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An Assessment of Auditing and Accounting Services in Kosovo



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Abbreviation	
AI	Artificial Intelligence
CBK	Central Bank of Kosovo
CEAOB	Committee of European Auditing Oversight Bodies
CEFTA	Central European Free Trade Agreement
CJEU	Court of Justice of the European Union
CPC	Central Product Classification
CPE	Continuous Professional Education
EEA	European Economic Area
EFAA	European Federation of Accountants and Auditors
EFRAG	European Financial Reporting Advisory Group
FCM	Mediterranean Federation of Accountants
EU	European Union
GAAP	Generally Accepted Accounting Principles
GATS	General Agreement on Trade in Services
IASB	International Accounting Standards Board
ICT	Information and Communication Technology
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IKAF	Institute for Accounting, Auditing and Finance
IAS	International Accounting Standards
ISA	International Standards of Auditing
ISIC	International Standard Industrial Classification
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registration Agency
KCFR	Kosovo Council for Financial Reporting
MOF	Ministry of Finance
NACE	Statistical Classification of Economic Activities in the European Community
NAS	Non-Auditing Services
OECD	Organisation for Economic Cooperation and Development
PAO	Professional Accounting Organizations
PIE	Public Interest Entities
POB	Public Oversight Board
SCAAK	Society of Certified Accountants and Auditors of Kosovo
TAK	Tax Administration of Kosovo
TISA	Trade in Services Agreement
UK	United Kingdom
US	United States
WTO	World Trade Organization

1.

Introduction

The crucial role that services play in economic development is well entrenched in today's literature. Efficient services activities, effectively integrated with the other productive sectors of the economy, are widely recognized as a necessary condition for achieving sustainable economic growth, systemic competitiveness, productive integration into the global economy, and an overall improvement in the welfare of the population. Among the so-called business or producer services, auditing and accounting services perform some of the core functions that underpin the appropriate functioning of a market economy. These services constitute an integral tool for corporate governance, without which it would not be possible to run a business efficiently. Furthermore, these services sustain the fiscal system in a country, providing the required information for an efficient administration of tax assessment and collection. Finally, these services, in particular auditing, contribute to building the trust that is necessary for an adequate functioning of the capital markets.

This report presents an assessment of the auditing and accounting services in Kosovo. It examines the regulatory framework in the light of the EU *acquis* and presents a synopsis of the structure, performance, and barriers of these activities in the country. A general conclusion is that the regulatory framework in Kosovo is quite in line with the EU practice. Differences in regulation of auditing and accounting mainly stem from the differences related to the nature and objectives of these two services. Whereas in auditing there are issues of "public interest" at play, the situation with accounting services, which mainly constitute some externalized functions of the firm, is different and as such requires a completely different set of considerations.

This report is structured as follows. Section 1.1 gives a general overview of the methodology used to produce this study, mainly elaborating the employed data collection instruments. Section 2 presents a delimitation of the scope of these services based on internationally agreed classifications. In this respect, it is important to clearly differentiate between strict auditing and accounting services and those services that are in practice provided by auditing and accounting professional firms. A difference like this one has important implications for data collection and in the analysis of these activities in the country.

Section 3 briefly summarizes the major global trends that are radically transforming the provision of these services worldwide. These are trends that the industry and policy makers alike should be closely monitoring, as they will have significant implications on the future of the professions and on the contribution of these services to national developmental efforts. The analysis shows that Kosovo is lagging behind in embracing emerging global trends, especially in regard to adopting modern technologies, increasing tradability of the sector and internationalizing the service suppliers.

Section 4 of the report examines the regulatory framework of auditing and accounting services in the EU and Kosovo from a comparative perspective. The EU approach is specific for each of the two services. While in the case of auditing we can observe the existence of an EU regime, regulation of accounting services is largely left to the discretion of Member States. That said, different practices in the provision of accounting services can be found among the EU countries. In some countries, accounting is an accredited profession; while in others any individual or firm interested in offering accounting services can do that. On the other hand, in the case of auditing, it should be noted that even though it is an accredited profession in all EU countries, the regime offers a degree of flexibility through the Member States Options. Because of this, there are some differences between the EU countries in this regard.

Kosovo has transposed the EU regulation in the case of auditing services and the analysis shows a strict adherence to the basic rules, with a limited use of flexibility options. In the same vein, the regulatory framework for accounting in Kosovo is more restrictive than in many EU countries. With the requirement to have the financial statements signed by certified accountants, accounting in practice has been turned into an accredited profession. This has contributed to creating a supply-demand mismatch in the country.

Section 5 presents the structure and performance of the sector based on official and administrative sources and discusses the main findings compiled from a survey conducted with a sample of 50 firms in the auditing and accounting sector. It also brings some relevant perspectives from the stakeholder meetings. The findings reveal that the sector is largely comprised of very small firms. Constrained by limited resources, such firms find it hard to be competitive in export markets. On the other hand, it is promising that the sector is experiencing a growth trend. Despite this, the majority of firms perceive the competitiveness level of the sector to be worse or much worse compared to the EU. Some of the general weaknesses of the sector, according to the firms surveyed, include high licensing fees, low service prices, poor quality of education and lack of quality control. Moreover, the findings reveal that a portion of firms in the sector are exporting services, such as accounting, book-keeping, tax declaration and tax advice, mainly to Germany, the US and Switzerland. The main exporting barriers faced by the firms of the sector include the inability to move freely (visa issues), differences in legislation, bad reputation of the country, difficulties with the recognition of certificates, lack of soft skills, difficulties in finding well-trained accountants with proficiency in foreign languages, lack of digitalization and high cost of discovery. Also, the surveyed firms and interviewed stakeholders generally share the view that there is a lack of institutional support in helping to address the aforementioned barriers and to improve the tradability of the sector. Section 6 provides some concluding remarks.

The main recommendations of this report are outlined below:

- The government should develop policies for the sector that are geared towards the promotion of higher-end services, as routine tasks are increasingly being automated. A special attention should be given to the global emerging trends and regulatory developments to support the adaption of the Kosovo's services suppliers.
- The government needs to work on establishing its position for the foreseen negotiations with CEFTA Members about the recognition of professional qualifications, which is a topic very much relevant for accounting and auditing services, as market access in the sector is contingent upon the recognition of professional qualifications of the individual provider or the authorization granted to the professional services firms.
- The endorsement criteria for the application of the International Financial Reporting Standards (IFRS) should be clearly defined by the KCFR. One criterion to be considered is for the standards to be conducive to the public good. In the EU, for example, Member States enjoy some discretionary power to determine to what extent they may apply IFRS for non-PIE and non-listed companies.
- The government should make financial reporting compatible with international standards mandatory for larger NGOs.
- The requirement for audit rotation, which foresees that the statutory auditors or audit firms must not exceed the maximum duration of 10 years of engagement with the same firm, should be reconsidered. First, it should be limited to PIE audits only like in the EU and not extend it to include the other audits foreseen by the law. Second, the Law should foresee an extension of duration under certain circumstances, of course with the consent of the KCFR.

- To be in line with the new EU practices, the KCFR should oblige PIEs with more than 500 employees to report on sustainability, diversity, social responsibility, respect for human rights, and anticorruption. Such matters could be part of the management report or be treated in separate statements.
- To improve competition in accounting services and avoid the dominance of the current certified accountants, the government should embark on campaigns that stimulate the enrollment of graduates in the certificate programs offered by the Professional Accounting Organizations (PAOs). Otherwise, the new requirement to have the financial statements signed by certified accountants, in the short run, may not improve the quality of services in practice, but rather serve as a rent creating mechanism for the existing certified accountants.
- The current submission requirements should be streamlined and the whole process should be digitalized. It is of paramount importance that the reporting to the KCFR is done through a tailor-made digital platform so that this institution and other relevant institutions would be able to process the submitted statements.
- The imposition of fines when firms fail to disclose accounting documents should also be regulated with the current Law on Business Organizations as the EU does through Directive (EU) 2017/1132 which regulates certain aspects of company law.
- The capacities of the KCFR Secretariat should be enhanced in order for this body to better perform the duties and responsibilities prescribed by the legislation in place. The budget allocated to the Secretariat should be much higher as well.
- The option of separating the Public Oversight Board from the KCFR should be considered, as there could be some conflict of interest to have licensing, standard-setting, oversight, and quality control under one umbrella. An independent POB would have to be the main body for all aspects of oversight and quality assurance, and not limit itself to the oversight of auditors/audit firms only. Although an independent POB would in principle be more credible and effective, this option still needs to be further analyzed as at this stage self-financing might be difficult given the small size of the profession in the country. Delegating certain quality assurance functions to PAOs is an option as well. This is indeed in compliance with flexibilities foreseen by the EU acquis.
- Inspectors need to be appointed soon to perform on-site quality assurance inspections. Lack of quality control puts a significant threat to the accounting and auditing profession, affecting the credibility of financial reporting in Kosovo.
- The KCFR should launch its own website with a comprehensive and user-friendly interface. All the legislative framework, the applied standards, publications, and other relevant information should be available in appropriate formats.
- For a statutory auditor of a foreign country interested in getting a license that allows him/her to perform audit work in Kosovo, the KCFR should, among others, foresee an adaptation period of no more than three years and an aptitude test to ensure that candidates possess an adequate knowledge on relevant matters. This would be in compliance with the EU practices.
- The imposed limitations to provide a great deal of non-audit services (i.e., tax services, payroll services, legal services, and the like) should be slightly relaxed for a certain period, while assuring the independence of the auditors, as they are creating unbearable opportunity costs for many auditors/audit firms, having in mind that the market size for non-audit services in the country seems to be much larger.
- The cooperation between the KCFR, PAOs and institutions of higher educations that offer a degree in accounting or in other relevant areas should be further strengthened so that the latter two harmonize the curricula to a greater extent.
- The KCFR should apply non-discriminatory licensing fees to candidates, regardless of their origin. Higher fees applied to foreigners violate the national treatment principle guaranteed by the Law on Services. Moreover, the obligation to renew the audit license by submitting the same bunch of documents submitted for the first time should be reassessed, as according to the legislation in place, authorizations granted to a services provider shall be for an indefinite period. One recommendation is for the license to be renewed based on the quality control system, as required by EU directives. In general, the legislation regulating accounting and auditing should be thoroughly examined to ensure that all the provisions pass the tests of non-discrimination, necessity, and proportionality, as required by the Law on Services. The transposition of the EU Directive on proportionality should be addressed as soon as possible.

- The KCFR should cooperate with its counterparts in neighboring countries to ensure that they provide equivalent treatment to the qualified accountants and auditors from Kosovo interested in exercising their profession in the region.
- The Central Bank of Kosovo (CBK) should make all the necessary work to be able to produce trade in services data on a more disaggregated level so that policy makers and other interested researchers can assess the performance and trends of specific services, like for example the performance and trends of auditing and accounting.
- The government should also develop a set of interventions to confront the main sector barriers, improve the tradability and capitalize on wage differences between Kosovo and foreign countries. Some of the interventions include assistance in digitalization; provision of training programs on soft skills, language and on the tax regime of targeted countries; organization of B2B meetings; development of schemes for export financing; launching of sector promotional campaigns.
- Last, but not least, a strategy on services, where accounting and auditing is included among the priority activities, should also be part of the government agenda.

1.1 General Methodology

To obtain relevant insights and have a better understanding of the sector, the following data-collection instruments were used: (i) desk research; (ii) open-ended interviews with relevant institutional stakeholders; and (iii) a semi-structured online/phone survey. All these sources of information combined were appropriate to elaborate a comprehensive baseline analysis of the sector.

Desk research

As is usually the case, the desk research was carried out at the beginning of the analysis. First of all, various reports and studies were consulted with the aim of determining the conceptual underpinnings of the sector, examining the current international trends and developments, analyzing sector trends and the overall performance and scrutinizing previous assessments related to the sector. Second, the relevant legislative and policy framework in Kosovo was thoroughly reviewed and compared with the EU acquis to identify the areas that need harmonization in the future. A special emphasis was given also to the comparison between Kosovo legislation and enforcement in the sector and the respective parts in the EU Services Directive and Law on Services. Third, all documents under the KCFR and other relevant institutions were consulted to determine a mapping of key actors in the sector. The collected information through desk research was closely analyzed, stored, and classified based on source, relevance, and reliability. This process among others, served as the basis for the primary research and the other subsequent activities needed in this analysis.

Open-ended interviews with relevant institutional stakeholders

Open-ended interviews were arranged and conducted with the main identified institutional stakeholders. The KCFR, as the most important body for this sector, and the Professional Accounting and Auditing Associations, namely SCAAK, and IKAF, were among the institutions interviewed. Having in mind the core role of the KCFR in the sector, a set of preliminary questions were drafted (see Annex A); while for the other institutions, the structure of interviews was determined on the basis of information obtained from desk research and after the interview with the KCFR. In all these interviews, specific attention was given to (a) the alignment of the sector specific legislation with the EU acquis, the Law on Services and with the EU Services Directive, and (b) the main barriers to trade.

Internet Surveying

To solicit more detailed information on the sector and to be able to come up with some indicative quantitative results, a survey was carried out with 50 economically active firms spread in different regions of Kosovo under the NACE rev 2690 classification, which include all firms that perform accounting and auditing services.

The sample of the firms surveyed was drawn from two main sources: (i) the list of 23 statutory audit firms provided by the KCFR and (ii) a database with all accounting and auditing firms registered in the Tax Administration of Kosovo (TAK). Other sources were also used to find contact information for the selected firms. Provided that statutory audit firms are generally larger and with greater export prospects, they were given a priority. The rest of the sample, on the other hand, contained a diverse set of accounting and auditing firms randomly selected from the TAK database.

For the purpose of the survey, a questionnaire was designed (see Annex B). This questionnaire is structured as follows: Section I contains general questions regarding location, size, number of employees, main activities and similar questions; Section II contains questions about the overall structure and performance of the sector; Section III has export-related questions; and finally, Section IV has a few questions on the most pressing barriers and possible future interventions. Note that a few pilot interviews were done to test the appropriateness of the questionnaire as well as the process in general. The application of the questionnaire was done in collaboration with the Trade Department of the Ministry of Trade and Industry (MTI). The questionnaire was disseminated online via an official e-mail to the sampled businesses along with detailed instructions on how to complete it. Those businesses that struggled to properly fill the questionnaire were given further assistance over the phone. Businesses that declined to respond were substituted with similar ones. The survey process was continuously monitored to verify the accuracy of answers in the completed questionnaires.

2.

Nature and Confines of the Accounting and Auditing Sector

In order to present an assessment of the structure and performance of accounting and auditing services in Kosovo and of its regulation, it is important first to clearly determine the nature of the specific services delivered by different providers and more broadly the scope of the accounting and auditing services sector. This section of the report addresses this issue. For this purpose, there are two international classifications that make available the criteria that informs on the nature of the specific services that classify under accounting and auditing and delimit the scope of the industry: the Central Product Classification (CPC 2.1),¹ and the International Standard Industrial Classification of All Economic Activities (ISIC 4.0).²

The CPC constitutes a comprehensive classification of all goods and services, developed for assembling and tabulating all kinds of statistics requiring product detail and provides the most disaggregated detail on services than any other international recognized classification. The classification of products is based on the intrinsic characteristics of the goods or the nature of the services rendered. The classification consists of sections (identified by the first digit), divisions (identified by the first and second digits), groups (identified by the first three digits), classes (identified by the first four digits) and subclasses (identified by all five digits, taken together). The CPC is a system of categories that are both exhaustive and mutually exclusive. This means that if a product or service does not fit into one CPC category, it must automatically fit into another.

On its part, the ISIC is used to classify statistical units, such as establishments or enterprises, according to the economic activity in which they engage. It is a classification according to kind of productive activity and not a classification of goods and services. Units are classified according to the principal kind of economic activity in which they engage. Only the principal activity is used to classify a unit. The principal activity of the unit is in general usually determined from the goods that it sells or ships or the services that it renders to other units or consumers. The set of statistical units that are classified into the same ISIC category is then often referred to as an "industry", which is defined as the set of all production units engaged primarily in the same or similar kinds of productive activity. ISIC comprises alpha-numeric Sections and the classification is then organized into successively more detailed categories, which are numerically coded: two-digit divisions; three-digit groups; and, at the greatest level of detail, four-digit classes.

In the EU, the "Statistical classification of economic activities in the European Community", abbreviated as NACE, is the classification used.³ Various NACE versions have been developed since 1970; NACE Rev. 2, a revised classification adopted at the end of 2006, is currently in use. The NACE follows the ISIC classification. Accounting and auditing services are classified under professional, scientific and technical services (M), legal and accounting activities (69); accounting, bookkeeping and auditing activities, tax consultancy (69.2), and the same under 69.20.

1. United Nations (2015). Central Product Classification (CPC) Version 2.1. Department of Economic and Social Affairs. Statistics Division Statistical Papers Series M No. 77, Ver.2.1. ST/ESA/STAT/SER.M/77/Ver.2.1

2. United Nations (2008). International Standard Industrial Classification of All Economic Activities (ISIC 4.0). Department of Economic and Social Affairs Statistics Division. Statistical papers Series M No. 4/Rev.4.

3. The term NACE is derived from the French Nomenclature statistique des activités économiques dans la Communauté européenne.

Box 1 presents the range of services that are usually provided by accounting and auditing "professional services firms" on the basis of CPC 2.1 classification, and the corresponding ISIC 4.0 classification of the units providing the respective services. However, it should be noted that in practice it happens very often that a statistical unit, no matter how narrowly is defined, might engage in a variety of activities providing different services, which may be linked to each other or be completely independent. In a strict sense, according to CPC 2.1, accounting and auditing services are those exclusively included in Subclasses 82210, 82221, 82222, and 82223, where there is a clear separation between auditing and accounting and bookkeeping services at the Class level responding to the different nature of the services rendered. This distinction is very important to explain the differences in the regulation covering auditing on the one hand, and accounting and bookkeeping services on the other hand.

BOX 1

Classification of services provided by accounting and auditing firms as CPC 2.1 under Section 8 on business and production services; Division 82 "legal and accounting services; and Division 83 on professional technical and business services (except research and development, legal and accounting services)

Grup	Class	Subclass	Coverage of Subclass	ISIC.4
822 Accounting, Auditing and Bookkeeping Services	8221 Financial Auditing Services	82210 Financial Auditing Services	Examination services for the accounting records and other supporting evidence of an organization for the purpose of expressing an opinion as to whether the financial statements of the organization present its position fairly and accurately as at a given date and the results of its operations for the period ending on that date, in accordance with generally accepted accounting principles This subclass does not include: - accounting review services, cf. 82221 - management audits, cf. 83111 8222	6920
	8222 Accounting and bookkeeping services	82221 Accounting services	Reviewing annual and interim financial statements and other accounting information. The scope of a review is less than that of an audit, and the level of assurance provided is thus lower. Compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided. - preparation of business tax returns, when provided as a package with the preparation of financial statements for a single fee are classified here -	6920

			compilation of income statements, balance sheets, etc. - analysis of balance sheets, etc. - other accounting services such as attestations, valuations, preparation of pro forma statements, etc. This subclass does not include: - financial auditing services, cf. 82210 - bookkeeping services, cf. 82222 - tax preparation services, when provided as separate services, cf. 823	
		82222 Bookkeeping services	Classifying and recording business transactions in terms of money or some unit of measurement in the books of account This subclass does not include: - bookkeeping services related to tax returns, cf. 823 - payroll services, including payroll computation and ledgers, cf. 82223	6920
		82223 Payroll Services	Payroll processing, including on-line - direct deposit or cheque preparation services - remission of taxes and other deductions - preparation, viewing and storage of payroll ledgers, reports and other documents This subclass does not include: - bookkeeping services, cf. 82222 - payroll processing provided as part of a bundle of management services, cf. 83117	6920
823 Tax Consultancy and preparation services	8231 Corporate tax consultancy and preparation services	82310 Corporate tax consultancy and preparation services	Providing advice and guidance concerning corporate taxes, as well as preparing and filing of tax returns of all kinds (e.g., VAT)	6920
	8232 Individual tax preparation and planning services	82320 Individual tax preparation and planning services	includes: - tax preparation and planning services for: • unincorporated business • individuals	6920
824 Insolvency and receivership services	8240 Insolvency and receivership services	82400 Insolvency and receivership services	Providing advice and operational assistance to the management and/or creditors of insolvent businesses and/or acting as receiver or trustee in bankruptcy	7020

831 Management consulting and management services, information and technology services	8311 Management consulting and management services	Among other: 83111 Strategic management consulting services	Refer to CPC 2.1 PART FOUR Explanatory notes	7020
				6202
				6201
		83112 Financial management consulting services		5820
		83115 Operations management consulting services		6311
		83117 Business process management services		
Source: Elaborated by the authors on the basis of the Central Product Classification 2.1. UN (2015) Department of Economic and Social Affairs Statistics Division Statistical Papers Series M No. 77, Ver.2.1				

In the case of ISIC 4.0, firms providing auditing, accounting and bookkeeping services are classified in Section M “Professional, Scientific and Technical Activities”; Division 69 “Legal and Accounting Services”; and the Group 692 and Class 6920, both of which include accounting, bookkeeping and auditing activities, plus tax consultancy.⁴ In this case, the classification of units by activity is broader than the definition of these services according to CPC 2.1, as presented in Box 1.

