Audit company where he/she participates in the audit of the financial reports according to a special agreement, and is not authorised to sign the report of the independent auditor.

(5) *An Audit firm* is a trade company registered to conduct audits according to the Law on Audit and the Law on Trade companies.

(6) *Business relations*: Any type of relationship based on oral or written agreement in accordance with the Law on Obligations, except agreements within the frames of the subject of operation of the Audit company and the individual certified auditor.

(7) *Public companies*: Shares or other issued securities by these companies are quoted on the official markets of securities, as well as credit institutions, insurance companies, pension funds or other companies determined by the Quality control Commission (for example the National Bank of the Republic of Macedonia, etc.)

(8) *Inspection period* is the maximal time period defined in years, which may pass between two inspections.

(9) *Service Agreement*: Legal relationship established between the individual auditor and the Audit Company, according to which the Auditor receives compensation, documented as remuneration expense. According to the service agreement, he/she cannot sign audit reports.

II. PRINCIPLES

7. During the quality control inspections, the principles stated in items 8 to 10 should be applied.

8. Confidentiality:

(1) Detailed documents as stated in item 56 may only be available to those persons who have obligation of confidentiality in accordance with item (4) in the following text.

(2) The person performing quality control should protect information's and data obtained during the quality control inspection. The person is not entitled to use such data for private financial decisions.

(3) the confidentiality obligation also means that the person performing quality control does not have the right to use the information received during the inspection for his/her own personal benefit or for the benefit of third parties, and the person should even avoid situation that may appear as he/she is benefiting the information.

(4) Furthermore, apart from the person performing quality control, the obligation for confidentiality should be applied also for the members of the Commission for quality control and the Commission for Ethics, and all employees of the Institute who might find out any facts which could be qualified as confidential audit information related to the procedure of quality control.

9. Independence:

(1) The Person who performs a quality control is NOT authorised to participate in the quality control inspection of an auditor, if:

- the person who performs the quality control holds a share of interest (share in the business, deposits, shares or contributions, etc) in the auditor's company, or the person has had such share in the period after the last inspection of the quality control;
- the auditor has a share of interest (share in the business, deposits, shares or contributions, etc) in the company of the person performing the quality control,

or the person has had such share in the period after the last inspection of the quality control;

- the person performing the quality control was the responsible person or employed in the auditor's company, in the period upon the last quality control;
- the person performing the quality control is a trustee or debtor to the auditor or has any other type of business relations with the auditor, or the person performing the quality control has been a trustee or debtor to the auditor or has had any other business relations with the auditor in the period upon the last inspection of the quality control.

(2) the person performing the quality control is not entitled to conduct inspection of the quality control related to the auditor, if there is any relationship as defined in item 9 (1) or there has been such relationship among close relatives of the person performing the quality control or the auditor, in the moment or in the period after the last inspection of the quality control.

(3) In order to maintain its independence, the person performing the quality control should not accept any kind of remuneration or benefit from the controlled auditor.

10. Professional behaviour:

(1) The person performing the quality control should conduct the control in an objective manner, and avoid partiality and conflict of interests and act in a decent manner. The comments of the person performing control assist the auditor to better understand the applicable standards and the manner of their application.

(2) the person performing the quality control and the auditor should cooperate during the process of quality control.

(3) Without consent from the auditor, the person performing the control and its close relatives cannot realize business relationship with the company or the business organization where the control was performed or the work of the auditor, in a period of 3 years upon completion of the inspection of the quality control.

(4) the Auditor does not have the right, in any way, to refer to the results or the performed quality control in its advertisements or offers.

11. Failure to respect the principles defined in items 8 to 10 shall be qualified as breach of the obligation that arise from performance of the activities, thus it shall be an ethical breach which results in ethical procedure in accordance with the Rulebook of ICA RM regarding the manner and procedure for determination of violations of articles of the Institute and the disciplinary measures.

III. STRUCTURE OF QUALITY CONTROL

Commission for quality control of audit services

12. (1) The Commission for quality control of audit services is composed of five members with three-year mandate and right to re-election. Three

Commission members are certified auditors employed in audit companies and/or at certified auditors - individual certified auditors.

(2) The Commission for quality control performs controls in accordance with this Rulebook adopted by the Assembly of the Institute.

(3) Through the implementation and realization of the quality control, the Institute is open for cooperation with representatives of international, regional and national organizations in the field of audit and accounting.

(4) The business activities of the Commission are regulated under the Articles of incorporation of ICARM.

Person performing the quality control

13. The reviews of quality control are performed by people employed in the Institute.

14. The people employed for performing quality control have to fulfil the following requirements:

- to be members of the Institute;
- to attend the compulsory number of training courses for continuous professional education;
- must not be convicted in any disciplinary or ethical procedures conducted by the Institute Commission for ethics, in a period of three years before their employment in the Institute.

