

TRENDS IN THE DEVELOPMENT OF THE AUDIT SERVICES MARKET IN THE REPUBLIC OF MOLDOVA

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Abstract: *The development of the audit services market is an indicator of the development of the economy of any country. Since, on the one hand, audit firms as economic agents conduct their business and various changes in such an environment appropriately affect the financial performance of such firms. On the other hand, audit firms express their opinion on the financial statements of various audited enterprises and the types of such opinions can reveal a picture of the state and disclosure of financial information of enterprises. It should be noted that in the Republic of Moldova, the audit market has both common features related to the world market of audit services, and there are national peculiarities. Conducting a study of the audit services market, the author analyzed various indicators of audit firms of the Republic of Moldova, both financial and non-financial, as a result of which conclusions were drawn about the peculiarities of the development of the audit services market in the Republic of Moldova and the prospects for the development of this market in the future.*

Keywords: *audit, analytical indicators, audit services market, IAS, audit firms.*

JEL Code: *M42*

Introduction

The audit services market is the same age as the Republic of Moldova, its origin occurred in the nineties of the last century, when in 1991 the Government of the Republic of Moldova adopted Resolution No. 316 "On the organization of audit services in the Republic of Moldova". Intensive development of audit services in Moldova required improvement of the legislative framework in the field of audit. In this regard, the Law "On Auditing Activities" No. 729-XIII of February 15, 1996 was adopted. It should be noted that changes in the economic field, the application of International Auditing Standards, required modification of the regulatory and legislative framework in the field of auditing. And, as a result, on March 16, 2007, Law No. 61 "On Auditing Activities" was published. Currently, Law No. 271 of 15.12.2017 "On the audit of financial statements" is in force, which is compiled in accordance with the requirements of 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. The analysis of the development of the audit

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services market should be considered in a complex that covers the number of audit firms, the evolution of the number of auditors, the types of services that audit firms represent, the volume of the audit services market. It should be noted that the indicators of the audit services market, on the one hand, show trends that occur in audit firms as business units, on the other hand, reflect the changes that occur in the audited enterprises.

The purpose of the study is to analyze the audit services market in the Republic of Moldova, to assess the potential of this market, its development trends and forecast its state in the future.

The objectives of the research are:

- analysis of the main non-financial indicators of audit firms in the Republic of Moldova in dynamics,
- analysis and assessment of the main financial indicators of audit firms in the Republic of Moldova in dynamics,
- presentation of conclusions about the features and trends of the audit services market in the Republic of Moldova and forecasting its development in the future.

The study of the development trend of audit services in the Republic of Moldova was carried out by the author in the following sections of the article:

1. Literature review - both international and national regulations are presented, which guide the audit firms of the Republic of Moldova when providing their services,
2. Data and Methodology considered goals, objectives and research methods,
3. The Model and Findings, in this section, a direct study of financial and non-financial indicators was carried out,
4. Conclusions. This section presents conclusions and forecasts about the trends in the development of the audit services market in the Republic of Moldova.

1. Literature review

During the study, the normative and legislative acts of the Republic of Moldova were analyzed in dynamics, as well as international normative acts, such as:

- Resolution of the Government of the Republic of Moldova No. 316 “On the organization of audit services in the Republic of Moldova”,
- Law “On Auditing Activities” No. 729-XIII dated February 15, 1996,
- Law “On Auditing Activities” No. 61 dated March 16, 2007,
- Law “On Audit of Financial Statements”, No. 271 of December 15, 2017.
- Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on the 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.

It should be noted that this article is one of the first studies on the market of audit services in the Republic of Moldova. It examines both financial and non-financial

indicators, analyzes the trends in the development of audit services in the Republic of Moldova, and also provides forecasts for the development of this market in the future.

2. Data and Methodology

In this article, the author uses various research methods related to both general and particular research processes.

The general scientific methods used by the author are:

- the historical method, involves the study of different processes, phenomena in chronological order;
- study and generalization, analysis of results and information obtained;
- comparison;
- synthesis;
- induction and deduction;
- analogy;
- classification.