Moreover, many professional services firms provide other services besides auditing and accounting and bookkeeping services, including, for example, management consultancy and ICT services. These firms will be classified in other ISIC classes, even though a significant proportion of their turnover could be generated by providing accounting, bookkeeping or auditing services, as long as they do not represent the main activity in which they are engaged. For example, a consultancy firm that also provides accounting services as part of its activities, will fall under Class 7020 or 6202, or under other classes, if the consultancy business is its main activity. The case is that in practice, both auditing and accounting firms, as well as other consulting firms, provide a wide range of services to their clients, individually or as members of a network. The classification has important implications for data collection on turnover and value added on a sector level, as well as for the measurement of the real value of auditing, accounting and bookkeeping services business in a given economy.

4. According to ISIC Interpretative Notes, this class includes: –recording of commercial transactions from businesses or others –preparation or auditing of financial accounts –examination of accounts and certification of their accuracy –preparation of personal and business income tax returns –advisory activities and representation on behalf of clients before tax authorities This class excludes: –data-processing and tabulation activities, see 6311 –management consultancy activities, such as design of accounting systems, cost accounting programmes, budgetary control procedures, see 7020 –bill collection, see 8291

Each Subclass under Group 822 comprises services that can be clearly differentiated in terms of the tasks involved in their provision and in terms of the final output. There are also differences in terms of the scope of specialization within a subclass and regarding the propensity for fragmentation of the service in its different tasks. In the case of audit, there is a limited scope for specialization and task fragmentation. On the other hand, in accounting services, there is a significant specialization among different providers, and there is more room for certain tasks to be outsourced, either by accounting services firms' themselves, or directly by firms' in every sector of economic activity requiring a specific type of service⁵. In the case of bookkeeping, payroll and tax services is where there is a significant possibility for fragmenting the service in its different tasks, and to provide them to clients in the market. Indeed, there is a trend for small accounting services firms to specialize in certain tasks and offer their services in the market to a variety of clients⁶.

5. In the market firm specialization can be found among other between the following: Cost Accountants; Financial Accountants; Forensic Accountants; Internal Auditors; Management Accountants; Project Accountants; Public Accountants; and, Tax Accountants.

6. Bookkeeping, payroll and tax administration tasks include among others: data entry, accounts payable, account receivable, credit card management, bank reconciliations, sales tax, income tax preparation, tax planning, cash-flow forecasting, budget-to- actual reporting, break-even analysis, labour cost management, debt planning and reduction, variable versus fixed expense reporting. This specific services offered by accounting firms has been derived from the analysis of web pages of accounting firms where they advertise the specific services they offer to their clients.

3.

Main Features and Trends in the Global Auditing and Accounting Market

The audit and accounting sector is experiencing a significant transformation worldwide, unleashed by regulatory reforms, accelerated globalization and by the impact of emerging technologies.⁷ The sector in Kosovo is not foreign to these developments and it will have to adapt to the new trends defining the supply of these services. This section of the report briefly examines some of the main features and the new trends in the sector worldwide.

Increasing Industry Concentration

Across the world, auditing and accounting services are offered by a significant number of firms, either through professional individual practice or through corporate forms. For example, in the EU (28) there are more than 1.2 million firms registered under NACE 69.20, a significant proportion of those offering auditing and accounting services.⁸ However, a defining feature of the sector, both at the global and individual country level, is the high level of concentration in a small number of firms that dominate the market.⁹ As a result of consolidations and other events, the number of large global audit firms has decreased from eight to four “Big firms” that constitute the bulk of the auditing and accounting business (Deloitte Touche, Ernst & Young, KPMG, PriceWaterhouseCoopers). These firms have around one million employees worldwide and their combined turnover reached to US \$ 154.7 billion in 2019. The top 10 big firms in the same year had a combined turnover of US \$ 190 billion in 2019 and an employment of 1.37 million people.¹⁰

In general, there is a higher concentration in auditing services than in accounting services. In some countries, the market for auditing services is so concentrated that only a few big firms conduct audits. The growth in the big firm market share can be mostly attributed to the increased domination of the Big Four, which control around 50 percent of the market. If we include the rest of the top 10 firms, they together account for 66 percent of the global market.¹¹ In the EU (28), the Big Four perform almost 70 percent of the statutory audits of public-interest entities, and in the United States, these firms collectively audit approximately 97 percent of the total U.S. market capitalization.¹² In most of the countries worldwide, big services providers account for around 75 percent of the total auditing and accounting services market. A large majority of medium and small auditing and accounting firms serve mainly small unlisted companies with a lack of public interest.

7. For an interesting discussion of different issues, including regulatory developments, concerning auditing and accounting services refer to: WTO (2010). Accountancy Services. Background Note by the Secretariat. S/C/W/316, 7 June. Available at the WTO web page.

8. EUROSTAT. We have not found more disaggregated data between legal and accounting and auditing services. Available at:

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Professional,_scientific_and_technical_activity_statistics_-_NACE_Rev._2

9. EU Parliament (2019) EU Statutory Audit Reform Impact on costs, concentration and competition. Policy Department for Economic, Scientific and Quality of Life Policies Directorate-General for Internal Policies April 2019. Available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631057/IPOL_STU\(2019\)631057_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631057/IPOL_STU(2019)631057_EN.pdf)

Refer also to: Chartered Institute of Management Accountants (2020) Auditors: market concentration and their role. CIMA consultation response. Available at:

<https://www.cimaglobal.com/Documents/Insightdocs/HoL%20Auditor%20report%20September%202010.pdf>

10. Refer to: <https://big4accountingfirms.com/top-10-accounting-firms/>

11 Data on the top 20 firms worldwide can be found in:

Top 20 Accounting Firms in the World. Available at:

<https://big4accountingfirms.org/the-top-accounting-firms-in-the-world/>

12 Audit Analytics (2020) Who Audits Public Companies- 2020 Edition. Available at: <https://blog.auditanalytics.com/who-audits-public-companies-2020-edition/>

Accelerated Internationalization

Auditing and accounting services are currently among the most internationalized services and the trend is progressing rapidly. A global market for these services has emerged to a large extent as result of the significant geographical expansion of the activities of the big professional services firms, largely market-seeking driven and by following their international clients abroad, which require comparable services to cater all their subsidiaries and branches. These firms provide services globally either through direct establishment abroad or through the formation of a network of legally and economically autonomous national accounting firms with relations based on partnership principles under the strategic leadership of the lead firm. Establishment abroad has taken place mainly in the markets of big industrialized countries, while the option of establishing networks accounts for most of the geographical expansion to other areas of the world. Each of the Big Four, for example, registers activities in more than 150 countries. Big accounting firms are not organized as centralized transnational corporations with foreign subsidiaries and branches. While they operate globally under a single name, they are organized as loose networks of affiliate partnerships located in different countries throughout the world. The core offices of the big firms are mainly located in the United States and Europe and their international affiliates around the world are separate and independent legal entities whose practice, even though following standards set by the lead firm, is subject to the laws and professional obligations of the country in which they operate.

Externalization and Offshoring of Services

The outsourcing of accounting functions by firms in all sectors of economic activity is a process that has been going on for some time, and everyday more of these functions show an increasing propensity to be outsourced.¹³ Outsourcing takes place when one company delegates responsibility for performing a function or series of tasks to another company. This process, which has also been called “externalization,” indicates an increasing division of labor in the economy. Given technological developments and the drastic reduction in communications costs, outsourcing of a wide number of business functions is increasingly being done to offshore locations, in what has been called “offshoring”.¹⁴ This process is particularly noteworthy in the case of accounting, bookkeeping, payroll and tax services. Due to the nature of auditing services, the scope for offshoring is significantly more limited. In the last years, offshoring has shifted from being a niche strategy to a dominant one used by an increasing number of firms all around the world.

There have been two main technological drivers propelling the offshoring of these services: automation of accounting tasks and the spread of e-commerce, which are rapidly transforming the way accounting and auditing functions are performed, posing new challenges to the accounting profession, including the risk of significant job losses and the progressive redundancy of many positions.¹⁵ Automation, by means of the utilization of specialized software, has turned many functions into “commodified services” that can be provided very efficiently and in a cost-competitive manner from the distance. In fact, it is wage arbitration what has mainly propelled the accelerated offshoring of many of these services.

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13. The Chartered Institute of Management Accountants (2008) Finance and Accounting Outsourcing Topic Gateway Series No. 8.. Available at:
[https://www.cimaglobal.com/Documents/Thought_leadership_docs/MigratedDocsMarch2010/Resouces%20\(pdf\)s/Topic%20gateways/Finance%20and%20accounting%20outsourcing.pdf](https://www.cimaglobal.com/Documents/Thought_leadership_docs/MigratedDocsMarch2010/Resouces%20(pdf)s/Topic%20gateways/Finance%20and%20accounting%20outsourcing.pdf)
14. Abugattas-Majluf L.A. (2007) “Offshore Outsourcing of Services: Trends and Challenges for Developing Countries”. In:
Paus E. (eds) *Global Capitalism Unbound*. Palgrave Macmillan, New York.
https://doi.org/10.1057/9780230608849_9
15. Standing Guy (2018). “Taskers in the Precariat: Confronting an Emerging Dystopia”. In Paus E (Ed) *Confronting Dystopia: The New Technological Revolution and the Future of Work*. Cornell University Press. Pages 115–134.

On the other hand, the spread of easy access to the internet, its increasing quality worldwide, and the declining costs has enormously facilitated the offshoring of an increasing number of accounting functions, including every day more complex functions. From transactional processes, such as account payable, accounts receivable, billing, and cash management among others, which used to be the most popular to outsource, increasingly due to the improvements in provider's capabilities, there is a growing tendency towards outsourcing higher end or higher value services such as, among others, statutory/regulatory accounting, financial reporting and tax. Even more strategic processes such as management accounting, budgeting and forecasting and financial analysis are every day more prone to be outsourced, also from abroad.¹⁶

Increasing Tradability

As consequence of the above discussed developments, accounting and auditing services have become increasingly tradable. Trade in these services is acquiring an increasing importance worldwide and is reputed to provide interesting opportunities for developing countries.¹⁷ According to data on Balance of Payments (EBOP5) registered in the OECD database, the value of total worldwide exports of trade in accounting, auditing, bookkeeping and tax consultancy in 2019 amounted to US \$ 70.9 billion, up from US \$ 43.6 billion recorded in 2007. In the case of the EU (28), a deficit was registered in 2019 with exports standing at US \$ 9.7 billion and imports at US \$ 17.4 billion, signaling the extent of offshoring of these services that is taking place.¹⁸ It should be noted that offshoring is done by firms in all sectors of economic activity, and also by big auditing and accounting firms that subcontract some more routine tasks to providers from abroad.

The offshoring of services is reflected in cross-border trade in services, which is Mode 1 of provision of services according the World Trade Organization (WTO) General Agreement on Trade in Services (GATS) definition, which is the only one recorded in Balance of Payments. Trade under this mode is the most important in value terms, as due to the organization of the industry worldwide through networks, services rendered by local auditing and accounting suppliers to domestic companies does not qualify as trade in services. However, in those cases where there is an establishment of a foreign audit and accounting firm in a country providing services to domestic firms there is trade under Mode 3, "establishment", which is registered under Foreign Affiliate Trade in Services data (FATS). Trade through the movement of natural persons providing services, which is Mode 4 under the GATS, is also relevant for the case of auditing and accounting services, as in many cases the provision of the service requires the presence of skilled personnel in site. Besides data on Balance of Payments for some countries at a disaggregated level, there is no easily available data on trade of these services under Mode 3 or 4.

The increasing tradability of auditing and accounting services is also a result of the significant liberalization of trade in services resulting from unilateral measures adopted by many countries in the context of economic reform programs, and of the liberalizing commitments adopted by many countries covering the auditing and accounting sectors either at the multilateral level in the framework of the GATS, or in the bilateral and plurilateral preferential trade agreements covering trade in services in which they participate.

16. Krell, E. (2007). Outsourcing the finance and accounting functions. Management Accounting Guideline, CIMA, AICPA and CMA Canada.

17. Olivier Cattaneo and Peter Walkenhorst (2010) "Accounting Services: Ensuring Good Governance, Financial Stability, and Economic Growth through Trade". In Cattaneo. Et al (Eds) International Trade in Services: New trends and opportunities for developing countries. World Bank. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/2476/555440PUB0Int01EPI1972196101PUBLIC1.pdf?sequence=1>

18 EUROSTAT. Available at: <https://stats.oecd.org/Index.aspx?QueryId=74689#>

Through these venues, countries have progressively guaranteed the right of establishment and national treatment to foreign services providers, and have committed to liberalize the cross-border provision of these services.¹⁹ The multilateral liberalization of trade in services, including auditing and accounting services, could be further expanded as a result of the ongoing negotiations between 23 WTO Members of the Trade in Services Agreement (TISA), which aims to push liberalization far beyond what has been achieved under the GATS.

Significantly less liberalization has taken place on the provision of services through the movement of natural persons (GATS Mode 4), which is highly relevant for these services, as result of limited progress on the recognition of professional qualifications of foreign services providers. However, in many countries this is not a significant deterrent as the proceeding for recognition are in place domestically, and also a number of countries have entered into mutual recognition agreements covering auditing and accounting professionals. Nevertheless, this is an area in which much more should be done, as it would offer significant potential for increasing services exports for many countries.

Incorporation of Emerging Technologies

In general, technological developments are having a profound effect in the nature itself of auditing and accounting services and in the manner these services are provided to the clients. Firms are developing and using new and emerging technological tools at a rapid pace. The overall impact of technological developments in the industry stems from the combination of the accelerated pace of technology diffusion, the convergence of multiple technologies and the emergence of digital platforms. After ICT services, the auditing and accounting industry is the highest digitalized activity among the professional, scientific and technical services sector.²⁰ Auditing and accounting are every day becoming more and more digitally enabled services. Automated accounting software programs have become widely utilized throughout the industry, with significant implications regarding the specific tasks to be performed by accountants and auditors, as routine tasks are increasingly automated. Moreover, firms are progressively incorporating artificial intelligence (AI), data analytics, cloud computing, and blockchain into their practice, transforming their activities and the manner in which services are provided to their clients.²¹ A further discussion of the impact of technological developments in the auditing and accounting industry is beyond the scope of this brief section. However, this is an issue that requires close scrutiny by policy makers and the regulators, as it is having profound effects on the nature of the services, the manner they are provided to clients, and on determining the overall relative international competitiveness of the sector.

19. For a discussion of the commitments in the GATS on auditing and accounting services refer to WTO (2010) Op.cit.

20. DMCC (2020) The Future of Trade: A perspective of the decade ahead. Score of DCC Industry Digitalization Index (IDI). Figure 2, Page 77. Available at:

https://landing.futureoftrade.com/?utm_campaign=Future%20of%20Trade%202020&utm_source=ppc&utm_content=Europe&utm_feeditemid=&utm_device=c&utm_term=international%20trade&utm_campaign={utmcampaign}&utm_source=google&utm_medium=ppc&hsa_tgt=kwd-10874030&hsa_grp=110168037054&hsa_src=g&hsa_net=adwords&hsa_mt=b&hsa_ver=3&hsa_ad=472755731924&hsa_acc=1396121783&hsa_kw=international%20trade&hsa_cam=11361467687&gclid=CjwKCAiA4o79BRBvEiwAjteoYNESjbHmtw-AwbuzPeRFCx8BhYr2tp4AHS0zXJT4pl-LrBchwY2CRoCbDAQAvD_BwE

21. Accounting Weekly. "Accounting gets a makeover". By Hima Bindu Kota. Thursday, 27 August 2020.

Available at <https://www.dailypioneer.com/2020/columnists/accounting-gets-a-makeover.html> Refer also to:

The Association of Chartered Certified Accountants (2016). Professional accountants – the future: Drivers of change and future skills. June. Available at

<https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/future-accounting-profession-three-major-changes-and-implications-teaching-and-research>

Diversification of Services Offer

Another noteworthy trend in the auditing and accounting sector is that the boundaries with the other services sectors are increasingly vanishing, as “professional services firms” are everyday more engaged in providing an increasing variety of services to their clients. In the case of the Big Four, for example, the revenue from consulting is surpassing the audit revenue. Specialized audit firms have expanded to provide different non-audit financial services (NAS). Nowadays, accounting and auditing firms tend to call themselves professional services firms, as they offer services in a wide range of areas. Some of the services, in addition to accounting and auditing, include management consulting, legal services, human resources, social business and environmental assessment, public relations, market feasibility studies, and a wide variety of IT solutions.²² The expansion of the services offer is driven by competition and the search for economies of scale. This transformation of the sector has had significant implications for the regulation of the auditing services worldwide. Furthermore, it has made the collection and processing of data on turnover, value added and employment for auditing, accounting, bookkeeping, and tax consultancy industry quite a complex endeavor.

Regulatory Governance

The auditing and accounting professions are regulated professions in almost, if not in all countries in the world. In the case of these services in particular, regulation is particularly pertinent because of the prevalence of network externalities, information asymmetries and the fact that many services are credence goods. Domestic regulation pursues legitimate policy objectives, including protection of consumers, including users of the services and the public more generally; the quality of the service; professional competence; and the integrity of the profession. Regulation of services covers three distinct areas: market entry, operations, and the setting of services standards. Regarding market entry, regulation determines who is allowed, and under what condition, to provide the service. In the case of “accredited professions”, services can only be provided by those that are licensed for such purpose, and some conditions extend to corporate forms of organization, as is the case, for example, with limitations of ownership or voting rights of services firms only to accredited individuals. Regulations of operations determine how the service should be provided. It includes among others, for example, limitations on the use of international brand name, regulating the diversity of services that can be offered by a firm, quantitative restrictions, advertising restrictions, price regulation, and rules on inter-professional co-operation and business structure, and on the ethical behavior of the services providers. The price and costs impact of regulation on entry and on operations significantly vary in the case of these services, as entry regulation can generate rents, while operations regulations mainly affect costs. Finally, services standards apply to the end product, setting requirements for the output of the service itself.

Some issues regarding domestic regulation of services should be highlighted as they are relevant for the case of the auditing and accounting sector. Although very often regulations are necessary to ensure the quality of the services and the independence of the services provider, they may also have the unintended effects of restricting economic competition and limiting transparency.

22. For example, one firm offers the following services through its web page: Bookkeeping, Corporate finance services, Due diligence (e.g. acquisitions) Financial information systems design and implementation (IT) Accountant's report and review on profit forecast for Initial Public Offering (IPO), company Human resources/personnel services, Internal audit services, legal services, Management functions Management training services, Secretarial services, Stock exchange circulars, Tax planning and compliance services, Treasury management services, Asset valuations or appraisal services or fairness opinion.

Regulations affecting the operation of the services sectors is both sector-specific and horizontal, impacting all services-producing activities. The latter might have unintended consequences on the functioning of a specific services industry. Regulation imposes costs for society and for the services providers. Domestic regulation imposes two types of costs, namely: administration costs and compliance costs. The first refers to costs of administering the regulation that is borne directly by the state or the regulatory agency and financed either through fees imposed on the regulated industry, or through general budgetary financing. Compliance costs refer to the overall transaction costs imposed on the regulated agents by domestic regulation, not limited to direct monetary costs. Finally, regulations are formed at a particular point in time to address issues in a particular market, technological and social context. Regulation needs to adapt constantly to changing circumstances, in particular to rapid technological developments. This is particularly relevant for the auditing and accounting sector, which could be hampered with the application of inflexible regulation. Also, regulation has to be adjusted to preference shifts in society, and also when addressing emerging situations that represent, or are perceived, as new threats to society. A clear example of this last issue is the regulatory earthquake brought about in the accounting and auditing sector by the series of corporate scandals that shook the foundations of the existing regulatory frameworks and of the industry, generating worldwide effects.

Even though both auditing and accounting services are subject to regulation worldwide, there are significant regulatory differences between these two segments of the industry. In the case of auditing, regulation is generally much stricter, requiring in almost every country in the world that the service can only be provided by licensed professionals, statutory auditors, and the services providers are subjected to a significant number of limitations in their operation. In the case of accounting services, there is a variety of approaches that have been followed by different countries. In some cases, the service is an accredited one, while in others the provision of the services is widely open, even to the extent that not specific professional qualifications are required to provide the service. Section 4 of this report examines the regulation of auditing and accounting services in the European Union and compares it with that of Kosovo.