15. The Commission for quality control defines the qualification requirements for people that will be employed to conduct quality control within the competition process for employment.

16. The Commission for quality control drafts a list of two candidates who are qualified for employment and the list shall be submitted to the Management Board of the Institute of Certified Auditors of RM for approval.

IV. GENERAL RULES ON THE PROCEDURES FOR QUALITY CONTROL

Selection of the quality control check

17. The Commission for quality control is responsible to determine the person that will perform the control, the auditor where the control will be performed and the time the control will be performed.

18. The quality controls must be organized in such manner to ensure that every auditor will be checked at least once in a period of three years.

19. The Commission for quality control can ask for checks of quality control in cases of serious suspicions regarding the quality of completed audit, or upon request of the Commission for ethics a check to be performed by the Commission for quality control.

20. The period between two checks can be shorter if the auditors got "unsatisfactory" opinion in the course of the last quality control procedure.

21. The Commission for quality control adopts an annual plan for quality control, prepared by the employees who perform quality control, not later than 15 July every year. The annual plan must include the names of the auditors who will be checked during the year, the determined date and the expected duration of the control, as well as the name of the person who will perform the control. The Commission members and the individuals that will perform the quality control will be the only people that know the plan and will keep it as confidential.

22. (1) On the basis of the annual plan on quality control, a list of determined controls should be prepared for every person that will perform the control. The person who will perform the control will keep the list as confidential and must not establish any contacts with the auditor chosen to be checked so that the latter would not be informed before receiving the official report by the Institute.

(2) The person performing the quality control must inform the Commission for quality control if the list includes auditor that does not fulfil the requirements for independency defined in item 9.

Notification to the auditor chosen to be checked, postponement

23. (1) The Commission for quality control must notify the auditor who will be controlled 4 weeks before the planned inception of the control, about the same time when the person who will perform the quality control is informed.

(2) In a period of 8 workdays following the receipt of the notification for quality control, the auditor must inform the Commission if the person designated to perform the control does not fulfil the requirements for independency defined in item 9.

24. In a period of 8 work days following the receipt of the notification for quality control, the auditor who has been selected for implementation of a quality control can submit to the Commission for quality control a request, including the justifications, for the postponement of the control and/or appointment of another person for quality control.

25. The Commission for quality control shall decide upon the request for postponement of the control and/or the appointment of another person for quality control, and it shall inform the auditor, as well as the person chosen to perform the quality control, about the decision. If the Commission dismisses the request for postponement, the check of the quality control shall be conducted on the originally determined dates. The appointment of another person for quality control does not cause postponement of the control.

26. Within a period, the check of the quality control can be postponed only once, except in cases when the check cannot be performed due to reasons which cannot be controlled by the auditor.

27. If the procedure for quality control is postponed, the auditor should be informed on the new date for quality control in accordance with the provisions of item 23.

28. The notification can be sent in a period shorter than 4 weeks before the date for planned check, if the check has been imposed due to emerged serious suspicions about the audit quality, and if the check of the quality control has been requested by the Commission for ethics. In such case, the check cannot be postponed, except in cases when the check cannot be performed due to reasons that cannot be controlled by the auditor (Force majeure).

V. COMMUNICATION OF DATA BY THE AUDITORS

29. In order to facilitate the planning of the quality control reviews, the auditors shall be obliged to send data to the Institute

30. Any case of a default of the obligation for communication of data, as laid down in paragraphs 31-32, or communication of data with serious errors, shall be deemed a disciplinary violation and shall be resolved in disciplinary proceedings, in accordance with the Rulebook on the Manner and Procedure Establishing Violations Made by the Institute Members and on disciplinary measures.

Annual communication of data

31. (1) The auditors shall communicate to the Institute data on the professional services they have rendered, are rendering or have agreed to provide but still have not started, pertaining to reports on the business year that ended in the preceding calendar year, and which fall within the scope of quality control, by June 15 every year.

(2) The communication of data, laid down in paragraph 31 (1) shall be an obligation for the audit firms and the certified auditors – sole proprietors, while the employed certified auditors shall be exempt from this obligation.

(3) The auditors who are authorized signatories in several client relations shall communicate collective data on all independent audit reports that they signed on the forms used by the companies.

32. The obligation for communication of data laid down in paragraph 31 shall be fulfilled by filling in the forms prescribed by the Commission and by communicating such forms to the Institute.

33. The Institute may examine the completeness and the authenticity of the annual communication of data in the course of the quality control review that is carried out in the field.