All calculations were made based on the data presented in the Report ``Information regarding the market of audit services`` 2015-2021 compiled by the Audit Supervision Council of the Republic of Moldova.

3. The Model and Findings

We will analyze the development of the audit market, considering the trends in the main indicators of audit firms in the Republic of Moldova over the past decade, the information is presented in table 1.

As follows from the data presented in Table 1, the number of audit firms in the Republic of Moldova has tended to decrease over the past 7 years, as well as the number of auditors, which decreased from 291 in 2015 to 236 in 2021. A positive moment can be considered an increase in the number of trainee auditors, which in relative terms compared to 2015 amounted to 102.5%. It should be noted that about 90% of audit firms are located in the capital of Moldova - Chişinău.

If we consider the trend for audit firms in Romania, then according to the CAFR annual report for 2021 (CAFR, 2021) there is an increase in the number of audit firms in Romania from 960 in 2017 to 1013 in 2021, but the number of auditors decreased from 4467 to 4245, respectively. Analyzing the trends in the emergence of new audit firms, the termination of their activities, we can state that these figures are influenced by various factors, first of all, all over the world this activity is strictly regulated by the state, all auditors must have certificates. If the state establishes some excessive requirements for the activities of audit firms, then their reduction is observed. For example: in Russia, a requirement was adopted by law for audit firms to have at least 3 employees, so since July 2022, more than 300 audit firms have ceased operations.

Table 1 Indicators of the evolution of the audit market in the Republic of Moldova in dynamics

Indicators/year	2015	2016	2017	2018	2019	2020	2021	Growth rate compared to 2021, %					
								2015	2016	2017	2018	2019	2020
A	1	2	3	4	5	6	7	8=7/1*100	9=7/2*100	10=7/3*100	11=7/4*100	12=7/5*100	13=7/6*100
Number of audit entities, of which:	121	120	113	115	101	114	119	98,35	99,17	105,31	103,48	117,82	104,39
audit entities in Chisinau	107	107	101	101	101	105	109	101,81	101,81	107,92	107,92	107,92	103,81
Number of auditors	291	297	211	200	193	232	236	81,10	79,46	111,85	118,00	122,28	101,72
Number of trainee auditors	*	*	18	23	21	22	24	-	-	133,33	104,35	114,29	109,09
total employees, of which:	*	367	590	577	544	592	607	-	165,40	102,88	105,20	108,82	102,53
auditors	*	209	211	200	191	196	193	-	92,34	91,47	96,50	101,05	98,47

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

Considering the trends in the establishment of audit firms in the Republic of Moldova, one can analyze the data in Figure 1.

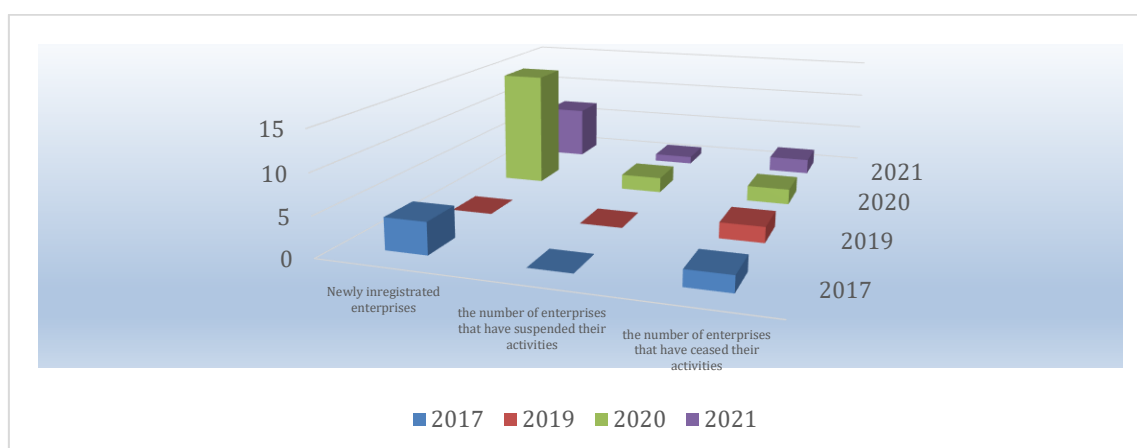


Figure 1. Information on changes in the number of audit firms in dynamics

Source: elaborated by author according to data from (Information regarding the market of audit services 2015-2021 in Moldova)