A significant development regarding the regulation of the auditing and accounting sector worldwide is the agreements that have been reached at the multilateral level, in the WTO, aiming at establishing minimum benchmarks for the global regulation of the industry. Negotiations on domestic regulation of services were launched in the WTO in 1995, on the basis of the Marrakech Ministerial Decision on Professional Services of 15 April 1994. After the entry into force of the WTO Agreement, the Council for Trade in Services (CTS) established the Working Party on Professional Services (WPPS)²³ and entrusted it with the mandate emanating from GATS Article VI.4 in the field of professional services, requiring the working party to first develop disciplines in the accountancy sector.²⁴

23. FBy the Decision on Domestic Regulation, adopted by the Council for Trade in Services on 26 April 1999, S/L/ 70, 28 April 1999, The CTS abolished the WPPS and established the Working Party on Domestic Regulation (WPDR) on April 1999, with the mandate to develop any necessary disciplines to ensure that measures relating to licensing requirements and procedures, technical standards and qualification requirements do not constitute unnecessary barriers to trade in services. The WPDR was also entrusted to continue with the work of the WPPS, including the development of disciplines for professional services. According to its mandate, the WPDR in fulfilling its tasks shall develop generally applicable disciplines and may also develop, as appropriate, disciplines for individual sectors or groups of sectors

24. Decision on Professional Services. Adopted March 1, 1995. S/L/3

As result of the negotiations two important agreement where reached; respectively on guidelines for mutual recognition agreements or arrangements in the accounting sector;²⁵ and on disciplines governing domestic regulation in the accounting sector.²⁶ These Decisions are still not binding as their coming into effect was contingent to the culmination of the Doha Round of Multilateral Trade Negotiation, which has not still happened. The CTS did not clarify what should be understood by "formal integration into the GATS" after the Doha Round. However, it was agreed that while this happens, Members shall "to the fullest extent consistent with the existing legislation, not take measures which would be inconsistent with these disciplines". Therefore, the CTS's Decision has introduced a sort of stand still obligation binding all WTO Members, however with a doubtful legal standing. An effect of these agreements reached at the WTO is that the agreed disciplines, even if still not binding, have had a certain influence in the incorporation of some provision on domestic regulation in bilateral and plurilateral trade agreement covering the liberalization of trade in services.²⁷

Regarding services standards, an important feature of the auditing and accounting sector, which perhaps differentiate it from any other services activities, is the extent to which the standards for the delivery of the services have been harmonized worldwide. Relevant international Standards are developed by the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO). Currently the vast majority of countries either required or permit the use of International Financial Reporting Standards (IFRS) in their jurisdictions elaborated by the IASB, indicating the global convergence of national accounting standards and internationally set standards. The IFRS sets common rules so that financial statements can be consistent, transparent, and comparable around the world. As of 2018, 87 percent of all jurisdictions require IFRS for most domestically accountable companies; 144 jurisdictions required for almost companies, and 12 jurisdictions permitted all or most companies to use IFRS.²⁸ There are 17 IFRS and 41 International Accounting standards (IAS), and an IFRS for SMEs Standard, which is tailored for the needs and capabilities of small companies. 86 of the 166 jurisdictions require or permit the IFRS for SMEs Standard, and it is currently under consideration in other jurisdictions. Since 2005, it is mandatory for companies in the EU, with shares traded at a regulated market to present consolidated account statements in accordance with IFRS.

25. Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector, S/L/38, 27 May 1997

26. Decision on Disciplines Relating to The accountancy Sector, Adopted by the Council for Trade in Services on 14 December 1998, S/L/63, 15 December 1998.

27. or an analysis of this issue refer to: Aaditya Mattoo and Pierre Sauvé (2010). The Preferential Liberalization of Services Trade. Working Paper No 2010/13 | May. Nccr Trade Regulation. Swiss Center for Compliance and Research. Available at https://www.wti.org/media/filer_public/4a/6d/4a6d5556e-0f1b-400f-9669-77ba479f5680/sauvencr_working_paper_2010_13.pdf

28. IFRS Foundation (2019). Use of IFRS around the World. Available at: <https://cdn.ifrs.org/-/media/feature/around-the-world/adoption/use-of-ifrs-around-the-world-overview-sept-2018.pdf?la=en>

The IFRS are not directly transposed, only those that are endorsed by the EU are required for all accountable firms.²⁹ Controversy has not been absent in the endorsement of IFRS.³⁰

An important effect of the worldwide dissemination of the IFRS is that it has set minimum quality standards for accounting services, has increased the reliability and independence of statutory audits, and facilitated the internationalization of the industry as it has minimized the information and transaction costs generated by diverging national regulations.³¹

29. IFRS Foundation (2018). IFRS Application around the World Jurisdictional Profile: European Union. Profile. Last updated: 25 January 2018. Available at

<https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/european-union-ifrs-profile.pdf>

Refer to: Commission Regulation (EU) 2019/2104 of 29 November 2019 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 1 and 8. Yearly developments on the application of IFRS in the EU can be found in:

<https://www.iasplus.com/en/resources/ifrs-topics/europe/europe-2020>

30. Crawford, Louise; Ferguson, John; Power, David; Helliar, Christine. (2014) Control over accounting standards within the European Union: the political controversy surrounding the adoption of IFRS 8. In In: Critical Perspectives on Accounting, Vol. 25, No. 4-5, 07.2014, p. 304-318. Available at:

[https://risweb.st-andrews.ac.uk/portal/en/researchoutput/control-over-accounting-standards-within-the-european-union\(cd1bdb23-2419-44f8-bbd3-c9df778a454b\)/export.html](https://risweb.st-andrews.ac.uk/portal/en/researchoutput/control-over-accounting-standards-within-the-european-union(cd1bdb23-2419-44f8-bbd3-c9df778a454b)/export.html)

31. Boolaky, P. and Omoteso, K. (2016), "International standards on auditing in the international financial services centres: What matters?" Managerial Auditing Journal, Vol. 31 No. 6/7, pp. 727-747. <https://doi.org/10.1108/MAJ-09-2015-1243>. Available at:

<https://www.emerald.com/insight/content/doi/10.1108/MAJ-09-2015-1243/full/html>
Refer also to WTO (2010) Op.cit.

4.

Regulatory Framework: A Comparative Perspective between the EU and Kosovo

There are substantial differences in nature and purpose of the auditing and accounting services provided to clients, as presented in Section 2 of this report. To recapitulate, while accounting services encompasses bookkeeping and the elaboration of financial statements and related services, auditing services performs fundamentally a review function through an independent examination of a firms' financial statements and supporting documents, with the aim of guaranteeing the credibility of its financial information, therefore regulation is necessary to protect the 'public interest'. Accounting services are largely for internal use by the firms, as the procurement of services essentially comprise the outsourcing of internal functions, while auditing services are mainly for external consumption. Given these differences, the regulation of these services diverges significantly worldwide. In this section of the report, we examine the regulation of these services in the EU and in Kosovo respectively, assessing the extent that the EU acquis has been transposed in Kosovo, as required by the commitments adopted in the framework of the SAA, and examine what measures should be undertaken, if that is the case, to establish a full EU compatible regime in the country.

4.1 Regulation of Auditing and Accounting Services in the EU

In the EU, there is a common regime governing the provision of auditing services, which protects the title of 'auditor', defines how to qualify and remain qualified, defines the activities that only auditors can carry out, and governs different aspects of their operations. On the other hand, in the case of accounting services, which is mainly regulated at the national level, the regulation differs widely among EU Members, signaling a diversity of approaches to the implementation of different EU rules, reflecting national traditions and different historical evolutions. In accountancy, there are vast differences within Europe on how different areas are dealt with, for example: protecting titles, registration, professional bodies' membership and public oversight. However, it should be noted that in both cases, in auditing and accounting services alike, EU regulations on many issues covered provide a significant margin of flexibility to EU Members in the concrete application of the EU rules. In practice, due to this flexibility, we can find a diversity of approaches regarding the regulation of these services in the EU.

An important issue regarding regulation of these services in the EU is that accounting services are governed, besides specific regulations, by the EU Services Directive (Directive 2006/123/EC), while auditing services are outside the coverage of that Directive. It should be noted, however, that although there is significant flexibility when implementing the rules in the EU, the potential for divergent national approaches seriously affecting market access liberalization of these services across EU Member States is minimized by the fact that EU Members are additionally bound by a wide set of significant general obligations, by the continuous monitoring of implementation of EU rules by the European Commission, and by the possibility of challenging any specific policies that might contradict the basic rules of the EU Single Market before the Court of Justice of the European Union (CJEU).

4.2 Regulation of Auditing Services in the EU

This sub-section of the report briefly presents some of the basic features of the regulation of auditing services in the EU. It does not intend to offer an exhaustive discussion of the issue, a task which is far beyond the scope of this report. However, it still highlights some aspects of the regulatory framework that are relevant for the comparison exercise with the current regulation of this services in Kosovo. In the EU, there is a recently modernized common regime governing auditing services, which is established fundamentally through Directive 2014/56/EU³² and Regulation No 537/2014.³³ The former sets out the framework for all statutory audits, strengthening public oversight of the audit profession and improving cooperation between competent authorities in the EU. This Directive was to be transposed in all Members States by 2016. The latter specifies requirements for statutory audits of public interest entities (PIEs). As provided by the Directive, Member States should have a single competent authority with responsibility for the public oversight system for auditors, including investigative rights as well as sanctioning powers. This oversight is conducted at the Member State level.³⁴ In 2016, the Committee of European Auditing Oversight Bodies (CEAOB) was established, fostering cooperation between national audit authorities, and to contribute to the proper application of the audit regime through facilitating supervisory convergence.

Auditing is an “accredited profession” in the EU, and market entry, operation and services standards are regulated at the EU level. Statutory audits can only be carried out by an approved, that is a licensed auditor, or by a registered audit firm approved by the competent authority in the Member State. For an auditor and audit firm to be granted an authorization from the competent authority, several conditions must be fulfilled. The requirements laid down in the Audit Directive relate, inter alia, to educational qualifications and practical experience and/or training of auditors. In the case of firms, in addition, the Directive sets some organizational requirements, related to voting rights and qualifications of the members of the administrative or management body.³⁵ The authorization is not limited in time but shall, according to Article 5 of the Audit Directive, be withdrawn if the basic requirements are no longer fulfilled. Audit firms can choose any legal form available under local law, provided that the firm complies with the regulatory requirements of each country in which it is organized. In regard to the procedure for the granting of authorization, there is very limited regulation at the EU level, and it is therefore largely left to Member State discretion.

32. Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits and annual accounts and consolidated accounts.

33. Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

34. Regulation No 537/2014 requires national authorities responsible for audit oversight and the European Competition Network to draw up reports on developments in the national markets for statutory audit services to public-interest entities (PIEs).

35. According to the Directive, approval may only be granted to natural persons or firms of good repute (Article 4). – Sufficient educational qualifications or alternatively qualifications through long-term practical experience (Articles 6, 11 and 12). Educational qualification shall include a test that cover in particular the subjects listed in Article 8, i.e. inter alia general accounting theory and principles; international accounting standards; financial analysis; professional ethics and independence, etc. – Minimum three years of practical training (Article 10). – As regards audit firms; a majority of the voting rights in the entity must be held by audit firms which are approved in any Member State or by natural person who satisfy at least the conditions imposed by Articles 4 and 6 to 12. Furthermore, a majority – up to a maximum of 75 % – of the members of the administrative or management body of the entity must be audit firms which are approved in any Member State or natural persons who satisfy at least the conditions imposed by Articles 4 and 6 to 12 (Article 3(4) points (b) and (c)).

Operations are regulated, among other, through the limitations imposed in providing non-auditing-services (NAS) to their auditing clients. Furthermore, auditors are required to carry out statutory audits in compliance with the international auditing standards (ISAs, ISQC1, and other related standards issued by International Federation of Accountants, even though under certain conditions national standards can be utilized).

There are some flexibilities for Member States in the implementation of specific provisions contained in both the Directive as well as the Regulation, which are referred to as Member State options. The Directive and the Regulation contain more than 50-Member State options³⁶ in many of the key provisions.³⁷ Member States need to adopt specific national legislation to make use of these options, unless they already have such legislation in place. There is no time limit with regard to the options in the Regulation. Kosovo Law No.06/L-032 on Accounting, Financial Reporting and Auditing of March 2018 has transposed Directive 2014/56/EU. An important issue to assess, which is discussed in Section 2 of this report, is the extent to which Kosovo has availed itself to use the different flexibilities available. Box 2 present a summary of the different Member State options provided in the EU regime, and a brief discussion of its application by EU Members.

36. For an examination of the implementation of the Directive refer to: Accountancy Europe (2020) Implementation of the 2014 EU Audit Directive and Regulation in 30 European countries as of July 2020.

Available at:

https://www.accountancyeurope.eu/wp-content/uploads/Audit-policy-implementation-state-of-play_July-2020.pdf

37. Deloitte (2015). EU Audit Legislation, November. Available at:

<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Audit/gx-deloitte-eu-audit-legislation-overview.pdf>. For a detail analysis of EU audit regulation refer also to: KPMG (2019). European Audit Legislation:

Frequently asked questions. Available at:

<https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/07/shedding-light-on-eu-audit-legislation.pdf>

BOX 2

Member State Options under the Auditing Directive

Capping of non-audit fees and the prohibition of non-audit services [Articles 4 and 5 of Regulation 537/2014]

Member States may apply a more stringent cap than the 70% rule and may prohibit more non-audit services than the ones listed in Regulation³⁸ or allow the services referred to in Article 5.1 of the Regulation.

All EU European countries opted for the NAS cap of 70% as per the Regulation. The interpretation of what is to be included as statutory audit services and what is to be considered as non-audit services may diverge across the EU Member States

Most EU countries stick to the list of prohibited services included in the Regulation.

Large majority of EU countries opted for a derogation of the prohibition of certain tax and valuation services under certain conditions provided by the Regulation

EU countries may change the initial engagement for a period of more than one year. As regards the rotation period (which is set by the EU at a maximum of 10 years), Member States are allowed to impose a rotation period of less than 10 years. Finally, Member States have the flexibility to extend the total duration to 20 years in the case of a public tendering and 24 years in the case of a joint audit.

Duration of an audit engagement for PIEs [Article 17 of Regulation 537/2014]

Competent Member States' authority (e.g., audit oversight authority and/or securities regulator) may extend the auditor appointment for a further two-year term on an exceptional basis. Four-year cooling-off period is required. The requirement for 'key audit partners' to rotate after a maximum of seven years, followed by a three-year cooling-off period; however, Member States have an option to elect shorter partner rotation periods.

There are strong differences across Member States related to the options that allow for an extension of the audit engagement.

Definition of Public Interest Entities (PIEs)

There is the option to modify the definition of a PIE. This option is important because it defines which companies will be subject to Regulation 537/2014 and thus to MFR and prohibition of NAS.

Only 12 out of 28 Member States adopt the PIE definition as de per EU law.

38. The absolute prohibitions of NAS are: Services that involve playing any part in the management or decision making of the audited entity (Article 5.1(b)); – Bookkeeping and preparing accounting records and financial statements (Article 5.1(c)); and – Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems (Article 5.1(e)). 'Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.' (Article 5.1(E) is the only prohibited NAS that cannot be provided by the auditor one year before the first period as statutory auditor ('cooling-in period').

PIEs in the Regulation are listed companies, financial institutions and insurance firms. Countries have included other categories as: pension funds, investment companies, use the size criterion, government, asset management companies, electronic money institutions and others.³⁹

"Small undertakings" are not explicitly required to have an audit. Notwithstanding, Member States can impose an audit on small undertakings, albeit the audit should be appropriate for the conditions and needs of these companies and the users of their accounts.

Audit of Small Undertakings

There are different approaches to this issue in the EU and the thresholds to define small undertaking varies.⁴⁰

For SMEs classified as PIEs (and therefore subject to Regulation 537/2014), the Member State may relax strict requirements with respect to audit committees, and quality assurance (see Art. 26 of Regulation 537/2014) and the appointment of auditors (see Art. 16 of Regulation 537/2014).

Public oversight

There is flexibility regarding the delegation of oversight functions. EU countries rely on a certain degree of delegation of tasks to professional accountancy bodies Education, related to PIEs and non-PIEs, and Quality assurance, related to non-PIEs, has been delegated by the majority of countries. Approval/registration of auditors and Standards, related to PIEs and non-PIEs, have been delegated by approximately half of the countries.⁴¹

Auditing Standards

Member States may apply national auditing standards, procedures or requirements as long as the Commission has not adopted an international auditing standard covering the same subject-matter. The Member States may impose procedures and requirements in addition to the international standards adopted by the Commission, but only if those additional requirements are necessary in order to give effect to national legal requirements or in order to increase the credibility or quality of financial statements (Article 26(1) to (4)).

Authorization procedure and supervision

Provisions on approval and mutual recognition of audit firms are laid down in Chapter II (Approval, continuing education and mutual recognition) of the Audit Directive.

39. Refer to Accountancy Europe (2019). Definition of Public Interest Entities in Europe: State of play after the implementation of the 2014 Audit Reform. Survey, March 2019. Available at:

<https://www.accountancyeurope.eu/publications/definition-public-interest-entities-europe/>

40. Accountancy Europe (2016). Audit exemption thresholds in Europe Update after the transposition of the Accounting Directive Information Paper May. Available at:

https://www.accountancyeurope.eu/wp-content/uploads/1605_Audit_exemption_thresholds_update.pdf

41. Accountancy Europe (2020). Organisation of the public oversight of the audit profession in 30 European countries Survey results. July. Available at

<https://www.accountancyeurope.eu/publications/organisation-of-the-public-oversight-of-the-audit-profession-in-30-european-countries/>

The authorization procedure as such is however not subject to any substantial regulation and is therefore largely left to the Member States' discretion. There are accordingly only a few rules relating to the procedure in the Audit Directive, for example Article 3 which provides that each Member State shall designate the competent authority to be responsible for approving statutory auditors and audit firms.

Membership of Professional Associations	Some Member States mandate auditors to become a member of a professional body to be able to use the qualification and perform the reserved activities. In other this is voluntary.
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Source: Authors' compilation based on the discussed EU Directives and Regulations

In the EU, a new audit requirement has been instituted through Directive 2014/95/EU⁴², which was introduced in 2014 with a transposition period until 2016, requiring certain European companies to include annual nonfinancial statements on sustainability and diversity, either as a part of their management report or as a separate document. This obligation came into effect for the 2018 annual reports. The directive applies to PIEs with more than 500 employees. As discussed, PIEs, in general, include listed companies, banks, insurance companies, and other companies that are designated by the competent authorities. Entities that are not considered large are exempted, if they do not meet certain minimum asset, liability, or revenue criteria. The Directive requires covered companies to report on policies, risks, and program outcomes related to environmental protection, social responsibility and treatment of employees; respect for human rights; anticorruption and bribery matters; and diversity on company boards, with respect to age, gender, education, and professional background. Companies should include nonfinancial statements as part of their annually issued financial statements and management report.⁴³

Finally, another issue of high significance for the cross-border provision of auditing services concerns the recognition of professional qualifications. As auditing is an accredited profession in the EU, a professional in order to be licensed must comply with a series of requirements in the host country where he/she will provide statutory audit services. EU Directive 2005/36/EC on Recognition of Professional Qualifications, amended by Directive 2013/55/EU, which provides different venues for the recognition of professional qualifications, does not apply to the profession of statutory auditor. The recognition of professional qualifications⁴⁴ of auditors is governed by a separate instrument,

42. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Available at:

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

43. Refer to, Enterprise 2020 CSR Europe, GRI, and Accountancy Europe (2020). Member State Implementation of Directive 2014/95/EU: A Comprehensive Overview of How Member States Are Implementing the EU Directive on Nonfinancial and Diversity Information. Available at: <http://bit.ly/2K8muhC>. The study summarizes the status of implementation for all 28 Member States and the two European Economic Area (EEA) countries, Iceland and Norway, as of April 2018. According to this study, there are differences in implementation across countries.

44. The Directive regulates automatic recognition based on common education and training standards for 7 professions and establishes a general system of recognition of professional qualifications based on the comparison of content of the education and training leading to the qualifications plus comparison of the scope of the qualification, plus comparison of the level of the qualification awarded between the two national systems of qualifications.

Directive 2006/43/EC.⁴⁵ According to the Directive, auditors from other EU countries may have to complete an adaptation period (no more than a maximum of 3 years) and/or tests to ensure that the professional has adequate knowledge of all relevant matters. Once they get approved, they must be entered in the public register. Furthermore, like domestic professionals, foreign statutory auditors are required to take part in continuing education to maintain and upgrade their theoretical knowledge, skills and values. Concerning EU auditing firms, a firm wishing to carry out statutory audits in an EU country other than its home EU country must register with the competent authority in the host country. In these cases, the competent authority in the host country must register the audit firm if it has been registered with the competent authority in its home country.

It should be noted that the above discussed provisions only apply to EU nationals and EU firms. Professionals and firms from third countries are subjected to different treatment concerning their entry into the auditing market and being able to provide services. This is dealt through mutual recognition agreements with third countries, or foreign nationals and firms complying with all the requirements demanded by the host country. Concerning third country services providers, under the Transitional Regulations, the competent⁴⁶ authority in a EU Members State shall in these cases make public the names and addresses of third country auditors and audit entities; and draw attention to the fact that the third countries concerned have not yet been recognized as equivalent, in terms of the requirements of Articles 45, under the Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014.

4.3 Regulation of Accounting Services in the EU

The national accounting system is determined by its accounting framework, professional associations, and the extent of which the IFRS and/or national accounting standards are applied. The regime sets the major rules of keeping accounting records, defining charts of accounts, preparing annual accounts and the application of national and international accounting standards. In the case of accounting services, contrary to the case of auditing where even with the existence of a wide number of Member State options we can identify an EU regime, there is not much resembling a common regime in the EU. In accounting services there is no EU *acquis* as such to be directly transposed to Kosovo.

In the EU, Member States can choose if, and how, they regulate professionals providing accountancy and related advisory services. This is the sector with one of the highest levels of heterogeneity of national regulations across the different EU countries.

45. Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, pp. 87–107). Directive 2005/36/EC entered into force on 20 October 2005 and had to be transposed by 20 October 2007. The latest amendments introduced by Directive 2013/55/EU entered into force on 17 January 2014, the transposition deadline being 18 January 2016. Directive 2013/55/EU introduced a number of amendments to Directive 2005/36/EC: accelerated procedures are now available to some professionals through the European Professional Card, an alert mechanism has been introduced, the requirements for language tests have been specified, automatic recognition can be expanded through common training principles and the principle of partial access has now been anchored in EU legislation

46. The EU has adopted several equivalence decisions recognising that the public supervision of auditors in certain non-EU countries meets the same requirements that are in force in the EU through the audit directive. The EU has also adopted several decisions recognising that the audit supervision authority of certain non-EU countries is adequate to exchange audit working papers with relevant authorities in EU countries.