VI. PROCEDURE FOR CARRYING OUT OF FIELD INSPECTIONS

Selection of engagements to be covered by the inspection

34. On the 10-th business day prior to the commencement of the field inspection, the person carrying out the quality control shall send to the auditor a list of engagements selected for inspection in accordance with the submitted and filled in data form.

35. The person carrying out the quality control shall select the engagements for the primary sample in accordance with the rules laid down in paragraphs 36 – 38.

36. The sample shall be composed in such manner that it covers audits completed by all different types of certified auditors (natural persons) who are working for the company, with the status of partners / associates, full time employees or part time employees under service contracts.

37. (1) Out of the completed audits of the financial reports for the business years that ended in the entire preceding calendar year, the sample shall contain engagements representing 5% of the total number of working hours of engagement on audits. If there were more than 50 audits, the sample must contain 3% of the total working hours of engagement on audits, but the number of engagements shall be at least 3.

(2) The years that are not covered by the previous quality control reviews shall be represented in the sample by engagements amounting to at least 0,5% of the total working hours of engagement on audits in the relevant years, but with no less than 1 engagement.

38. Within the framework of the number of engagements laid down in paragraphs 36-37, the audit of companies of public interest should participate with approximately 40%, while the audits that resulted in a qualified audit report (including the audit reports containing a an explanatory paragraph) should participate with 20%.

39. In the course of the field inspection, the person carrying out the quality control review may add audits to the sample, if it is proven that the data communicated in the data form are false, and as a result, the sample that was made based on the data form is not in compliance with paragraphs 36-38.

Carrying out field quality control review

40. The quality control evaluates the quality assurance procedures applied by the auditors, i.e., assessment of the compliance with the provisions of the International Standards of Audit (ISA), published in the Official Gazette of RM, ISA 220 and ISQC 1 (International Standard on Quality Control 1).

41. The review of the quality control implemented by the auditor shall provide an evaluation of the following>

(a) compliance with the professional standards and requirements;

- (b) capability and professional competences and skills of the auditor or the audit team;
- (c) the procedure for selection of auditors and assignment of duties;
- (d) the procedure for management and supervision over the audit team;
- (e) professional consultations;
- (f) procedures applied for the making of decisions relating to the acceptance of new engagements and management of previous engagements.

42. In the case when the auditors work without assistants, notwithstanding the fact whether they operate in the capacity of an audit firm or a certified auditor - sole proprietor, the evaluation of the quality control system shall not include paragraphs 41(b) and 41(c).

43. In the case of an audit firm and a certified auditor – sole proprietor, the quality control review shall be carried out by filling in appropriate questionnaires, and the qualification shall be stated on this form. The qualification shall be made in accordance with the instructions provided in the questionnaire, by stating "satisfactory", "satisfactory, but requires further review", or "unsatisfactory".

44. In addition to the reviews laid down in paragraphs 40 – 43, the quality control review shall include individual assessments of selected engagements for quality control.

45. The review of the individual engagements shall include, in particular:

- (a) acceptance of the engagement, fulfillment of the requirements concerning ethical rules, including compliance with independence requirements;
- (b) planning;
- (c) obtaining audit evidence, quality of evidence obtained in the working documents of the audit, as grounds for evaluation of the audit work;
- (d) review (Control);
- (e) reporting, including:
 1. adequacy of the form and the type of the audit report;
 2. compliance of financial reports with the principles for development of reports that are defined in the audit report;
 3. failure to state that the financial reports are not in compliance with other legal requirements laid down in the audit report.

46. The review of individual engagements shall be carried out by filling in the relevant questionnaires. That form should state the qualification for the individual engagement. The qualification shall be made in accordance with the instructions provided in the questionnaire, by stating "satisfactory", "satisfactory, but requires further review", or "unsatisfactory" for each individual auditor.

47. For the selected engagements, the questionnaire for the individual engagement shall not state the name of the client. Each engagement shall be designated by a code, and the list of engagements matching such codes (signed by the auditor) shall be kept by the auditor at least until the next quality control review. The list shall also be kept by the ICARM at a specific place (safe box), which may be accessed only by a person authorized by the Commission.

48. (1) The quality control review shall be carried out on the premises of the registered seat of the auditor, or, at the auditor's request, on the premises of the Institute.

(2) By the date of the commencement of the quality control review, the auditor shall make available all working documents pertaining to the individual engagements selected by the reviewer, as well as the quality control rulebooks drafted by the auditor. The auditor shall provide access to any document requested by the reviewer, and shall provide all necessary information for completion of the review.

49. The reviewer shall summarize the evaluation of the quality control system established by the auditor, and of the selected engagements in a summary form. At this form, the reviewer shall provide recommendations for further development of the auditor's quality control system, and for improvement of the applied quality control procedures.