Studying the data in Figure 1, it can be stated that from 4 to 7 new firms are registered in the Republic of Moldova per year, except for 2020, when a number of audit firms needed to be re-registered. Every year, 2 audit firms cease their activities.

In the Republic of Moldova there are audit firms with foreign capital, mixed and firms that were created with the help of national capital.

Examining the data reflected in Table 2, we can state the following:

- 1) With an increase in the number of audit firms in the Republic of Moldova from 2015 to 2021 by 105.31%, the number of audit firms with foreign capital, having decreased by one in 2019, remains unchanged 6 units. This situation suggests that the audit services market of the Republic of Moldova is not so voluminous as to be attractive to foreign capital;
- 2) At the same time, there is an increase in audit firms with mixed capital, almost twice as compared to 2017;

Table 2. The evolution of audit firms according to ownership in Republic of Moldova

Indicators /year	2017	2018	2019	2020	2021
total audit firms of which:	113	115	101	114	119
audit firms with foreign capital	7	7	6	6	6
audit firms with mixed capital	1	1	1	2	2
audit firms with national capital	105	107	94	106	111
the share of audit firms with national capital	92,92	93,04	93,07	92,98	93,28

Source: elaborated by author according to the data from. (Information regarding the market of audit services 2015-2021 in Moldova)

3) The number of audit firms with national capital shows steady growth, this is especially evident in the share of audit firms in the total number of firms, which increased from 92.92% in 2017 to 93.28% in 2021.

The audit services market in the Republic of Moldova for 2021 is slightly more than eleven million Euros for 2021. Let's analyze the indicators of revenue from sales of audit firms in dynamics in Republic of Moldova.

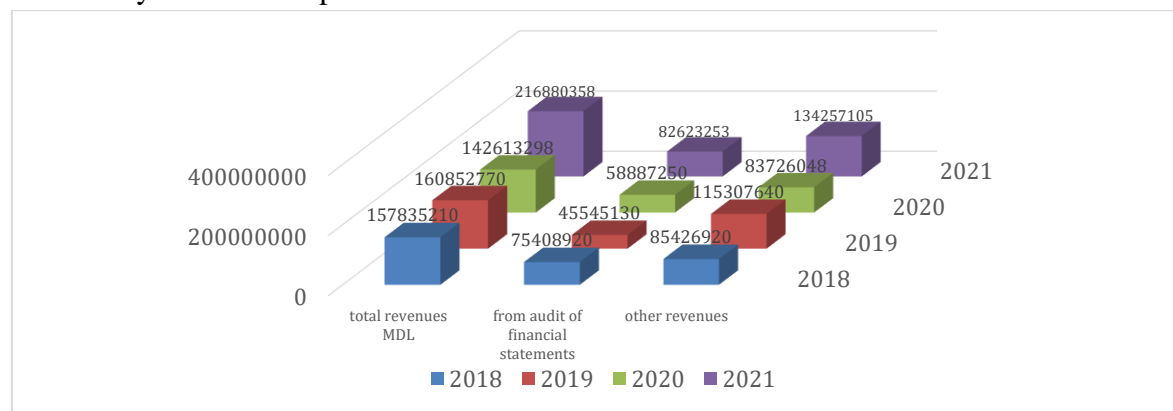


Figure 2. Revenues of audit firms in Moldova in dynamics

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

At the same time, there is a negative trend towards a decline in sales revenue from the audit of financial statements, which is reflected in table 3.