It is not our purpose to present a detailed analysis of the differences among EU Members, just to highlight some important differences.⁴⁷ The general approach to regulation varies in that accounting and bookkeeping are regulated in some EU Member States while not in others. Eleven EU countries regulate the accountancy profession, where services have to be provided by a certified accountant and protect the titles 'accountant' and 'tax advisor'.⁴⁸ In other countries, the service can be provided by any individual or firm, qualified or unqualified, and in some cases, like in Greece for example, not even academic qualifications are required, or in the UK everyone could call themselves 'accountant' and provide accountancy services. Unlike in the case of auditors, there are no EU legal requirements on registration, membership in professional bodies or oversight for individuals or firms providing these services. In some countries there is oversight, and not in others.

There are also significant differences between EU countries with respect to legal form, control and voting rights in accounting firms, and intervention on the price of the services.⁴⁹ There are also differences in the application of the IFRS, as besides accountable firms that must utilize the IFRS in all EU countries, each member state can decide on its own the binding rules regarding the application of financial reporting standards to other companies. Furthermore, among others, there are important differences in the national Generally Accepted Accounting Principles (GAAP), and in the processes for standards setting.⁵⁰ Also, it is important to note that the education of accountants and advisors is not harmonized in the EU. However, regulators or professional institutes largely refer to the international education standards (IES), if regulating the profession. Nevertheless, there are differences in the balance between academic training and the experience required among EU countries.

Although providing accountancy services is not regulated on the EU level, EU law contains some requirements that are of relevance for the accounting profession in the following Directives: Directive 2013/34/EU;⁵¹ Directive 2006/123/EC;⁵² and, Directive 2013/55/EU.⁵³ The first of these Directives directly incorporates some general provisions regulating some aspects of accountancy services, mainly setting criteria on the outcome of accountancy services, while the other two are of a general nature, one governing the provision of services in the Single Market,

47. For a detail analysis of differences among EU Member States refer to: European Commission (2017).

Administrative formalities and costs involved in accessing markets cross-border for provisions of accountancy, engineering and architecture services. Final Report. Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. Directorate E – Modernisation of the Single Market. Unit E1 – Service Policy for Consumers. Written by Ecorys Netherlands B.V. May. Available at:

<https://op.europa.eu/en/publication-detail/-/publication/5c8a6c62-44e3-11e7-aea8-01aa75ed71a1/language-en>

48. The Czech Republic, Malta, Norway, Belgium, Greece, Hungary, Italy, Austria, Luxembourg, France and Romania regulate the accounting professions. Furthermore there are also other differences, like France and Portugal, for example, having limiting requirements regarding licensing of managers of accounting firms, and Austria, Belgium, Greece, Luxemburg and Norway require managers to be locally licensed accountants, while Belgium, France and Germany limit the joint exercising of activities of accountants and other professions.

49. EU Commission (2013). Commission Staff Working Document on the outcome of the peer review on legal form, shareholding and tariff requirements under the Services Directive. Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on Evaluating national regulations on access to the professions. Brussels, 2.10.2013. SWD (2013) 402 final.

50. Ivana Mamić Sačer (2015). The regulatory framework of accounting and accounting standard-setting bodies in the European Union Member States. Available at: http://fintp.ijf.hr/upload/files/ftp/2015/4/mamic_sacer.pdf

51. Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

52. Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market

53. Directive 2013/55/EU of the European Parliament and of the Council of 20 November 2013 amending Directive 2005/36/EC on the recognition of professional qualifications; and Regulation (EU) No 1024/2012 on administrative cooperation through the Internal Market Information System ('the IMI Regulation').

and the other the recognition of professional qualifications. These last two directives are complementary instruments, dealing with different matters, and the Services Directive excludes matters covered by the Professional Qualifications Directive. A brief discussion of these directives is provided below.

Directive 2013/34/EU harmonizes some parts of accounting and financial reporting, such as basic accounting principles, valuation methods and the forms of financial statements. It applies only to limited liability types of companies in the EU, and defines and differentiates between micro-, small, medium and large companies, on the basis of their balance sheet, net turnover, and average number of employees during a financial year.⁵⁴ These thresholds are periodically updated to keep pace with inflation. The obligations can be different depending on a company's size, and the directive allows for exemptions or simplifications in many areas for micro-undertakings and SMEs; and each Member State is free to decide on the extent of these exemptions and simplifications, which has generated diverse approaches among EU Members. It allows a simplified reporting regime for small and medium-sized enterprises, and a very light regime for micro-companies (those with less than 10 employees). The super simplified regime is in principle only applicable to limited liability micro companies. Member States are allowed to decide on size criteria, but these cannot exceed the size criteria in the Directive. The simplified accounting requirements for small companies in the Directive are on a 'maximum harmonization' basis with regard to presentation and disclosure. This means that there is no scope for Member States to add additional presentation and disclosure requirements for small company accounts either in legislation or in accounting standards.

The Accountancy Directive requires that as a minimum the annual financial statements must contain the balance sheet, the profit and loss account, and the notes to the financial statements, and that have to be published in the relevant national business registry; beyond this minimum, countries can require additional reports to medium size and large firms. The Directive further sets out general financial reporting principles, such as consistent application of accounting policies and measurement bases from one year to the next, and provides detailed rules covering the presentation of the balance sheets, profit and loss accounts and the notes to the financial statements, as well as management reports, non-financial information, corporate governance and consolidated statements.⁵⁵ Even though the Directive has promoted some harmonization among EU countries, it still have left enough discretionary power to the local authorities to implement diverse approaches.

Moreover, concerning standards, Regulation (EC) No 1606/2002, provides that all EU listed companies and other PIEs must use IFRS as adopted by the EU for their consolidated financial statements, but includes a discretionary provision through which EU countries can opt to extend the use of IFRS to annual financial statements and non-listed and non-PIEs companies as well. This opens the possibility of diverse approaches that can be undertaken by EU countries.⁵⁶ The IFRS are not directly transposed in the EU.

54. For each category, it sets 3 limits, 2 of which must not be exceeded: micro-undertakings: balance sheet (€350,000), net turnover (€700,000), employees (10); small undertakings: balance sheet (€4 million), net turnover (€8 million), employees (50); medium-sized undertakings: balance sheet (€20 million), net turnover (€40 million), employees (250); large undertakings: balance sheet (€20 million), net turnover (€40 million), employees (250).

55. According to the Directive, large companies involved in mining minerals, oil, natural gas or other materials or involved in logging in primary forests must publish details of payments over €100,000 in total that they make to governments in any financial year.

56. In consequence different approaches are possible in the EU. IFRS implementation for all subjects, – the exemption of full application of IFRS or national accounting standards for the purpose of small and medium-sized entities (SMEs), – the direct application of certain IFRS or national accounting standards for the purpose of small and medium-sized entities, – the exclusive implementation of national accounting standards for all subjects or only for SMEs, – the direct application of IFRS for SME for the purpose of small and medium sized entities, and – the application of national generally accepted accounting principles for all or some entities.

When a new standard is issued by the IASB, the EU needs to endorse it before it comes into force. Regulation (EC) No 1606/2002 establishes a specific endorsement process under the responsibility of the European Commission, together with the European Financial Reporting Advisory Group (EFRAG), an independent organization providing expert advice to the Commission, and the Accounting Regulatory Committee (ARC), composed of representatives of EU countries and chaired by the European Commission.⁵⁷

The Services Directive is of special relevance for the provision of services in the Single Market. Contrary to the case of auditing, accountancy services are covered by the provisions of the Directive, which applies to all sectors not explicitly excluded, and guarantees the right of establishment and the provision of services to individuals and firms alike in the EU market. It should be noted that Kosovo has only partially transposed the Directive to the domestic legal framework through the Law on Services (Law No 05/L-130) of March 2017.⁵⁸ The Services Directive applies both to the permanent establishment of businesses, when a services operator wishes to set up a permanent establishment (a company or branch) in another EU country, and also to cross-border service provision, specifically when an undertaking already established in an EU country wishes to provide services in another EU country, without creating a permanent establishment, or when a consumer resident in an EU country wishes to be provided with a service from a supplier in another EU country.⁵⁹

The Directive sets out rules governing the regulation of covered services in the Single Market. According to the Directive, Member States may continue to impose their own legal and administrative requirements on accountancy service providers; however, it contains several obligations on how those requirements can be imposed. Regulation on services can only be maintained in so far as it is not discriminatory, it is justified by an overriding reason related to the public interest, and if it is proportionate, i.e. no less restrictive measure could be used to achieve the proposed objective. The proportionality requirement has been clarified and strengthened by Directive 2018/958/EU of June 2018.⁶⁰ According to the Services Directive, the application of national requirements can only be justified if necessary, for the protection of public policy, public security, public health or the environment. This excludes Member States from invoking other public interest objectives. Furthermore, the Services Directive obliges Member States to simplify procedures and formalities related to establishment and cross-border provision by establishing 'points of single contact' – one-stop shops through which service providers can obtain all the relevant information and enabling all procedures and formalities to be completed at a distance and by electronic means, and by issuing authorizations that are, in principle, granted for an indefinite period and valid throughout the national territory. In the EU, even though there is significant heterogeneity on how accountancy services are regulated, all national regulation must be compatible with the obligations emanating from the Services Directive.

57. Regulation (EC) No 1126/2008 codifies IFRS as adopted by the EU. Every time a new standard is endorsed at EU level, the Commission publishes an amending regulation which is directly applicable in all EU countries. Periodically, the Commission draws up a non-binding consolidated version of Regulation (EC) No 1126/2008 which includes all adopted IFRS.

58. The Services Law only provides for the right of establishment, and has not transposed the right to provide services, which would only be done upon accession to the EU.

59. For a detailed explanation of the Services Directive refer to: European Commission (2007). Handbook on the Implementation of the Services Directive. This document is available at:

http://ec.europa.eu/internal_market/services/services-dir/index_en.htm

60. Directive 2018/958/EU of the European Parliament and of the Council of 28 June 2018 on a proportionality test before adoption of new regulation of professions. According to this Directive, Member States shall ensure that the legislative, regulatory or administrative provisions restricting access to, or the pursuit of, regulated professions that they introduce, and that the amendments that they make to existing provisions, are suitable for securing the attainment of the objective pursued and do not go beyond what is necessary to attain that objective.

Finally, Directive 2013/55/EU on recognition of professional qualifications is of special relevance for the cases in which accountancy is regulated in an EU country as an 'accredited profession', that is a licensed or authorization is needed to provide the services. It applies to all nationals of EU and non-EU, EEA countries and Switzerland wishing to pursue a regulated profession, either on a self-employed or an employed basis, in a country other than that where they obtained their professional qualifications. Under this Directive, qualifications which give the right to practice a profession in one Member State are to be accepted for admission to the practice of that profession in another Member State and requires Member States to permit a qualified professional from another member state to practice that profession under the same conditions that apply to its nationals. All people wishing to practice a regulated profession in an EU Member State other than the one in which they obtained their professional qualifications may seek recognition of their qualifications.

The Directive provides three systems for recognition. Accountancy professionals fall under the general system, by which individuals seeking recognition under the general system must apply for recognition, which is then considered by the competent authority in the host Member State. When a profession is not regulated in the applicant's home state, which is the case of accountancy in some EU countries, access to that profession in a host member state where it is regulated requires, in addition to the relevant qualification, proof of two years' full-time experience in the profession over the preceding ten years. The host member state can require the applicant to complete a 'compensation measure' (such as an aptitude test or adaptation period of up to three years) if the: applicant's training covered substantially different matters from those covered by the formal training required in the host state. If professionals want to provide their services in another EU country on a temporary basis, in principle they can do so on the basis of their right to practice in their home country. The country of destination might require from them a prior declaration, but they do not have to go through the recognition procedures.

4.4 Legal Framework in Kosovo and Mapping of Key Stakeholders

This sub-section discusses the legal framework that regulate the accounting and auditing sector in Kosovo. It focuses on key regulatory provisions and, where possible, highlights the extent of enforcement and the practical implications of the discussed provisions by relying on inputs taken from the stakeholder interviews. Also, it makes some comparisons with EU practices. Further, this sub-section provides a mapping of key actors in the sector, examining their roles and responsibilities and identifying vulnerable areas related to them. It also depicts how all these actors are positioned in relation to one another.

The main piece of legislation governing the accounting and auditing sector in Kosovo is Law 06/L-032 on Accounting, Financial Reporting and Auditing, which was adopted on 30 March 2018 and came into effect on 1 January 2019. This law replaces a previous one, which had been in place for about nine years. Overall, the new law regulates the accounting and financial reporting for business enterprises; sets out the main roles and responsibilities of the Kosovo Council for Financial Reporting (KCFR); specifies the audit requirements for larger enterprises; regulates the licensing of statutory auditors and audit firms and the qualifications for professional accountants; and determines the scope of work and responsibilities of Professional Accounting Organizations (PAOs). The law intends to approximate the national legislation with the relevant EU directives on statutory audits of annual accounts and consolidated accounts, namely Directive 2006/43/EC, Directive 2008/30/EC, and Directive 2014/56 /EU, as well as with Directive 2013/34/EU on annual financial statements, consolidated financial statements and related reports of certain types of undertakings. The provisions of this law are binding to all registered business organizations in Kosovo except for the Central Bank of Kosovo (CBK) and organizations licensed by this institution.

Classification of Enterprises

For the purposes of this law, individual business organizations are classified as micro enterprises, small enterprises, medium enterprises, and large enterprises on the basis of statement of financial position (total assets), net turnover, and average number of employees. Table 1 shows the limits (ranges) that determine the classifications. Apart from classifying individual business enterprises, the new law also specifies the criteria for the classification of enterprise groups, dividing them into small groups, medium groups and large groups. The criteria for the classification of groups are the same with the ones for individual business organization and are based on consolidated values. The classification of individual enterprises and groups is important, because the requirements for accounting, financial reporting and auditing vary according to size.

The law also defines public interest entities (PIEs). These, according to the law, represent a special category consisting of financial institutions subject to licensing by the CBK; public and socially-owned enterprises and business organizations that are classified as large enterprises by the law; and entities whose securities are admitted to trading in a regulated market in Kosovo. One key difference of this definition and that of the EU included in Directive 2013/34/EU and Directive 2004/56/EU is that in the latter there no size criterion for enterprises (undertakings) with significant public interest, meaning that even the small ones may qualify as PIEs as long as they represent significant public interest. Some EU members extend the definition to explicitly include pension funds, investment companies, asset management companies, and the like.

Table 1: Classification of enterprises by the new law

Classification of enterprises	Statement of financial position (EUR)	Net turnover (EUR)	Average number of employees
Micro enterprises	< 350 thousand	< 700 thousand	< 10
Small enterprises/Small Groups	350 thousand – 4 million	700 thousand – 8 million	10 – 50
Medium enterprises/Small Groups	4 million – 20 million	8 million – 40 million EUR	50 – 250
Large enterprises/Large Groups	20 million <	40 million <	250 <
Public Interest Entities (PIEs)	• Financial institutions subject to licensing by the CBK • Public and socially-owned enterprises and business organizations that classified as large enterprises by this law • Entities whose securities are admitted to trading in a regulated market in Kosovo		

Source: Law on Accounting, Financial Reporting and Auditing

Application of Accounting and Financial Reporting Standards

The new law regulates the application of standards for the preparation of financial statements. According to the law, large enterprises and large groups are obliged to apply the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as interpretations, recommendations and necessary guidance issued by the International Auditing and Assurance Standards Board (IAASB) approved by the KCRF. The approval procedure by the KCRF is not further clarified in the law. If with approval is implied that the KCRF has the possibility of accepting or refusing the IFRS framework and the ongoing amendments on a standard-by-standard basis like in many countries, then there should be some clear endorsement criteria. One criterion, for example, could be for the standards to be conducive to the Kosovan public good. In the EU, Member States enjoy some discretionary power to decide on the application of IFRS for non-PIE and non-listed companies.

The stakeholder interviews reveal that the KCRF fails to undertake any sort of approval process for the new standards; neither does it take the trouble to notify the PAOs for the ongoing IFRS changes. A notable improvement in the new law is that medium enterprises, medium groups, small enterprises, and small groups are no longer obliged to comply with the entire IFRS framework, but just with IFRS for SMEs. This would, in principle, alleviate some of the regulatory burden on these enterprises. However, it is worth mentioning that they are allowed to voluntarily implement full IFRS by giving a prior written notice to the KCRF. AI No. 07/2019 provides an illustrative model of how financial statements should look like.

Unlike business organizations, NGOs are exempt from financial reporting obligations, regardless of their net annual turnover.

Audit Requirements

The law requires that all large enterprises and large groups must undergo a statutory audit. This requirement also applies to small enterprises, small groups, medium enterprises, and medium groups that exceed a net annual turnover of EUR 4 million. These enterprises/groups must appoint an auditor or audit firm no later than within the last three months before the end of the reporting period for which the statutory audit is required. The audit shall be performed in compliance with the International Standards of Auditing (ISAs), and associated interpretations, guidance and pronouncements of the IAASB. This is more stringent compared to the EU, where Member States have some flexibility to apply certain national audit standards. Public interest enterprises (PIEs), according to the law, shall establish an audit committee with independent membership of nonexecutive directors, where one of the members of the audit committee must have working experience in accounting and finance. Moreover, PIEs must have an internal auditor. On the other hand, small and medium enterprises and small and medium groups with a net annual turnover of less than or equal to EUR 4 million have to undergo a statutory review. For more information, refer to Table 2.

One new feature introduced in the new law is the audit rotation requirement. According to the law, a statutory auditor or audit firm must not exceed the maximum duration of 10 years of engagement with the same firm. After the expiration of the maximum duration, there needs to be a four-year cool-off period. Different from the EU where this applies to PIE audits only, in Kosovo this is a requirement that is extended to all audits. Moreover, the new law in Kosovo does not allow for any extension of duration under certain circumstances as Regulation (EU) No. 537/2014 allows. As indicated previously, the EU regulation stipulates that Member States may extend the 10-year maximum duration up to 20 years, where a public tendering process for the statutory audit is conducted upon the expiry of the maximum duration; up to 25 years in the case of joint audit; and up to two years on exceptional circumstances with the consent of the competent authority.

Another new feature in the law is the obligation for the audit report to be signed by a statutory auditor when an audit firm carries out the audit. This is in line with best practices and will contribute to improving the quality of auditing reports.

Table 2: Summary of accounting, financial reporting and Audit requirements

Classification of enterprises	General requirements	Specific requirements
Large Enterprises	• Application of IAS/IFRS • Application of recommendations issued by IAASB and approved by KCFR • ISAs	• Audit opinion on financial statements by an audit firm certified by KCFR and registered in Kosovo • Statement of Compliance signed by CEO and CFO • Management report on performance and (future) development • Corporate governance statement • Financial statements signed by CEO and CFO or by a certified accountant
Public Interest Enterprise	• N/A	• Establishment of a statutory auditing committee with independent membership to oversee the work of the internal and external audit • Appointment of an internal auditor within corporate structures with three years of working experience in accounting and auditing.
Small and medium-sized enterprises	• Preparation in accordance with IFRS for SMEs • Those that need audit: ISAs	Those with a net annual turnover of over 4 million euro: • Audit opinion to the financial statements provided by an audit firm registered in Kosovo; • Declaration of compliance signed by CEO and CFO • Financial statements signed by CEO and CFO or by a certified accountant Those with a net annual turnover of less than or equal to EUR 4 million: • Independent auditor revision report in accordance with ISRE • Financial statements signed by CEO and CFO or by a certified accountant
Micro enterprises	• Class III: IFRS for SMEs	Class I: Enterprises with a net annual turnover not exceeding EUR 50 thousand: • Income statement prepared on a cash basis or accrual basis of accounting signed by CEO or Owner Class II: Enterprises with a net annual turnover not exceeding EUR 300 thousand which do not belong to Class I: • Financial position income statement prepared on accrual basis of accounting signed by and the CEO and the Certified Financial Manager or Accountant

- Statement of compliance signed by CEO or owner and CFO or person in charge of financial matters

Class III: Enterprises with a net annual turnover above EUR 300 thousand which do not belong to Class I and Class II:

- Annual financial statements in accordance with IFRS for SMEs signed by the CEO and the Certified Financial Director or Accountant
- Statement of compliance signed by CEO or owner and CFO or person in charge of financial matters

Source: Law 06/L-032 on Accounting, Financial Reporting and Auditing

Additional Requirements

Large enterprises and large groups must attach a statement of compliance, a management report, and a corporate governance statement to their financial statements. Small enterprises, small groups, medium enterprises, medium groups that exceed a net annual turnover of EUR 4 million must attach only the statement of compliance to their financial statements, whereas those with a net annual turnover of less than or equal to EUR 4 million have no obligation to attach any further documents. One obligation that applies to all enterprises regulated by this law is that financial statements must be signed by the General Director or CEO and by the Finance Director or CFO and/or the certified accountant.

Unlike in the EU, Kosovo PIEs with more than 500 employees are not required by the legislation in place to report on sustainability, diversity, social responsibility, treatment of employees, respect for human rights, and anticorruption. In the EU, such matters are either part of the management report or are treated in separate statements.