50. The quality control reviewer shall discuss the results of the quality control review with the auditor and show the auditor the filled in questionnaires and the summary form.

51. In the summary form, the auditor may state his/her opinion on the review results and on the comments made by the reviewer.

52. Following the discussion on the results of the review and the finalization of the summary forms, the summary form shall be signed by the reviewer and the auditor who was subjected to the review (in the case of an audit firm, it shall be signed by the manager).

53. In addition to the questionnaires referred to in paragraphs 43 and 46, and the summary form referred to in paragraph 48, the documentation completed by the reviewer may not include documents that are part of the working documents of the engagement. If the quality control reviewer has been provided with copies of such documents for the purposes of the review, the quality control reviewer shall destroy such copies following the completion of the quality control procedure.

54. The quality control reviewer and the auditor shall make statements of compliance with the independence and non-compliance requirements.

55. The quality control reviewer shall make a statement of confidentiality to the auditor.

Documenting the quality control procedures

56. The quality control reviewer shall submit to the Quality Control Commission the questionnaires referred to in paragraphs 43 and 46, the summary form referred to in paragraph 49, and the statement referred to in paragraph 54, and copies of these documents shall be sent to the auditor who was a subject of the review. The quality control reviewer shall not keep any documentation related to the quality control review.

57. The Quality Control Commission shall keep confidential the documentation on the quality control review and shall destroy it upon the performance of the next quality control review.

58. (1) The Quality Control Commission shall prepare a report on the results and experiences of the quality control reviews that were carried out during the calendar year (hereinafter: annual report), by 31 March of the subsequent year. The report of the Quality Control Commission shall be restricted to general reports, and it shall not contain names or any indications that may reveal the identity of auditors being reviewed.

(2) The Quality Control Commission shall present its annual report, together with the opinion of the Council on Audit Promotion and Supervision at a session of the Institute's Assembly, and the report shall constitute a part of the annual report of the Institute.

59. The annual report on quality control shall include:

- (a) the contents and the scope of the reviews performed;
- (b) report on the duration and costs of the review;
- (c) the composition of the samples reviewed (for the audit firms and the certified auditors – sole proprietors);
- (d) review results presented as statistical data;
- (e) results of the review in terms of content (identified problems);
- (f) summary of sanctions initiated by the Quality Control Commission;
- (g) general recommendations for the auditor's profession;
- (h) general proposals for development of the quality control system; and
- (i) proposals to the Commission on Education, Training and Publishing concerning the methods for further professional training.

Evaluation of the results of the quality control review

60. If the auditor does not agree with the summary and the final conclusions of the quality control reviewer, he/she may request from the Quality Control Commission to provide its comments concerning the controversial issues within a period of 5 business days following the completion of the quality control review. Within the framework of the Institute, there is a possibility to lodge a complaint against the report of the Quality Control Commission with the Ethics Commission.

61. The Quality Control Commission shall submit the reports on the performed quality control reviews to the Ethics Commission.

VII. FINAL PROVISIONS

62. All forms and questionnaires shall be established by the quality Control Commission for audit services.

63. (1) The present Rulebook shall come into force on the day of its adoption at a session of the Assembly of ICA RM, with previous consent of the Finance Minister.

(2) The present Rulebook shall be published on the web page of the Institute.

VIII. TRANSITIONAL PROVISIONS

64. For the first quality control review, the compliance with the independence requirements laid down in paragraphs 9(1) and 9(2) shall be required for the period of 3 years preceding the review.

65. The Quality Control Commission, in the period of 2 years upon the date of the first field review, shall be entitled to recruit assistants to the employed reviewers, meeting the following criteria:

(a) they shall be partners or hold managerial positions in an audit firm;

(b) they have completed trainings on ISA, IAS and IFRS in the country or abroad;

(c) they shall fulfill the conditions for eligibility;

(1) The quality control reviewer may not carry out a quality control review of an auditor or an audit firm, the managers, employees or owners of which carried out a quality control review relating to that person. This prohibition shall be in effect for a period of 5 years following the quality control review carried out for any of the parties involved.

(2) When the quality control reviewer is appointed, it shall be provided that there are no eligibility concerns as those described under item (1) above, and within a circle of several auditors and reviewers (A may not review B, if B reviews C, and C reviews A).

(3) The person carrying out the review shall not be entitled to carry out a quality control review of an auditor where, in the period following the last quality control review, such a person was involved as a senior auditor performing an audit of a consolidated annual balance sheet of a company, or if, in the period following the last quality control review, the auditor held the position of a senior auditor in a joint audit of a consolidated annual balance sheet.

(d) they shall adhere to paragraphs 7, 8, 9 and 10 of the present Rulebook.

Antonio Veljanov, President of ICARM