Table 3. Types of revenue from sales of audit firms in Moldova in dynamics

Indicators /year	2018	2019	2020	2021
total revenues MDL, of which:	157835210	160852770	142613298	216880358
1.from audit of financial statements, of which:	75408920	45545130	58887250	82623253
audit on request	46750940	13983830	16167260	16571531
2. other revenues	85426920	115307640	83726048	134257105
share of revenue from the audit of financial statements in total income	47,78	28,31	41,29	38,10

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

The growth of other services provided by audit firms includes a positive trend from the provision of consulting services, including in the field of taxation, maintenance, and restoration of accounting. At the same time, it should be noted that the emerging growth trend of audit firms that provided only audit of financial statements in 2021 was suspended, as evidenced by the data in Table 4.

Table 4. Types of services provided by audit firms in Moldova in dynamics

Indicators /year	2017	2018	2019	2020	2021
total audit firms that provided information, of which:	113	115	101	112	113
audited the financial statements	5	8	15	13	3
rendered services other than audit	37	40	32	32	32
firms that conducted audits and provided other services	66	58	41	53	73
had no activity	5	9	13	14	5
the share of audit firms that only perform audits	4,42	6,95	14,85	11,6	2,65
the share of audit firms that had no activity	4,42	7,82	12,87	12,5	4,42

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

From 2017 to 2020, there has been an increase in audit firms that did not have activities and this growth was significant from 4.42% in 2017 to 12.5% in 2020. This may be due to the period of suspension of activities in connection with COVID 19.

If we analyze the indicators of revenues from sales of Moldovan audit firms and global trends, we can state the following:

1) According to Verified Market Research (Verified Market Research, 2022) auditing services market size was valued at USD 215 Billion in 2020 and at USD 217.7 Billion in 2021, the growth was 101.26%, respectively in the Republic of Moldova - 152.03%. Revenue growth in the Republic of Moldova is significant, but this is not

indicative, since the period of 2020 is characterized by a pandemic and the abolition of the mandatory audit of financial statements (FS);

Table 5. Indicators of the evolution of the audit market in the Republic of Moldova in dynamics

Indicators /year	2015	2016	2017	2018	2019	2020	2021	Growth rate compared to 2021, %					
								2015	2016	2017	2018	2019	2020
A	1	2	3	4	5	6	7	8=7/1 *100	9=7/2 *100	10=7/3 *100	11=7/4*1 00	12=7/5 *100	13=7/6 *100
Number of audited entities	121	120	113	115	101	114	119	98,35	99,17	105,31	103,48	117,82	104,39
Total audit contracts, including:	868	723	592	558	416	483	662	55,65	66,81	81,59	86,56	116,11	137,06
Compulsory audit contracts	331	208	198	180	193	271	507	81,87	130,3	136,9	150,56	140,42	187,08
Share of contracts for compulsory audit, %	38,13	28,77	33,45	32,26	46,39	56,11	76,59	147,16	195	167,7	182,65	120,93	136,49
Contracts for the audit of public entities	31	32	28	28	37	39	35	125,81	121,9	139,3	139,29	105,41	89,74
Share of contracts for the audit of public entities	3,57	4,43	4,73	5,02	8,89	8,07	5,28	226,05	182,2	170,6	159,8	90,78	65,43
Contracts for the required audit of individual FS	506	483	366	350	186	173	472	34,19	35,81	47,29	49,43	93,01	272,83
Share of contracts for the required audit of FS	58,3	66,8	61,82	62,72	44,72	35,82	71,3	61,44	53,62	57,94	57,11	80,1	199,05

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

2) According to studies carried out by Verified Market Research, (Verified Market Research, 2022) more than 70% of the revenues of audit firms come from audit services (audit of financial statements, operational audit, investigation audit, etc.), while in the Republic of Moldova the share of revenue for audit financial statements is steadily declining and is 38.1% in 2021. Considering the data in Table 5, we can state that the number of mandatory audits is steadily increasing.