Reporting of Micro Enterprises

The reporting of micro-enterprises is regulated with Administrative Instruction No. 01/2020 issued by the KCFR. For the purpose of financial reporting, this AI, sub-categorizes micro enterprises into the following three classes:

- Class I: micro enterprises with a net annual turnover not exceeding EUR 50,000
- Class II: micro enterprises with a net annual turnover not exceeding EUR 300,000, which do not belong to Class I, and
- Class III: micro enterprises with a net annual turnover above EUR 300,000, which do not belong to Class I and Class II.

Each micro enterprise class has its distinct reporting requirements. Micro enterprises that belong to Class I are required to prepare only an income statement signed by the CEO or the Owner. Class II enterprises are required to prepare a statement of financial position and an income statement on accrual basis of accounting along with a statement of compliance. Micro enterprises of Class III are required to prepare complete financial statements in compliance with IFRS for SMEs along with a statement of compliance by the CEO or the Owner and the CFO or the person in charge for financial matters. The CFO or the accountant who signs the financial statements of micro enterprises belonging to Class II and Class III has to be certified. When this requirement was introduced in the new law, it was intended to ensure a better quality of financial statements and to enhance the transparency over financial reporting. However, some stakeholders believe that this will not improve the quality but rather serve as a rent creating mechanism for the existing certified accountants. The current number of

certified accountants is practically insufficient to substantially satisfy the needs of over 20,000 enterprises that, according to the new law, need to have certified financial statements. This, in the short run, might end up being a cost burden for micro enterprises, which anyway face many other problems inherent to their small size.

Submissions to the KCFR and other Institutions

The law stipulates that all enterprises shall submit their financial statements along with other accompanying documents required by the law to the KCFR by the 30th of April of the year following the year of reporting, both in hard and electronic copy. The deadline for enterprise groups to submit their consolidated financial statements (together with the accompanying documents) is two months later. The law requires that even enterprises that do not conduct any business activity to submit a declaration of inactivity to the KCFR. In addition, the law states that all enterprises, without exception, must submit the statement of financial position, profit and loss account and additional information to the Kosovo Agency of Statistics (KAS) for statistical purposes. A copy of financial statements has to be submitted to the Ministry of Trade and Industry (MTI) as well. The requirement to submit financial statements to KAS and the MTI is not being respected by enterprises. Moreover, there is no cooperation between KCFR, Kosovo Business Registration Agency (KBRA), and KAS.

PAO representatives have a couple of complaints concerning the submission requirements. First, they believe that the requirement to submit a copy in a physical format is unnecessary given the digitalized nature of the sector. They explain that even the electronic submissions are just scanned versions of financial statements. In such formats, PAOs consider that it is practically impossible for the KCFR to process all the documents in due time. Second, they complain about the requirement to submit the same documents in multiple institutions. The obligation to submit copies to institutions other than the KCFR is widely ignored and not effectively enforced. Third, they highlight that there is an inconsistency between the law and AI No. 01/2020 in regard to submissions. According to the AI, Class I micro enterprises are not required to prepare a statement of financial position, while the law requires that such a statement is to be submitted to the KAS.

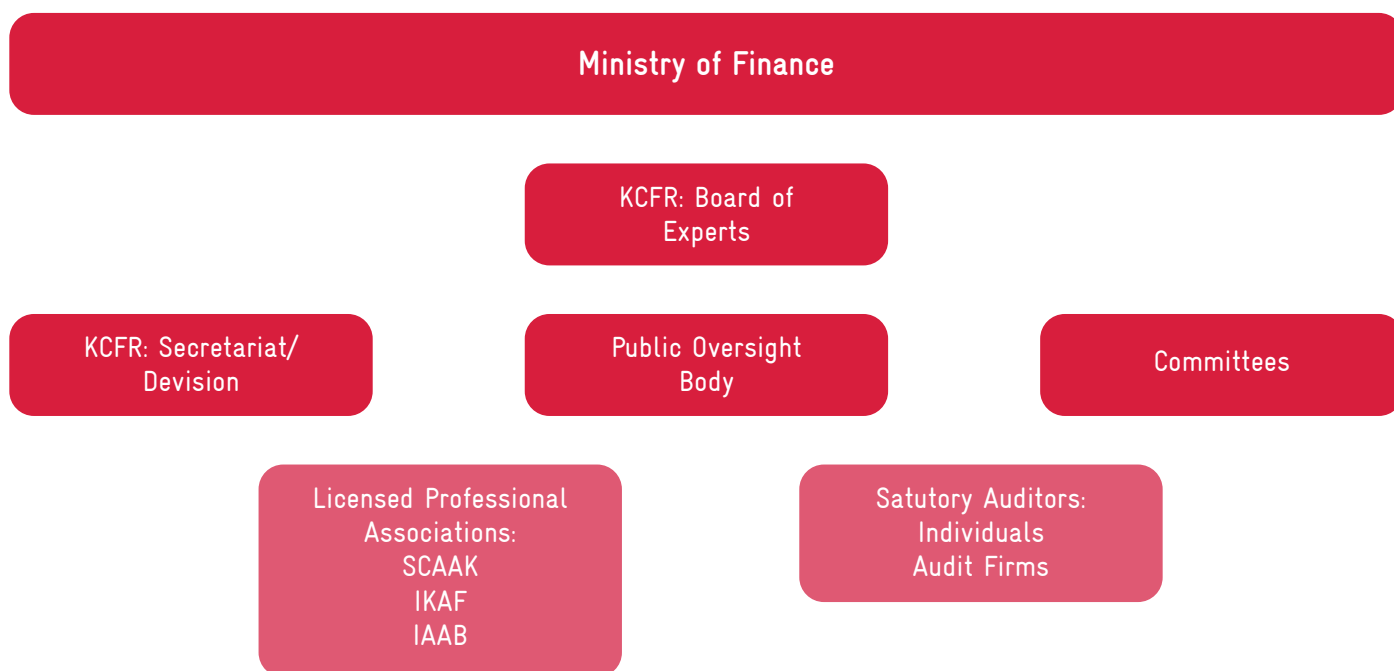
Note: GIZ is currently working with the Tax Administration of Kosovo (TAK) in advancing the current platform ("EDI") and building the necessary infrastructure to make the whole process compatible with IFRS. This platform will be used by the KCFR to generate various indicators needed for the annual report, as well as by other institutions such as the CBK and the MTI. This would streamline the reporting process, as companies do not have to report their financials to different institutions as they currently do.

Punitive Measures

In the case of a breach of provisions of the new law, business enterprises and groups, PAOs, the responsible person of business enterprises/groups and PAOs, statutory audit firms and statutory auditors are all subject to punitive measures ranging from EUR 500 up to EUR 30,000, depending on the nature of the violation. If the payment of the penalty takes place within three days from the date from when the penalty is imposed, a 50 percent reduction is applied. There is an option for appeal in the KCFR within 30 days after receiving the penalty. No penalties have been imposed yet. The fact that there are no inspectors and given the overall limited quality control mechanisms complicates the application of punitive measures.

In the EU, the imposition of penalties in the case of failure to disclose accounting documents is also regulated with the Directive (EU) 2017/1132 relating to certain aspects of company law. The respective law in Kosovo, namely Law on Business Organization, does not contain such provisions.

Figure 1: Mapping of Key Stakeholders



The Kosovo Council for Financial Reporting (KCFR)

The KCFR is an independent professional body operating under the Ministry of Finance (MoF) with a mandate to regulate the accounting and audit profession in the country. The main functions and responsibilities of the KCFR include: (i) overseeing the implementation of the Law on Accounting; Financial Reporting, and Auditing; (ii) approving IFRS and IAS standards (iii) approving, supervising and implementing audit standards in compliance with ISA; (iv) licensing, retaining and publishing the register of auditors, audit firms and associations; (v) adopting the standards of professional ethics; and (vi) validating the international certificates of auditors and accountants. The KCFR is predominantly financed by the budget of Kosovo; a small portion of its income is raised through donor projects.

In essence, the KCFR is composed of:

The Board of Experts headed by a Chairman. This board consists of seven members: one member from the CBK, one member from a University providing higher education in accounting and auditing, one member from the MoF, one member from professional accounting organizations, and three members from the business community. These board members are appointed by the Government upon nomination of the institution they represent. The board has, amongst others, the mandate to issue and approve sub-legal acts (i.e. administrative orders) in the area of accounting and auditing.

The Administrative Secretariat. This is a Division under that operates the MoF consisting of four members. This mechanism is mandated by the law to help the KCFR in carrying its day-to-day functions and responsibilities. The general opinion of the interviewed stakeholders is that the secretariat is limited in size and lacks professional capacities to help the KCFR with the required underpinning work. The new law, on the other hand, explicitly states that the KCFR shall be supported by a sufficient number of personnel in performing its duties. The inability of the KCFR to recruit and retain qualified staff as a result of the applicable government salary scale, which is below market rates, severely constrains its ability to build the needed human capacities.

Public Oversight Body (POB)

As the new law requires, the KCFR has recently established a Public Oversight Board (POB). The main responsibilities of this mechanism are to determine the methodologies of inspection, prepare the inspection plan, and to oversee the work of statutory auditors and audit firms. This board consists for five members: two from the KCFR that are not representatives of professional associations and the CBK; two PAO members that are not members of the KCRF, and one representative from the CBK. The president of the board shall be appointed by the KCFR. In general, the POB is meant to function as an executive branch for the KCFR. Since its establishment, the POB has been unable to efficiently exercise the functions prescribed by the law, as it does not have the necessary funds and resources. Thus far, there are no inspectors appointed. Without inspectors in place, this mechanism has not been able to perform any on-site quality assurance inspection. Lack of quality control puts a significant risk to the accounting and auditing profession, affecting the credibility of financial reporting in Kosovo.

The interviewed PAOs believe that the POB should be an independent institution, because there could be some conflict of interest to have licensing, standard-setting, oversight and quality control under one umbrella, in this case KCFR. Moreover, they add that an independent POB would have to be the main competent authority for all aspects of oversight and quality assurance and not only deal with the oversight of auditors/audit firms. Although an independent POB would enhance the credibility of this body, this idea needs to be further analyzed as at this stage self-financing might be difficult provided the small profession size in the country.

Delegating certain functions of the quality assurance for non-PIE audits to PAOs would be an alternative to consider as well. This would be in compliance with the EU acquis, as some flexibilities are allowed in this regard. Many EU Member States have already decided or are in process of deciding to delegate oversight functions to PAOs.

KCFR Commissions

To oversee the implementation of the provisions of the Law on Accounting, Financial Reporting and Auditing, the KCRF has appointed three commissions; the Commission on accounting and auditing standards; the Commission on licensing of the auditors, audit firms and associations; and the Commission on investigations and discipline. As per the law, the members of these commissions should consist of qualified individuals with professional experience in the field that relates to the mandate of commissions they represent. In interviews with PAOs, it was said that the only active commission is the one that deals with licensing.

Below are outlined some further observations about the KCFR:

In addition to other responsibilities, the new law mandates the KCFR to maintain a register of annual financial statements in electronic form and to make it accessible on the website. The law does not put any threshold for this, meaning that this should be applicable to all business organizations. That said, every year by June the KCFR expects to receive more than 50,000 financial statements from enterprises operating in Kosovo. The Administrative Division, with a limited number of staff, is not in a position to process all these documents. The law should be amended to address this. Otherwise, the KCFR has no capacities to produce a register.

The new law obliges the KCFR to cooperate with education institutions in the field of accounting and auditing. From the interview with this institution, it was understood that this obligation is delegated to the existing PAOs. The chairman of the KCFR states that the curriculum of education institutions in the field of accounting is, to a large extent, harmonized with the ones that PAOs have.

The KCFR does not have its own website. There is a link on the website of the MoF. When representatives from the KCFR want to upload something, they need to ask the MoF IT. Publications, administrative instruction, and other information are not organized very well; transparency seems to be a real struggle.

Professional Accounting Organizations (PAOs)

Under the new law, PAOs are not for profit organizations licensed by the KCFR to promote and advance the position and usefulness of public accounting profession as common interest. These associations are responsible for the certification of accountants and auditors. As per the new law, a statutory auditor needs to be a member in one of the licensed PAOs.

On the other hand, PAO membership is not an obligation for certified accountants; many accountants choose to become members, however. The law requires that PAOs, within a period of three years from the entry into force of the law, to become monitoring members of IFAC, and within five years full members. Although this improves the quality of accounting and auditing profession, by some stakeholders, it is considered a very costly process that is hard to be fulfilled within the time required by the law.

Candidates having titles and other qualifications have the right to recognition of such titles and qualifications in Kosovo. Each KCFR licensed PAO shall have a scheme approved by the former for the recognition of qualifications and titles other than those provided by PAOs. From the interviews it was understood that all the licensed PAOs have their schemes approved by the KCFR and recognition is a quite streamlined process.

The current PAOs have been primarily focused on certification programs and in the translation of education materials through agreements with leading providers of accounting and auditing materials in Europe. They organize training for their members to fulfil the criteria on continuing education.

Currently in Kosovo, there are three licensed PAOs: Society of Certified Accountants and Auditors of Kosovo (SCAAK), Institute for Accounting, Auditing and Finance (IKAF), and AAB Institute for Certified Accountants and Auditors.

SCAAK

The SCAAK is the first PAO in Kosovo providing accounting and auditing education, and the first PAO licensed by the Kosovo Council for Financial Reporting (KCFR),

SCAAK was established in 2001 as an independent, self-regulated professional association of certified auditors, accountants, accounting technicians, and students. It became the first licensed PAO in Kosovo to provide accounting and auditing education. Until 2013, SCAAK was the only licensed professional accounting and auditing body in Kosovo. Apart from the certification of accountants, auditors and accounting technicians, SCAAK also certifies public sector accountants, insolvency specialists, and internal auditors.

Since 2009, SCAAK is a fully-fledged member of the International Federation of Accountants, which is a global accounting and auditing professional organization representing more than 175 member organizations across 130 countries worldwide. SCAAK is also a member of the European Federation of Accountants and Auditors for SME's (EFAA) and Mediterranean Federation of Accountants (FCM), as well as maintain regular cooperation with many professional organizations, regulators, supreme audit institutions, universities around the world.

SCAAK initiated the opening of the accounting department within the University of Prishtina (UP). The accounting department in UP was established in 2009. Each year the department admits about 150 students. So far, 800-1000 students have graduated. The curriculum on accounting in UP is in harmony with international education standards. All those who have a degree in accounting from the UP do not have to pass the exams for accounting technician in SCAAK. SCAAK collaborates with other universities in Kosovo as well.

IKAF

Institute for Accounting, Auditing and Finance (IKAF) is a not for profit organization established in 2005. Due to some legal barriers, its operation was paused for a while, and during its beginning focused on provision of training to accountants and tax professionals. In 2013, IKAF was recognized by KCFR as a licensed PAO to deliver training on accounting and auditing. To date, about 2000 individuals have been registered in IKAF.

Its certificates are recognized by many international organizations (IFA, AAT, NASBA and similar). Members of IKAF can get membership in all these international organizations just by showing some proof that they are certified by IKAF.

IAAB Institute

IAAB Institute for Certified Accountants and Auditors (IAAB) received recognition from the KCFR in late 2016. IAAB began with its first trainings under the certification program during March 2017 and is still in its early phases of its development.

Statutory Auditors and Certified Accountants

As indicated previously, under the new law, the licensing of statutory auditors is done by the KCFR. For an individual to be licensed as statutory auditor, he/she must attend a professional education in compliance with IFAC and pass the exams required by the law, have a three-year work experience under the supervision of statutory auditor, be a member in one of the licensed PAOs in Kosovo, meet the highest standards of professional integrity, and not to be convicted of a criminal offense in areas within the scope of the KCFR. Statutory auditors of foreign countries can also be licensed by fulfilling the aforementioned criteria except that they do not have to take all the exams apart from an exam on Kosovo taxes and legislation. In the EU, this is regulated somewhat differently. Statutory auditors from other EU countries have to complete an adaptation period of no more than three years, as well as have to take an aptitude test to ensure that they possess an adequate knowledge on relevant matters. Professionals from third countries are subject to some even more stringent requirements. Kosovo, on the other hand, does not distinguish between foreign auditors as far as the treatment is concerned.

For a local and foreign firm to be licensed, it must have an office and be registered in Kosovo, have at least two licensed statutory auditors, representing at least 51 percent of the ownership and the majority of voting rights in management.

Administrative Instruction No. 01/2019 further regulates the licensing of auditors. It introduces the requirement for Continuous Professional Education (CPE), which is in compliance with International Education Standards (IES). Each statutory auditor is obliged to complete 40 hours of CPE activities, which include specific trainings relevant for the work of statutory auditors, out of which 24 must be structured, verifiable, and registered by the statutory auditor. The interviewed PAOs have already started with the designing of such trainings so that their members meet the CPE criteria.

In addition to specifying the requirements for licensing, this AI also regulates the extension of licensing for auditors. According to the AI, the extension shall take place on an annual basis. Apart from the requirement to resubmit all the documents submitted for the first time, auditors and audit firms are also obliged to provide proof to the KCFR that they have undertaken a certain minimum of audit work during the year, have completed the required CPE, and some proof that the payment for the extension and maintenance of the license has been executed. Firms have even some additional requirements. The PAO representatives consider this whole process unnecessarily burdensome and superficial in terms of how it is implemented. In addition, they complain about the relicensing fees applied to auditors and audit firms. Currently, the license maintenance fee for local auditors is EUR 300, while for local audit firms is EUR 1,500. In each case, the fee is fixed, regardless of the engagement of the auditor or the audit firm. PAO representatives recommend that this should not be fixed, but rather vary in proportion to the engagements of statutory auditors (audit firms), as is the case in some countries in the region. Moreover, higher fees are applied to foreign auditors and audit firms. This violates the national treatment principle guaranteed by the Law on Services. The fees paid by statutory auditors and audit firms accrue to the budget of the Government of Kosovo and are not directly designated to the KCFR.

Although auditing is an accredited profession in Kosovo, it is not part of the law that lists all the regulated professions in Kosovo.

To date, the KCFR has licensed 65 statutory auditors and 23 statutory audit firms; around 14 percent and 30 percent of them are foreign, respectively. Despite the fact that with the new law more enterprises are subject to audit undertakings, the number of statutory audits and audit firms has declined compared to 2018, as Table 3 shows. This has happened either because the license extension criterion has not been fulfilled or because the auditors/audit firms themselves were not interested in renewing the license. In one of the meetings with stakeholders, it was understood that one of the Big Four decided to close the audit unit in Kosovo. One particular cause for the growing lack of interest in the audit services is linked with the limitations to provide a great deal of non-audit services (i.e. tax services, payroll services, legal services and the like), which are set out in the Administrative Instruction 02/2019. These limitations create unbearable opportunity costs for many auditors/audit firms, as the market size for non-audit services in the country seems to be much larger.

Table 3: Statutory auditors and statutory audit firms

	Local (2020)	Foreign (2020)	Total (2020)	Total (2018)
Statutory Auditors	57	8	65	70
Statutory Audit Firms	16	7	23	24

Authors' compilation based on the KCFR data (2020)

Certified Accountants

For an individual to be qualified as "certified accountant", he/she must have a university diploma, three years of work experience in accounting, and finish the certification program for this purpose in accordance with IES IFAC 5, and become a member of a PAO with a regular status. A representative from one PAO believes that the criterion on the university diploma is irrelevant. In the UK, one does not have to have a bachelor's degree to get enrolled in professional accounting programs and to be certified. To date, there are 765 active certified accountants in Kosovo; another 200 are certified but not active. Table 4 provides more details on the number of certified accountants divided by PAOs.

Table 4: Number of certified accountants

PAOs	Active	Non-Active	Total
SCAAK (Certified Accountants)	444	137	581
SCAAK (Certified Auditors)	188	50	238
IKAF (Certified Accountants)	84	13	97
IKAF (Certified Auditors)	43	0	43
IAAB (Certified Accountants)	6	0	6
Total	765	200	965

Authors' compilation based on the KCFR data (2020)

The Law foresees that seven legal acts should be issued by the KCFR and other relevant institutions to further operationalize the law. To date, four sub-legal acts in the form of administrative instructions have been issued by the KCRF; two others are still in the process of being drafted/approved; and one, which is under the responsibility of the MoF, is still to be drafted. For more information, refer to Table 5.

Table 5: Issuance of sub-legal acts foreseen by the new law

Sub-legal acts foreseen by the new law	Yes	No	In Process	Comment
Article 9: The reporting of micro-enterprises shall be regulated by sub-legal acts by the KCFR.	✓			AI No.01/2020 on Annual Financial Reporting of Micro Enterprises
Article 14, par 4: The structure and content of annual financial statements shall be regulated by a sub-legal act issued by the Ministry of Finance upon proposal of KCFR.	✓			AI No. 07/2019 on the structure, content and submission of annual financial reports
Article 19, par 2: The format and content of additional information that shall be submitted to the Kosovo Agency of Statistics and the KCFR for statistical and other purposes shall be determined by a sub-legal act issued by the Ministry of Finance.		✓		This is a competence of the Ministry of Finance (MoF)
Article 23, par 5: KCFR regulates by sub-legal act the composition, competencies and functions of KCFR commissions.	✓			The KCFR has regulated these competencies with rules of procedure.
Article 24, par 5: The nominees for the board members will be selected in accordance with an independent and transparent procedure, determined with sub-legal act by KCFR.			✓	This is part of a methodology for quality assurance that has been developed by the World Bank. This methodology needs to be translated in an AI.
Article 29, par 5: KCFR shall issue a sub-legal act for the implementation of paragraph 1, which deals with the certification of accountants.			✓	Drafted, but not approved yet.
Article 30, par 5: With a sub-legal act, KCFR sets out the specific conditions for licensing of Auditors in compliance with this law.	✓			AI No. 02/2019 on licensing statutory auditors and local and foreign statutory audit firms In the past, it has been a different AI for foreigners and a different one for locals. Now there is a uniform AI, regardless of origin.

Source: Interview with the KCFR representatives (2020).

4.5 Barriers to Trade in Services and Kosovo's International Commitments

This sub-section briefly discusses the conditions under which trade in auditing and accounting services takes place in Kosovo, with the view of identifying if there are any significant barriers to trade. In order to analyze the conditions under which trade takes place in Kosovo, it is necessary first to explain what trade in services is. Trade in services takes place in a radically different manner than the case in goods, as services are different from goods and cross-border services exchange is very different from cross-border trade in goods. Any attempt to understand barriers to services exchange across borders needs to take account the nature of trade in services. In this regard, there is international consensus in defining trade in services as comprising four modes of delivery. This is the approach adopted in the WTO GATS Agreement, and that has been directly transposed to Additional Protocol 6 of CEFTA in Article 2. 2, and is the definition incorporated in most international trade agreements covering trade in services.

The modes of services delivery, which define the scope of trade in services are:

(a) From the territory of one country into the territory of any other country (Mode 1). In the case, of auditing and accounting it will cover all transactions that can be done through the internet or by other electronic means, which is the outsourcing of services abroad, or what has been termed "offshoring". This mode of delivery explains a significant proportion of trade in these services, in particular in the case of accounting services, as discussed in Section 2 of this report.

(b) In the territory of one country to the service consumer of any other country (Mode 2). In this case the consumer moves to another country to purchase a service. This would be the case when a Kosovo customer travels abroad and purchases a service in the territory of other country. This is not very common in the case of auditing and accounting services, however there is an ongoing discussion on the relationship between Mode 1 and Mode 2. In the framework of the GATS an issue in which there has been a longstanding disagreement among experts and among WTO⁶¹ Members has been over whether Internet based services are delivered as Mode 1 or Mode 2. The question is whether the Internet service is providing the service across borders (Mode 1) or a consumer is "traveling" abroad in order to access an Internet service (Mode 2).

(c) By a service supplier of one country, through commercial presence in the territory of any other country (Mode 3). In this case, the services provider, lets say a professional auditing and accounting firm, establishes itself in the territory of another country, under any legal form, in order to provide services to clients of that country. This is very common in the case of auditing and accounting services, and as discussed in Section 2 the prevailing modality is through the development of networks with local companies working under the same brand name and with the same standards and procedures; and,

(d) By a service supplier of one country, through presence of natural persons of that country in the territory of any other country (Mode 4).⁶² This would be the case when auditing and accounting professionals travel abroad to supply services to clients in the host country as independent suppliers, or the movement of intra-corporate transferees from one country to the subsidiary of an auditing and accounting firm established in another country.

61. Usman Ahmed, Brian Bieron, and Gary Horlick1 (2015). "Mode 1, Mode 2, or Mode 10: How Should Internet Services Be Classified in the Global Agreement on Trade in Services?" Boston University. International Law Journal: Current Topics in International Law www.bu.edu/ilj November.

62. Technically, mode 4 is defined in Article I.2(d) of GATS as being "the supply of a service... by a service supplier of one Member, through presence of natural persons of a Member in the territory of another Member". This definition applies to nationals as well as, in certain circumstances, permanent residents, of WTO Members seeking to supply services abroad (permanent residents are covered where the Member does not have nationals or accords substantially the same treatment to permanent residents and nationals) [Article XXVIII(k)]

It should be noted that in many instances the provision of the service requires more than one mode, that is that there is complementarity between modes, and in other instances there is a substitution between modes, where one mode of market entry replaces other modes. Therefore, when there is complementarity, a barrier affecting one mode could have significant implications for the ability of a supplier to cater the market. This would be the case, for example of an auditing and accounting firm established in one country not being able to bring professionals from abroad to deliver the required services. In this connection, it is important to assess barriers to trade in services affecting the different modes of supply.

Two main types of measures are considered as barriers to trade in services: market access limitations, and denial of national treatment. The nature of trade barriers in the case of services has been clearly determined in the WTO GATS Agreement, and by direct transposition also in AP6 to CEFTA. Market access limitations, as defined in Article 4 of AP 6, which directly transposed the list from GATS Article XVI, can be discriminatory or non-discriminatory. Four of the six exhaustive types of measures listed in Article 4.2 are quantitative in nature, concerning limitations on: (a) the total number of service suppliers; (b) the total value of service transactions or assets; (c) the total number of service operations or total quantity of service output; and (d) the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ. Relevant measures may consist not only of numerical quotas as in the case of Article 4.2(a), of monopolies and exclusivity arrangements, but include the requirement of an economic needs test. It should be noted that minimum thresholds, such as minimum size or minimum capital requirements, are not covered. In addition, Article 4.2 (e) captures measures which restrict or require specific types of legal entity or joint venture, while 4.2(f) relates to limitations on foreign-equity participation in terms of maximum percentage limits on foreign shares or the value of foreign investment.

National treatment, as provided by Article XVII of GATS, and Article 5 of AP 6, means that foreign services and service suppliers are granted treatment no less favorable than that accorded to like national services and service suppliers. The beneficiaries of national treatment are both services and services suppliers. Services in the GATS is defined by Article I(3)(b), "services includes any service in any sector except services supplied in the exercise of government authority ". AP 6 in Article 2(3)(b) I incorporate a similar definition of services. AP 6, as the GATS, defines services supplier in Article 1(g) as "any natural or juridical person that supplies a service". Branches and representative offices of services suppliers can also be accorded national treatment.

On the basis of the national treatment principle, there is no obligation to provide identical treatment to foreign services and services suppliers. National treatment can result from formally identical or formally different treatment. The key test of national treatment is that the measure in question must not modify the conditions of competition in favour of domestic services and services suppliers and against foreigners. National treatment cover both de jure and de facto discrimination; that is, even if a measure applies to both foreigners and nationals it may still be discriminatory if its effect is to discriminate against foreign services or services suppliers modifying the conditions of competition. However, national treatment does not require a Member to compensate for any inherent competitive disadvantage which results from the foreign character of the relevant service or service suppliers.

In order to assess the existence of barriers to trade in auditing and accounting services in Kosovo, it is important to identify the correspondence between the Modes of Supply of services and the EU Services Directive, which imposes the obligation to grant right of establishment and the right to provide services to suppliers of Member States. In this connection, the right of establishment corresponds to Mode 3 on trade in services, while the right to provide services corresponds to services transactions through the other three modes of delivery.⁶³

Regarding trade in services, the Kosovo Law on Services has only partially transposed the EU Services Directive, only with respect to the right of establishment. The transposition of the right to provide services is still pending, with should be done upon accession to the EU as Kosovo is not yet a member of the single market. It should be noted, as discussed before, that auditing services are not fully covered by the right to provide services, it is subjected to specific regulation in the EU. In terms of right of establishment, this is covered in the Chapter on Capital and Services of the SAA, by which EU and Kosovo companies have been granted this right respectively in the other party territory, and as per the Services Law, trade liberalization in Kosovo has gone beyond that in effect in the EU. While the Services Directive grants right of establishment only to suppliers from EU Member States, the way the directive has been transposed in Kosovo guarantees the right of establishment to any services provider from every country in the world. There are no market access limitations, in the sense of GATS Article XVI as discussed above, in effect in Kosovo. Furthermore, the Kosovo's Law on Foreign Investment guarantees full national treatment to foreign providers of auditing and accounting services. The only issue identified regarding national treatment, which affects the certification of auditing and accounting firms, is the higher fee charged to foreigners than to domestic suppliers for certification.

Regarding cross-border provisions of auditing and accounting services (Mode 1), e-commerce is regulated by Kosovo's Law on the Digital Society. There are no limitations on the purchasing of services abroad for residents, both by persons and firms, in Kosovo. There are no limitations on financial transfers, other than the obligation to report amounts above EURO 10,000; and no limitations on the type of service that can be purchased from suppliers from abroad. The Law on Auditing and Accounting is silent on this issue. Therefore, trade is liberalized. One limitation could be that financial statements have to be signed by an accountant certified by the competent authority in Kosovo. However, this is a very soft requirement as the law only requires the signature of a certified accountant, while the actual work can be performed abroad by accountants, and then the financial statements signed by an accountant certified in Kosovo. Furthermore, in the case of auditing there is the requirement of "local presence", that is the supplier has to be established in Kosovo. This is a common regulatory requirement for auditing services worldwide, which is in line with EU regulation concerning provision of auditing services by suppliers from third countries.

The movement of natural persons services providers in Kosovo is regulated by the Law on Foreigners (Law No.04/L-2019 of 2013) as amended by Law No.06/L-036 of March 2018. The law governs, among other issues, the conditions for foreigners to be able to reside, work and to provide services in Kosovo, including short-term work contracts, which are relevant for the case of Mode 4. Regarding natural persons services providers, while the law opens the venue for temporary work for some categories of employees, intra-corporate transfers for example, in general it imposes the requirement of an economic needs tests (ENT) in order to issue the necessary work permits. This is one of the measures considered as limitations to market access as discussed above.

63. In the Treaty on the Functioning of the European Union (TFEU) the EU distinguishes three modes of cross-border trade in services: i) pure trade at a distance, nowadays mainly via e-commerce or other electronic means; ii) consumer crosses the border and iii) supplier crosses the border (for temporary service provision).³ The fourth EU mode consists of cross-border direct investment based on the 'right of establishment', which translates in the GATS as the mode of 'commercial presence'.

We should highlight the issue that some regulatory measures, non-quantitative and non-discriminatory measures, even if implemented pursuing legitimate policy objectives, could emerge as unintended barriers to trade. As discussed in this report, the regulatory framework in Kosovo is quite in line with the EU acquis; and while certainly there is some room for regulatory simplification, the existing regime cannot be considered as creating unnecessary barriers to trade.

In the framework of CEFTA Additional Protocol 6 (AP6) on trade in services, Kosovo has made substantial commitments liberalizing trade in auditing and accounting services. In this respect, it should be noted that the Consolidated Schedule of Specific Commitments on Trade in Services of CEFTA Parties, Annexed to AP6, was based on the Provisional United Nations Central Product Classification (CPC), which was the one on which the Services Sectoral Classification List (MTN.GNS/W/120) was used in the services negotiations in the WTO. The corresponding classification for auditing and accounting services under the Provisional CPC is Group 862; which is different from the classification in the CPC Rev.2 presented in Section 2 of this report, where these services are classified under Group 822. In AP6, Kosovo has committed extensive liberalization, regarding accountancy services in particular. Kosovo has also committed itself to full liberalization of taxation services at the group level (CPC 863), on management consulting services (CPC 865), and on services related to management consulting (CPC 866). Therefore, Kosovo has adopted full liberalization commitments covering the full range of the services generally provided by auditing and accounting professional services firms.

Kosovo commitments have been adopted at the CPC 862 Group level, which means that the commitments apply all the way down to the level of Subclass. Therefore, all the different services classified in this group are covered by the commitments. The only limitation inscribed in the commitments refers to auditing, where audit reports must be confirmed by an auditing firm registered in Kosovo. This is in line with Article 7 of Law No. 06/L-032 on Accounting, Financial Reporting and Auditing, which establishes that audit opinion on financial statements must be provided by an audit firm certified by the KCFR and registered in Kosovo. Besides this limitation, Kosovo has committed to full liberalization of these services, in the modes of delivery as provided by AP6, that is: cross-border trade (Mode 1), consumption abroad (Mode 2), and establishment (Mode 3). Therefore, Kosovo once the AP6 is ratified will be bound not to impose any market access limitation to auditing and accounting services providers from CEFTA Members, and to guarantee national treatment to foreign providers by not imposing any regulation that would modify the conditions of competition against them. These are far reaching commitments, which bound Kosovo to full liberalization of trade in auditing and accounting services. Kosovo commitments on accounting and auditing services include the Subclass "other accounting services" (CPC 86219), which could have significant implications as any new service that would classify under accounting and auditing services will be automatically covered by the commitments that Kosovo has already adopted. At present, in the framework of the GATS, this issue has raised the concerns of many WTO Members regarding commitments adopted covering different services sectors.

With respect to movement of natural person's services providers (Mode 4), even though no limitation has been reserved for these services, as it has been registered "none" in the Schedule, for clarity and following the Scheduling Guidelines, it should have been more appropriate to inscribe in the Schedule "as provided by the horizontal commitments". In the horizontal commitments, Mode 4 is "unbound", except for measures concerning the entry and temporary stay of the following categories of natural persons providing services: key personnel (business visitors, intra-corporate transfers), trainees, business services sellers, contractual services suppliers, and short-term visitors for business purposes, as defined in the Annex 1 to AP6. In the future, Kosovo should have in place the ways and means that would allow the free mobility of these categories of services suppliers as it concerns to auditing and accounting services. It is necessary to highlight the fact that these commitments are independent of the issue of recognition of professional qualifications, which has to be negotiated by CEFTA Members as provided by AP6. This is an important issue for these services, as market access in accounting and auditing services is conditional to the recognition of the professional qualifications of the individual provider or the authorization granted to the professional services firms.

5.

Structure, Performance and Barriers in the Accounting and Auditing Sector in Kosovo

This section presents the structure and performance of the sector based on administrative sources and discusses the main findings compiled from a survey conducted with a sample of 50 firms in the auditing and accounting sector. It also brings some relevant perspectives from the stakeholder meetings.

5.1 Overview of Business Landscape

The gateway for entering the profession is academic training. In Kosovo, a significant number of the existing universities and colleges offer a bachelor's degree in accounting and some of them also a masters' degree. In some cases, accounting is offered under the economics faculty, and in other cases under the business faculty. A significant proportion of students enrolled in higher education are in these two faculties, although there is no easily available data on the number of students enrolled specifically in the accounting programs in different universities and colleges in Kosovo. However, the number of graduates receiving a degree in accounting is not a very significant indicator of the entry into the auditing and accounting market, as many graduates do not practice the profession, but rather engage in other undertakings or find a job in the accounting department of firms operating in different sectors.

A better indicator of the intention of entering the market for these services is the registration of auditing and accounting firms. Table 6 presents the data on the number of auditing and accounting firms (NACE rev 2 6920) registered and closed by the Kosovo Business Registration Agency (KBRA) at the MTI from 2001 to 2020. Throughout this period, a total of 1,252 accounting and auditing firms have been registered in Kosovo, while 107 were closed. When breaking down the data on a four-year basis, it turns out that there has been a positive trend in the number of accounting and auditing firms registered, reaching a peak in the period 2017-2020. The trend of the closed ones has taken an inverted U shape, where the highest number was reached in the period 2009-2012. As per the KBRA, currently there are 1,145 active firms in the sector. Note that this is an inflated figure provided that generally firms in Kosovo do not take the trouble to formally close the business in cases when the business is no longer functioning. This assertion is corroborated with the data from the Kosovo Agency of Statistics (KAS) presented later in Table 6, which should be more accurate as only firms that pay a tax during the year are considered.

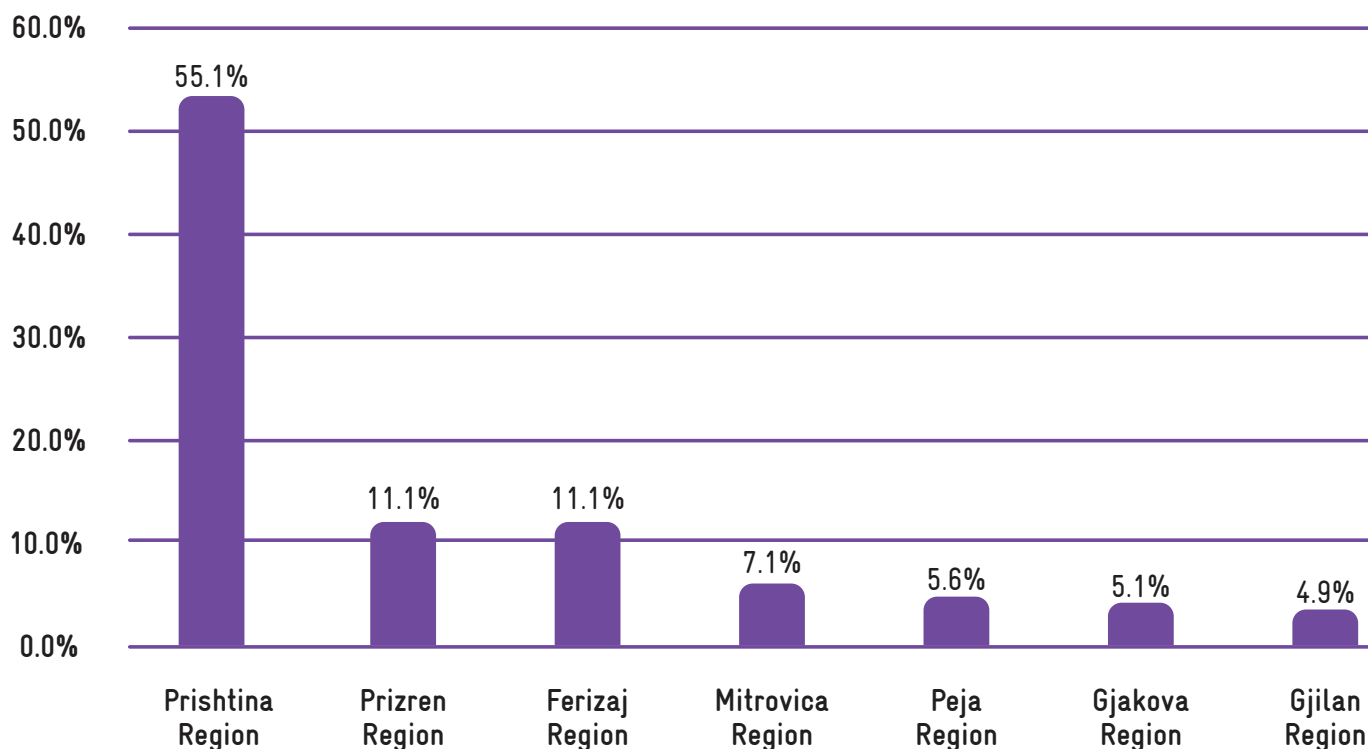
Table 6: Registered and closed accounting and auditing firms (2001-2020)

Years	Established	Closed
2001-2004	88	13
2005-2008	184	30
2009-2012	256	37
2013-2016	313	22
2017-2020	411	5
Total	1,252	107
Active in 2020	1,145	

Source: Authors' calculations based on KBRA data (2020).

According to the KBRA, the majority (55.1 percent) of active firms in the accounting and auditing sector are located in the region of Prishtina. The region of Prizren and the region of Ferizaj with 11.1 percent each are the next two regions with the highest number of accounting and auditing firms. The distribution of such firms in other regions ranges from 4.9 percent to 7.1 percent, see Figure 2 for detailed percentages.

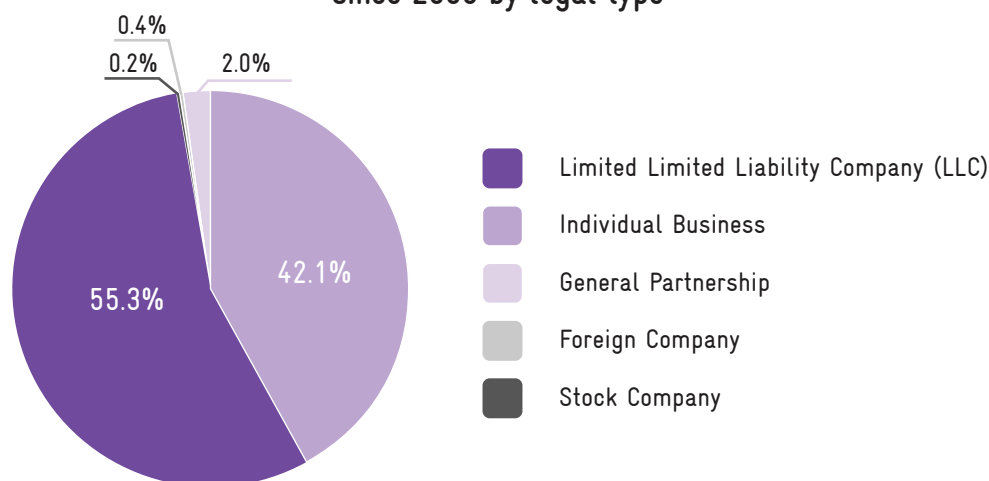
Figure 2: Distribution of active accounting and auditing firms (according to the KBRA) by region



Source: Authors' calculations based on KBRA data (2020).

A disaggregation of active accounting and auditing firms by legal type reveals that individual businesses with 55.3 percent and limited liability companies with 42.1 percent are the most dominant forms. Only a handful of firms are general partnerships, foreign companies and joint stock companies (JSC) (see percentages in Figure 3). Note that in this case only the data from 2008 have been taken into consideration, because prior to this year some different forms of legal classification existed.

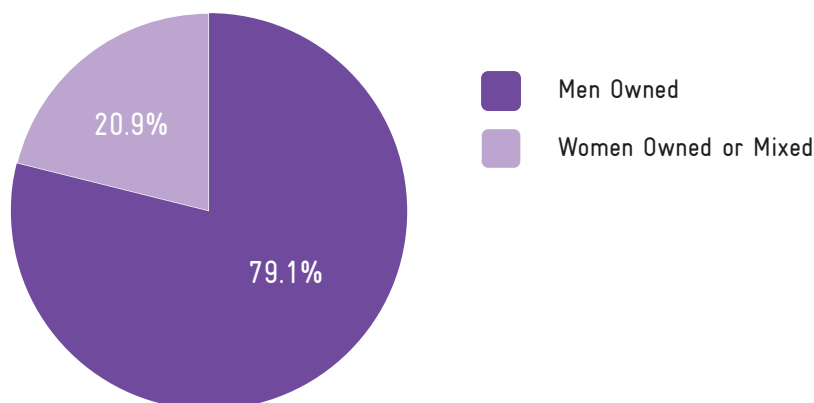
Figure 3: Distribution of active accounting and auditing firms registered in the KBRA since 2008 by legal type



Source: Authors' calculations based on KBRA data (2020).

Figure 4 presents the gender distribution of ownership of active accounting and auditing firms registered since 2015. The data before this year could not be incorporated, because there has been no regular evidence. The figure depicts that 79.1 percent of the covered firms are men-owned, while 20.9 women-owned or mixed.

Figure 4: Distribution of active accounting and auditing firms registered in the KBRA since 2015 by gender



Source: Authors' calculations based on KBRA data (2020).

Relying on data taken from the Kosovo Agency of Statistics (KAS) covering the period from 2015 to 2019, Table 7 provides another business landscape perspective in the accounting and auditing sector (NACE Rev 6290). The number of economically active firms, those that have declared one of the statutory taxes for the reference year, has increased from 367 in 2015 to 433 in 2019, with some small oscillations in the between years. Likewise, the number of workers and the average wage in the sector have increased uninterruptedly in the period under analysis. The sector had 1,292 workers in 2019, 281 more compared to 2015. The average wage stood at EUR 300.3 in 2019, increasing from EUR 203.4 in 2015. Despite the positive trend in the number of economically active firms, the number of workers, and the average wage, interestingly, the annual turnover has registered a continuous decline from 2015 (EUR 15.8 million) to 2018 (EUR 12.9 million), before resuming growth in 2019, recording a total of EUR 13.6 million. The data from the Tax Administration of Kosovo (TAK) on the combined VAT paid from the sector show a growing trend in the last three years, from EUR 1 million to EUR 1.2 million. The VAT for all services of this sector is 18 percent and applies to those firms that have an annual turnover above EUR 30,000. From this information, we have generated the turnover (VAT included) for VAT-registered enterprises of the sector, which ranges from EUR 7 million in 2017 to EUR 7.9 million in 2019 (see Table 8). The fact that all indicators other than the total turnover provided by the KAS had increasing trend, it raises doubts that there might be some anomaly on the turnover data. That said, the values on the sector turnover provided by the KAS should be cautiously interpreted.

Table 7: Key structure and performance indicators of the accounting and auditing sector

Years	Active Enterprises	Turnover(in 000 EUR)	# of Workers	Average Wage (in EUR)
2015	367	15,802,2	1,011	203.4
2016	352	14,986,7	1,053	238.4

2017	401	14,125,4	1,165	272,9
2018	435	12,998,0	1,238	278,6
2019	433	13,650,0	1,292	300,3

Source: KAS 2020

Table 8: Total VAT and the turnover of VAT-registered enterprises

	2017	2018	2019
Total VAT paid by Account. and Audit enterprises (in 000 EUR)	1,080,3	1,125,6	1,216,4
Total Turnover of VAT-registered Account. and Audit enterprises (in 000 EUR)	7,082,0	7,378,0	7,974,2

Source: Authors' calculations based on TAK 2020.

5.2 Main Survey Findings

This sub-section presents the main findings compiled from a survey conducted with a sample of 50 firms in the accounting and auditing sector, as well as brings in some relevant perspectives from the stakeholder meetings. The sample size of the survey constitutes 11.5 percent of all active firms in the sector. At the outset, it should be made clear that some more priority was given to larger firms in general given their higher potential for services exports. That said, the overall distribution of the survey results might, in certain cases, be somewhat skewed upwards compared to the population of firms.

The survey is carried out either with owners or firm managers in 90 percent of the cases. As per location, 78 percent of the firms surveyed are located in Prishtina, while the rest in Prizren (6 percent), Peja (4 percent), and in other regions (12 percent) – see Figure 5. The majority of the sampled firms (76 percent) are limited liability companies (LLCs) and individual businesses (18 percent). In a much smaller (6 percent) share are general partnerships (see Figure 6). Other legal forms are very rare as indicated by the KBRA data; therefore, it was hard to capture them with the by the sample

Figure 6: Location, in %(Q2)

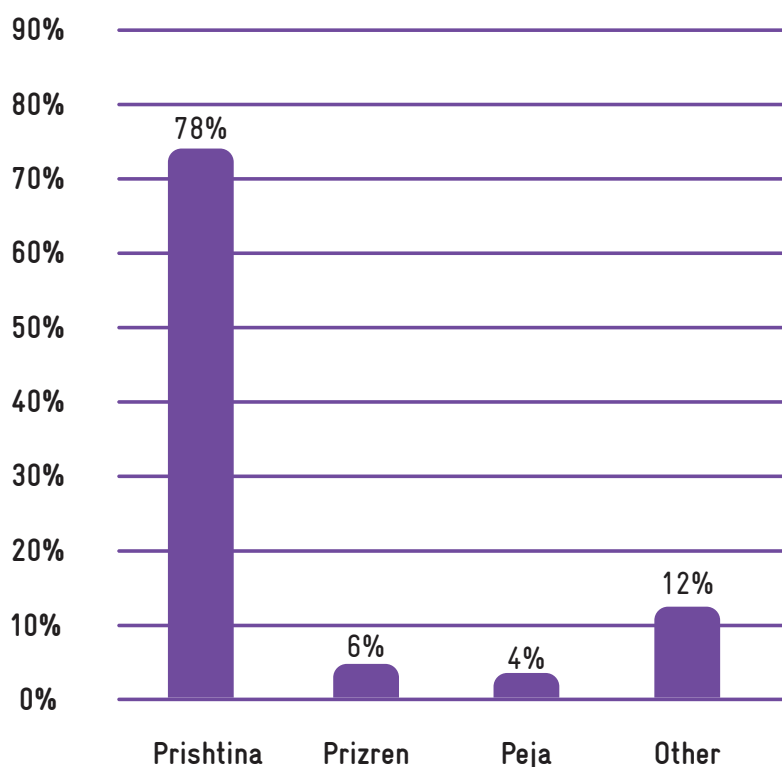
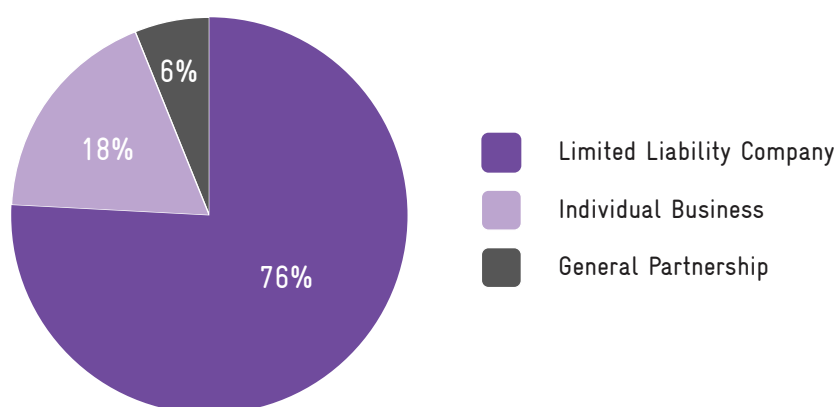


Figure 6: Type of Company, in % (Q3)



Around 54 percent of all firms surveyed have been established in the period between 2015-2020 – see Figure 7. This corresponds with the trend of newly established accounting and auditing firms indicated in the registry provided by the KBRA. The vast majority of firms provide accounting and book-keeping services (98 percent) and tax consultancy (88 percent). A smaller portion provide auditing services (20 percent) and other services (10 percent), such as legal advice, managerial accounting services, and the like. The total exceeds 100 percent because most of the firms provide more than one service (see Figure 8).

Figure 7: Year of establishment, in % (Q5)

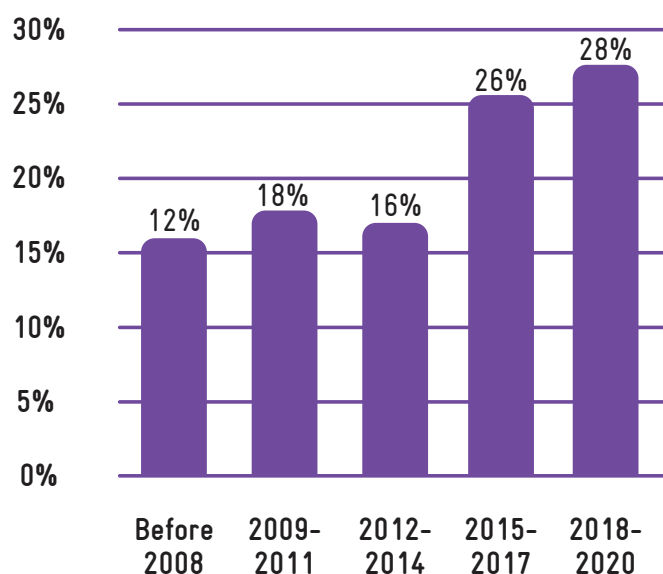
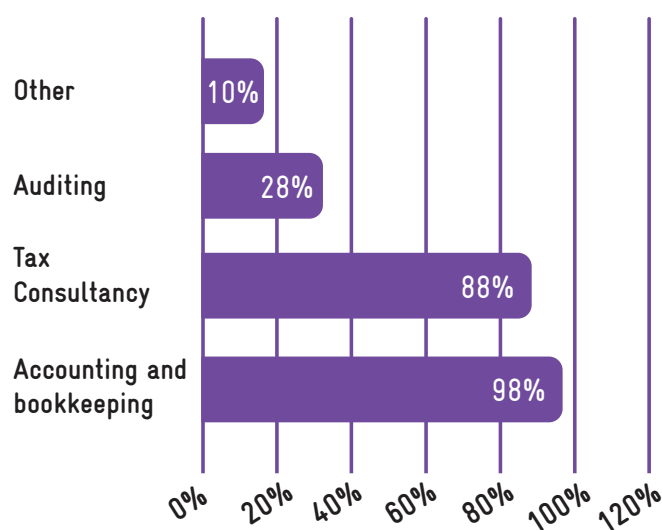


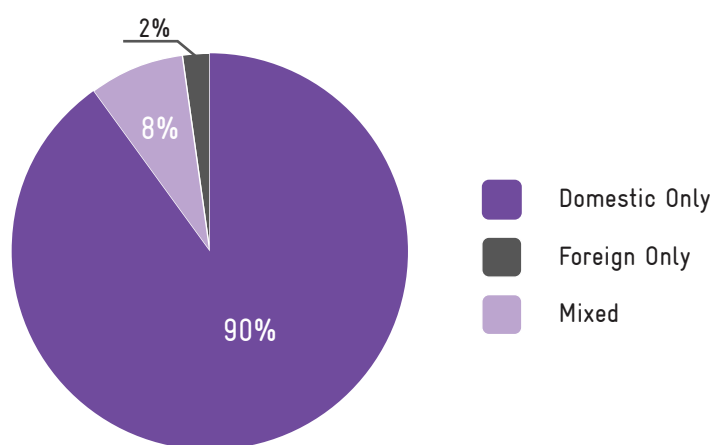
Figure 8: Main services provided by the firm, in % of cases (Q6)



Structure and performance

The findings show that 90 percent of the firms surveyed are domestic only, 8 percent have mixed ownership, and only a negligible portion (2 percent) are foreign only (see Figure 9). The latter two categories seem to be overrepresented in the sample, as according to the KBRA data, less than 1 percent of the registered accounting and auditing firms in Kosovo have been established with foreign capital. In the case of statutory audit firms, the proportion is disproportionately higher compared to the overall sector distribution. According to the KCFR, 30 percent of all statutory audit firms are foreign.

Figure 9: Origin of the Company, in % (Q7)



In regard to employment, the findings reveal that 68 percent of the firms surveyed have 1 to 4 persons employed, 16 percent from 5-8, and 10 percent from 9 to 12. The rest, which constitute firms with more than 13 persons employed, account for 6 percent (see Figure 10). The average number of employed persons in the sector is 3.76.⁶⁴ The KAS average, on the other hand, is slightly lower, standing at 2.98, confirming that the sample consists of somewhat larger firms relative to population.

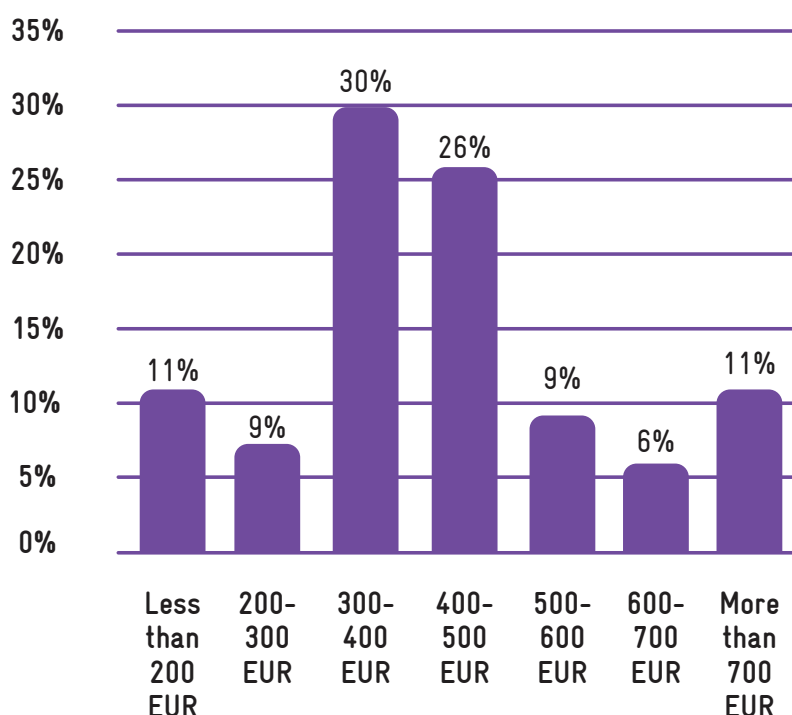
64. A weighted average generated using the mid-points (with small adjustments).

It is worth noting that in addition to the question with ranges, the questionnaire contained another optional question on the exact number of employed persons. Of the firms that answered that question, more than half have one or two persons employed. In 56 percent of the cases, the average monthly salary ranges from 300 EUR to 500 EUR; 20 percent of the firms have an average that is below that range and 26 percent above that range (see Figure 11).

Figure 10: Distribution of employment, in % (Q8)



Figure 11: Distribution of salaries, in % (Q10)



Firms were asked about whether they have certified accountants or auditors within the firm; 74 percent of them declared to have at least a certified accountant within the firm and 50 percent at least a certified auditor (Figure 12). The average number of certified accountants in firms with certified accountants stands at 1.76, whereas in firms with certified audits stands at 2.0.

Figure 12: Percentage (%) of firms with certified accountants/auditors (Q9)



Compared to 2018, 82 percent of the firms surveyed reported to have seen an increase in the annual turnover, whereas 18 percent declared that their turnover has remained the same. None of the firm has experienced a decline (see Figure 13). The magnitude of increase averages at 34 percent. The average number of clients per firm is 36.2, with the minimum being 4 and the maximum 200. In the question regarding the competitiveness level (price and quality) of the sector compared to the EU, the majority of firms (59 percent) perceive it to be either 'worse' or 'much worse' (for more information, see Figure 14).

Figure 13: Turnover change compared to 2018, in % (Q12)

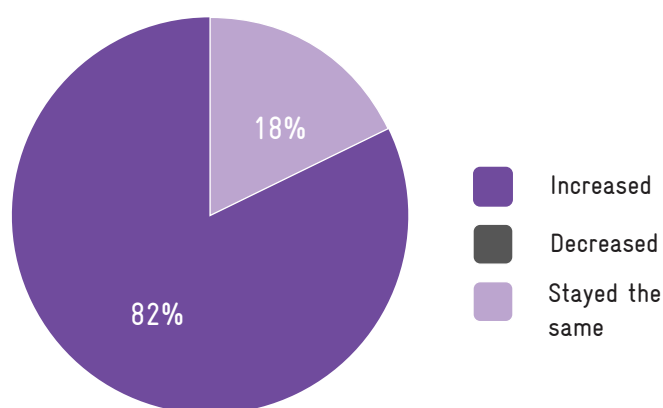
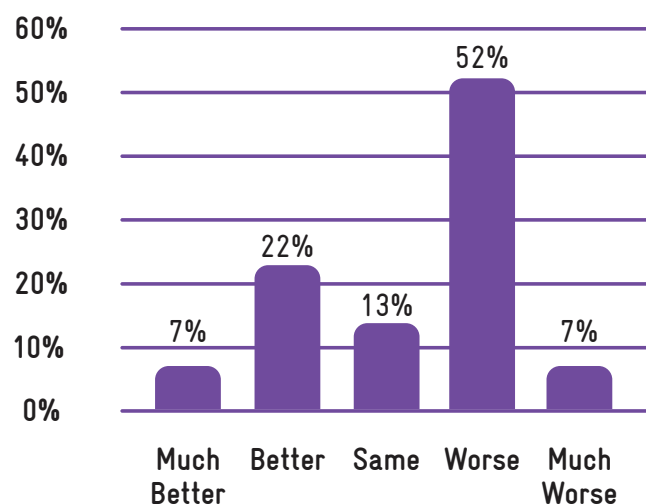


Figure 14: Competitive level compared to the EU, in % (Q11)



The sampled accounting and auditing firms were inquired about the main strengths and weaknesses of the sector. Regarding the main strengths, the most frequent answers provided include 'the application of international standards', 'professionalism', 'transparency with regulatory bodies', 'the requirement for certification', and 'flexibility'. On the other hand, the most common answers provided regarding the sector weaknesses include 'high licensing fees', 'low prices', 'poor quality of education', 'unfair competition' and 'lack of quality control'.

Exports

As the CBK does not provide trade in services data disaggregated at the level of accounting and auditing, we decided to include some questions in the questionnaire which measure some aspects of trade in the sector, focusing mainly on the side of exports. Of all the firms surveyed, 30 percent of them have clients abroad, meaning that they export services (see Figure 15). A cross-tabulation of data reveals that firms with more employed persons tend to export more. The countries where their clients are mostly located include Germany, the US, Switzerland, Albania, North Macedonia, and the UK. The average number of clients abroad stands is 9.5. These clients make around 20 percent of the overall annual turnover for these firms, on average. The most common types of services include accounting, book-keeping, tax declaration, consolidation of financial statements, and tax advices. There is only one firm in the whole sample that provides auditing services abroad. The findings further show that 46 percent of the firms surveyed provide the services to clients abroad through internet, 15 percent travel to meet them, and 39 percent do both (see Figure 16).

The topic of services exports in the sector was also discussed in the stakeholder meetings. The stakeholders commonly share the idea that there is just a handful of firms that provide services to clients abroad. According to them, they mostly engage in business to business (B2B) arrangements, providing specific technical accounting services. They add that there are also cases of business to client (B2C) arrangements.

Figure 15: Firms with clients abroad, in % (Q16)

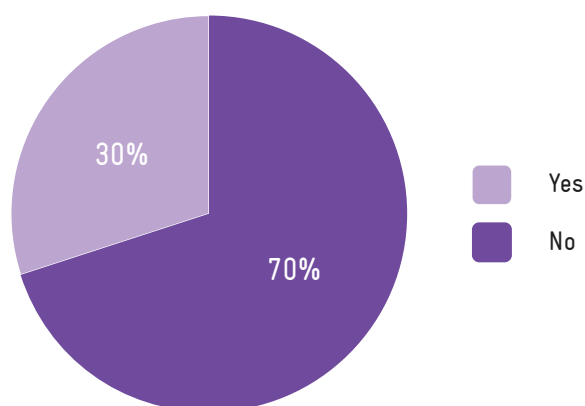
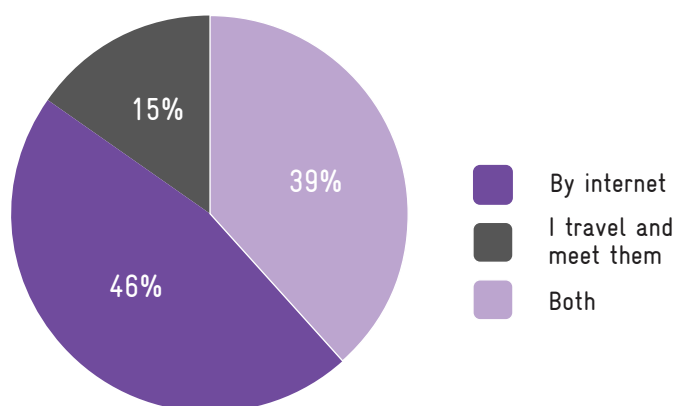
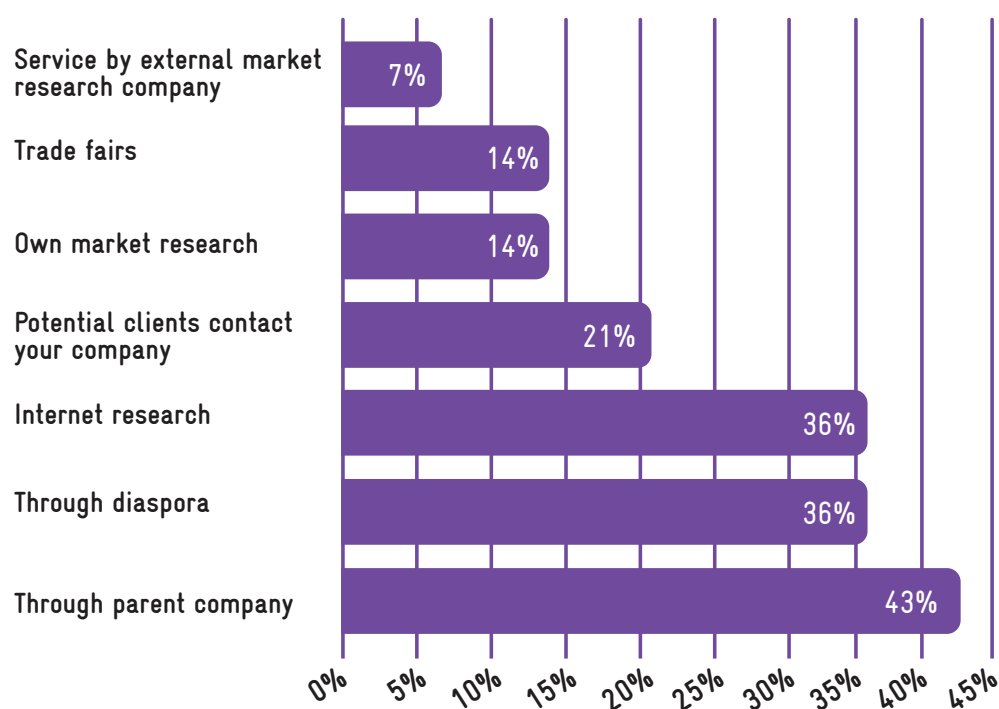


Figure 16: Provision of services to clients abroad, in % (Q18)



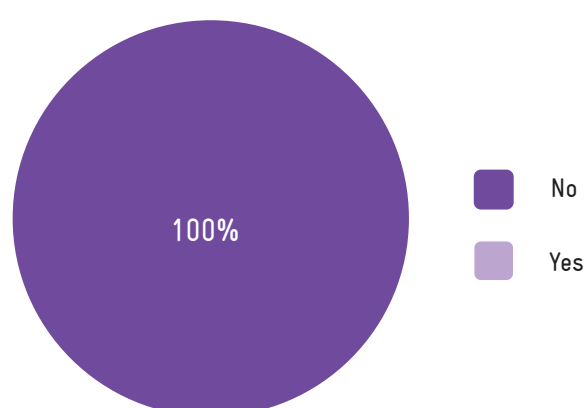
In the question about the identification of clients abroad, they say that it is mostly through parent company (43 percent), diaspora (36 percent), and internet search (36 percent). Other means of finding clients abroad are depicted in Figure 17. Note that this was a multiple-answer question, that is why the total exceeds 100 percent.

Figure 17: Means of client identification, in % of cases (Q21)



The surveyed firms were asked to list the main barriers that prevent them to sell their services abroad or to increase their sales with foreign clients. The most frequently cited barriers include 'inability to move freely/visa issues', 'differences in legislation', 'bad reputation of the country', 'non-recognition of certificates in foreign countries', and 'difficulties with foreign languages'. The main barriers to export accounting and auditing services were also discussed in the stakeholder meetings. One of the interviewed stakeholders considers that one serious barrier is related with the difficulties to find very well-trained accountants with proficient knowledge in foreign languages. He also mentioned the country's bad reputation as an entry barrier. Another stakeholder highlighted that accountants in Kosovo, regardless of their level of preparation in the field, lack soft skills and consequently do not know how to approach potential clients in foreign markets. He also added that they are not trained in using different accounting software programs. Another stakeholder brought in the barrier associated with the recognition of qualifications in neighboring countries. To his knowledge, there are no Kosovar audits whose certificates have been recognized by the respective authorities in Albania and North Macedonia. Lack of institutional support for exports was another barrier mentioned. This is also confirmed by a finding in the survey, which reveals that none of the firms has ever received any sort of incentive from the government to provide services abroad (see Figure 18).

Figure 18: Incentives to provide services abroad, in % (Q23)

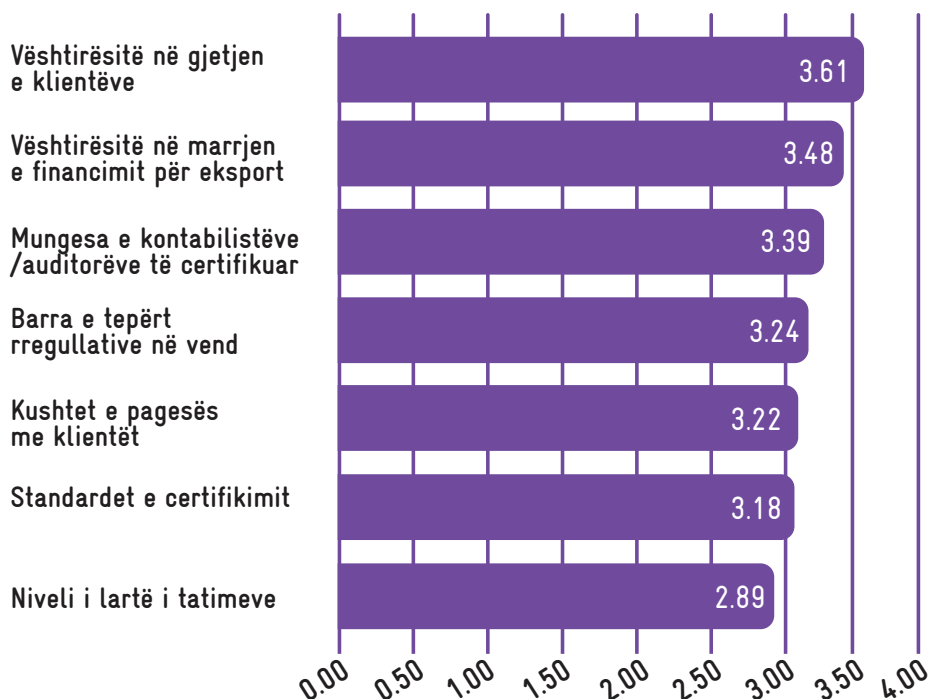


The sampled firms were further asked to indicate policies that are required to support the sector firms in their efforts to provide services to clients abroad. Below are outlined the most relevant suggestions:

- Cooperation of the government with big potential business clients abroad to offer them guarantee on the exported services
- Assistance in digitalization; there needs to be an audit software system that is internationally recognized
- Support the membership of Kosovo firms in professional organizations in foreign countries
- Organization of trade fairs and the appointment of economic attaches in Kosovo embassies abroad
- Intensification of efforts to secure visa liberalization
- Organization of B2B meetings through KIESA and their counterparts in foreign countries.
- Development of supporting schemes for exporting services
- Provision of training modules on taxes in foreign countries
- Launching campaigns that promote accounting and auditing services
- Certificates of professionals to be recognized internationally

Furthermore, firms were presented with a list of potential obstacles and were asked to rate them on a scale from 1 to 5, where 1 – not an obstacle at all, and 5 – a large obstacle. Figure 19 presents the ranking of obstacles based on the average rating. The top perceived obstacles by firms are 'difficulties in finding clients', 'difficulties in obtaining export financing' and 'shortage of certified accountants/auditors'.

Figure 19: Ranking of obstacles by firms (Q26)



Finally, firms were asked to list and elaborate three interventions that would upgrade the accounting/auditing sector. The following are the most frequent interventions proposed:

- Regulation of the service prices in the market – set minimum and maximum tariffs for accounting and auditing services

- Application of strict quality control measures to firms followed by penalties through increasing resources in the KCFR
- Improvement of quality control for professional associations in certification and continuing education of accountants and auditors in Kosovo
- Provision of financial support for the training and certification of new accountants
- Support participation in B2B trade fairs with foreign clients
- Strategy for export on services
- KCFR to improve reporting to the public
- The payment for accounting and auditing services to be mandatory to go through the bank
- Increasing the quality of education in accounting in the University of Prishtina
- Formalization of tax service providers

6.

Concluding Remarks

Auditing and accounting services perform important functions underpinning the functioning of a market economy and the soundness of the fiscal regime. Even though these services are usually provided by the same suppliers, be it individuals or professional services firms, they differ in nature and in the impact produced, requiring different regulatory approaches worldwide. On the one hand, accounting services comprise the externalization of internal functions of the firm, which include bookkeeping, preparation of financial statements and other similar functions, with the regulatory framework mainly aiming to harmonize the services output through the introduction of financial reporting standards. On the other hand, auditing services constitute a set of review functions through an independent examination of a firms' financial statements and supporting documents, with the regulatory framework aiming to protect the "public interest". These core differences are fundamental to assess regulation of these services, the scope of the flexibility that can be exercised, as well as the ongoing reforms being implemented in many countries.

The auditing and accounting sector is going through a period of radical transformations worldwide. The incorporation of new technologies in the services process, the increased tradability of these services, the blurring of the boundaries between these services and other related ones provided by the same suppliers, the growing concentration of supply at the global and national levels, and novel regulatory developments, are some of the changes to be underscored. Kosovo is lagging behind in embracing these emerging global trends, especially in regard to adopting modern technologies, increasing services tradability, and internationalizing the services suppliers. Special attention should be paid to the global emerging trends and measures put in place to support the adaption of the Kosovo's services suppliers.

The comparative regulatory analysis between the EU and Kosovo shows that regulation in Kosovo is quite in line with the prevailing regulatory framework in the EU. While in auditing one can identify a common EU regime, where the service is considered an accredited profession in all Member States, in the case of accounting regulation is left to national governments, which have implemented very different approaches, ranging from total open regimes where anybody can provide accounting services, to the establishment of the profession as an accredited one, whereby a certification is required to supply services in the market. Even in the case of auditing, there are some flexibilities provided by the EU regulation, which are used by Member States, though to different extents. In the case of Kosovo, EU auditing regulation has been transposed almost directly, and very limited use of the flexibilities can be observed. In practice, accounting has been turned into an accredited profession, as financial statements of almost all company sizes have to be signed by a certified accountant. The prevailing regulatory framework of auditing and accounting services in Kosovo has created a situation in which there is a mismatch between supply and demand of these services. The number of services providers is relative limited to the size of the market. While this benefits providers as prices are affected by the created situation, it could become a serious constraint in terms of formalizing economic activities in the country and increasing the demand for these services. This is an issue that should be carefully assessed by the regulatory authorities in Kosovo.

Even though the regulatory regime for auditing and accounting services in Kosovo is quite in line with the EU acquis, there are some issues that require immediate attention. In the first place, there is an urgent need to strengthen the institutional capabilities of the KCFR, enabling it to adequately perform all the functions entrusted to it by the legal framework. Currently, the KCFR does not have the capacities to fully exercise its responsibilities. The KCFR lacks sufficient human and financial resources to undertake its functions, among others, to review of the submitted financial statements and to perform oversight functions. This situation, however, is not unique to the KCFR; this is the case in a number of public institutions entrusted with the administration of transposed EU regulations.

There is a mismatch between transposing an EU regulation into the Kosovo legal framework and the time it takes to upgrade the institutional capabilities of the responsible agency to a point that the regulation can be effectively implemented and administered. If this remains unsolved, there is a risk of engaging in “symbolic reform”, where all the regulations will be EU compatible but with no institutional capacities to implement them. Other areas that should be reviewed in relation to the KCFR are the separation of the oversight function from the standard setting one, and the relationship between the KCFR and the professional associations.

In Kosovo, as per the Law on Services, any regulation in the area should pass the tests of non-discrimination, necessity, and proportionality. In addition, there is an obligation to simplify procedures. In this regard, we find that the requirement to renew the audit license, by submitting all the same bunch of documents submitted for the first time, is in contradiction with the provisions of the law regarding necessity and proportionality. Furthermore, according to the law, authorizations granted to a services provider shall be for an indefinite period. The only justified requirement for renewal, according to the auditing regulation, is continuous capacity building, which should be the only attestation for renewal. Finally, the relationship between the Law on Regulated Professions and the regulation of auditing and accounting services should be carefully examined, in particular as the law applies, besides the professions explicitly included in the law, to “regulated professions defined as such with the legislation into force”, which is the case of both auditing and accounting.

The regulatory regime is in general friendly and non-discriminatory towards foreign firms. Law on Services guarantees the right of establishment and national treatment to all those who want to pursue activities in the services sector, regardless of origin. In addition, all foreign candidates with titles and other qualifications have the right to recognition of such titles and qualifications in Kosovo. All PAOs have developed streamlined and efficient recognition schemes. That such is the case is illustrated by the relatively significant number of statutory auditors and audit firms in the country. On the other hand, according to the interviewed stakeholders, neighboring countries do not provide equivalent treatment to accountants and auditors from Kosovo interested in exercising their profession there. The only discriminatory practice we found towards foreigners in this sector in Kosovo is the (re)licensing fee for foreign statutory auditors and audit firms, which is higher compared to the one applied to domestic candidates. As this violates the national treatment principle guaranteed by the law on services, the KCFR should adjust the licensing fees and make them non-discriminatory.

The survey findings reveal that the sector is largely comprised of one- or two-person firms. Limited in resources, such firms find it hard to enter into deals with large firms that usually require large volumes of work. In addition, small firms have, in principle, limited technology absorption capabilities. This calls for policies that help the development of linkages between firms. A promising finding, on the other hand, is that the overwhelming majority of the firms in the sector have seen an increase in turnover compared to the previous year, which is an indication that the sector is generally growing. Despite this, the competitiveness level (price and quality) is still perceived to be worse or much worse compared to the EU. According to the firms surveyed, the main weaknesses characterizing the sector, include high licensing fees, low prices, poor quality of education, and lack of quality control. The responsible authorities should immediately take actions to address these issues. It is important that the licensing fees get adjusted to consider the financial capacities of candidates; moreover, the fees for the renewal of the license should be set in proportion to engagement. Floor prices could be considered for auditing services to improve quality. As per education, the KCFR and PAOs should work closely with education institutions to further harmonize the curricula. To improve quality control, the KCFR should be strengthened, both in terms of budget and well-qualified human resources.

A portion of firms in the sector are exporting services, such as accounting, book-keeping, tax declaration, and tax advices, chiefly to Germany, the US, and Switzerland. They mostly engage in business to business (B2B) arrangements, providing specific technical services, while there are also cases of business to client (B2C) arrangements. The main barriers that prevent firms from providing services abroad include the inability to move freely (visa issues), differences in legislation, the bad reputation of the country, difficulties with the recognition of certificates, lack of soft skills, difficulties in finding well-trained accountants with proficiency in foreign languages, lack of digitalization, and high cost of discovery. Firms and stakeholders generally share the idea that there is a lack of institutional support when it comes to improving the tradability of the sector. Given this context, the government should develop a set of interventions to address the barriers, improve the tradability of the sector, and capitalize on wage differences between Kosovo and foreign countries. Some of the identified recommendations proposed by surveyed firms and institutional stakeholders include the provision of assistance in digitalization; provision of training programs on soft skills, language, and on the tax regime of targeted countries; organization of B2B meetings; development of schemes for export financing; launching of sector promotional campaigns. A strategy on services, where accounting and auditing are among the priority activities, is also necessary.

Annexes

Annex A: Guiding Questions

For the interview with Kosovo Council for Financial Reporting (KCFR)

1. Has the KCFR prepared the reports on reporting of financial statements for 2018 and 2019? The latest report available online is for 2017.
2. Are the financial statements submitted by large, medium and small enterprises to the KCFR also shared with the Ministry of Trade and Industry (MTI) as the Law on Accounting, Financial Reporting, and Auditing requires?
3. How would you evaluate the capacities of the KCFR's Administrative Secretariat?
4. Does the KCFR have a Public Oversight Board as the Law on Accounting, Financial Reporting and Auditing requires? If yes, how would you assess its performance?
5. Is there any sort of cooperation between the KCFR and education institutions (public and private) in Kosovo?
6. Does the KCFR have its own website?
7. Do Kosovo enterprises submit the statement of financial position, profit and loss account and additional information related to the KCFR and Kosovo Agency of Statistics (KAS) as the Law on Accounting, Financial Reporting, and Auditing requires?
8. What would you consider the most serious barriers of the sector? Please elaborate.
9. Please list and elaborate three interventions that would upgrade the accounting/auditing sector.
10. The following table lists the sub-legal acts that have to be issued according to the Law on Accounting, Financial Reporting, and Auditing. Do you know if these sub-legal acts have been drafted and approved?

Sub-legal acts foreseen by the Law	Yes	No	Comment
Article 9: The reporting of micro-enterprises shall be regulated by sub-legal acts by the KCFR.			
Article 14, par 4: The structure and content of annual financial statements shall be regulated by a sub-legal act issued by the Ministry of Finance upon proposal of KCFR.			

Article 19, par 2: The format and content of additional information that shall be submitted to the Kosovo Agency of Statistics and KCFR for statistical and other purposes shall be determined by a sub-legal act issued by the Ministry of Finance.			
Article 23, par 5: KCFR regulates by sub-legal act the composition, competencies, and functions of KCFR commissions.			
Article 24, par 5: The nominees for the board members will be selected in accordance with an independent and transparent procedure, determined with sub-legal act by KCFR.			
Article 29, par 5: KCFR shall issue a sub-legal act for the implementation of paragraph 1, which deals with the certification of accountants.			
Article 30, par 5: With a sub-legal act, KCFR sets out the specific conditions for licensing of Auditors in compliance with this law.			

Annex B: Questionnaire

A. General Information

1. Name of Company: _____

2. Municipality: _____

3. Type of Company

Sole proprietor _____

Common Partnership _____

Limited Partnership _____

Limited Liability Company _____

Joint Stock Company _____

4. Status of the person who fills the questionnaire:

a. Owner

b. Manager

c. Other, please specify: _____

5. Year of establishment: _____

6. Please select the main services provided by your company? [Note: More than one answer is possible.]

a. Accounting and bookkeeping

b. Auditing

c. Tax consultancy

d. Other, please specify: _____

B. Overall Structure and Performance

7. The ownership in your company is:

a. Domestic only

b. Foreign only

c. Mixed

8. How many employees (including you) does your company have?

a. 1-4

b. 5-8

c. 9-12

d. 13-16

e. More than 16

Insert exact number [optional]: _____

9. Could you please specify the number of certified accountants/auditors in your company? [Note: if none, please put zero when filling the blank parts below.]

a. Number of certified accountants: _____

b. Number of certified auditors: _____

10. What is the average salary in your company?

a. Less than 200 EUR

b. 200-300 EUR

c. 300-400 EUR

d. 400-500 EUR

e. 500-600 EUR

f. 600-700 EUR

g. More than 700 EUR

11. How would you compare the competitiveness level (price and quality) of accounting/auditing companies in Kosovo with those in the EU?

a. Much better

b. Better

c. Same

d. Worse

e. Much Worse

12. Compared to 2018, how did your turnover change in 2019?

a. Increased: _____ %

b. Decreased: _____ %

c. No change

13. How many clients do you have? Please specify: _____

14. Could you please list up to three STRENGTHS characterising the accounting/auditing sector in Kosovo?

a. _____

b. _____

c. _____

15. Could you please list up to three WEAKNESSES characterising the accounting/auditing sector in Kosovo?

a. _____

b. _____

c. _____

C. Trade

16. Does your firm have clients abroad?

- a. Yes, specify the number _____
- b. No

17. [For firms with clients abroad only] What specific services do you provide to your clients abroad?

- c. _____
- d. _____
- e. _____

18. [For firms with clients abroad only] How do you provide your services to your clients abroad?

- a. By internet
- b. I travel and meet them
- c. Both

19. [For firms with clients abroad only] What was the share of receipts from clients abroad in the overall turnover of your business in the last 3 years?

- a. 2017 _____ %
- b. 2018 _____ %
- c. 2019 _____ %

20. [For firms with clients abroad only] Could you please specify the country/ies where your clients are located?

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

21. [For firms with clients abroad only] How do you identify clients in foreign markets? [Note: More than one answer is possible.]

- a. Own market research
- b. Service by external market research company
- c. Through family and personal connections in the Diaspora
- d. Internet research
- e. Trade fairs
- f. Potential clients from export countries contact your company
- g. Through parent company
- h. Other, please specify: _____

22. Could you please list three main barriers that prevent you to sell your services abroad or to increase your business with foreign clients?

- a. _____
- b. _____
- c. _____

23. Have you ever received any sort of incentive from the government to provide services abroad?

- a. Yes
- b. No

24. If the answer to the previous question is YES, please specify what incentive:

25. What domestic policies may be required to support you in your efforts to provide services to clients abroad and what impact will they have on your business?

Open answer:

D. Other

26. How would you rate the following on a scale from 1 to 5, where 1 – not an obstacle at all, and 5 – a large obstacle?

1. Excessive domestic regulatory burden	1	2	3	4	5
2. Certification standards	1	2	3	4	5
3. Payment terms with clients	1	2	3	4	5
4. Level of taxes	1	2	3	4	5
5. Difficulties in obtaining export financing	1	2	3	4	5
6. Shortage of certified accountants/auditors	1	2	3	4	5
7. Difficulties in finding clients	1	2	3	4	5
Other (specify):	1	2	3	4	5

27. Please list and elaborate three interventions that would upgrade the accounting/auditing sector:

- a. _____
- b. _____
- c. _____