It can be noted that if in 2015 the share of mandatory audit was 38.13% of all audit contracts, then in 2021 it is already 76.59%. This upward trend is explained by the fact that changes have been made to the regulatory and legislative acts of the Republic of Moldova

and the categories of persons for whom the annual audit of financial statements has become mandatory have been expanded.

At the same time, audit firms conducted not only an audit of financial statements, but also an audit of individual elements of financial statements, as well as a compliance audit. In this case, an audit report was also issued, the figure below shows information on the number of audit reports issued in the Republic of Moldova in dynamics.

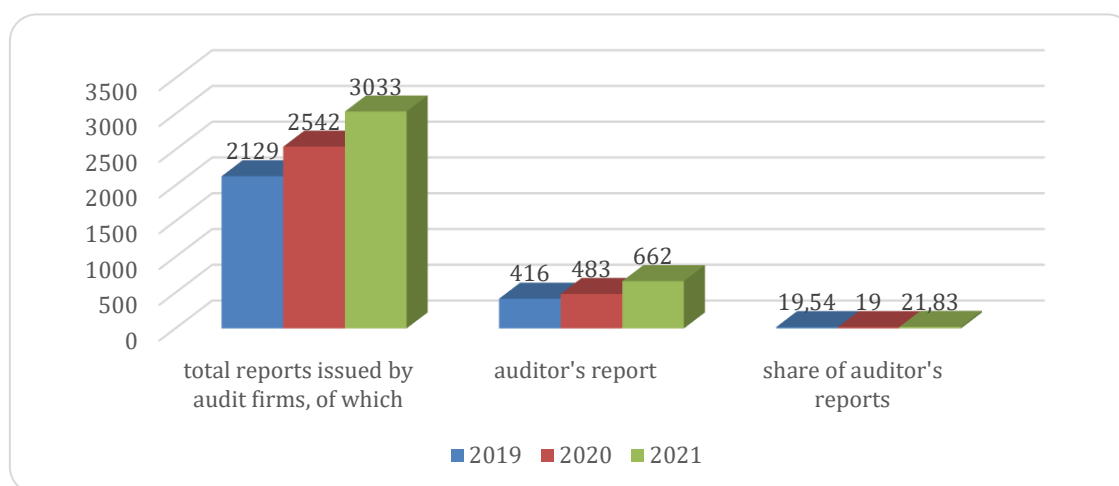


Figure 3. Dynamics of auditor's report issued by audit firms in Moldova

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

A positive trend can be characterized by the growth of issued financial statements audit reports in the total number of reports issued by audit firms from 19.54% in 2019 to 21.83% in 2021.

Table 6. Types of audit opinion reflected in the auditor's report

Indicators /year	2017	2018	2019	2020	2021
form of opinion	645	579	416	483	662
unmodified opinion	477	421	236	290	353
qualified opinion	150	143	159	178	293
adverse opinion	8	3	7	6	7
disclaimer of opinion	10	12	15	4	9
Share of unmodified opinion, %	73.95	72.71	56.73	60.04	53.32

Source: elaborated by author according to the data from (Information regarding the market of audit services 2015-2021 in Moldova)

At the same time, there is an ambiguous trend of a decrease in the unmodified opinions issued by audit firms, their share decreased from 73.95% in 2017 to 53.32% in 2021. The number of adverse opinions of the auditor varies from 3 to 7-8 per year, that is, they remain approximately at the same level. It should be noted that the number of qualified audit opinions has increased dramatically from 150 in 2017 to 293 in 2021.

Conclusions

Analyzing the trends in the market of audit services in dynamics in the Republic of Moldova, we can state the following:

1) The audit services market has several features that relate to strict regulatory regulation; to open such a company, you must have at least one certified auditor. Obtaining an auditor's certificate is a process that involves not only passing exams, but also completing the practice of an auditor trainee. Thus, the creation of audit firms in the Republic of Moldova is a process that takes time. However, since 2017, the same number of audit firms have been observed in the Republic of Moldova that have ceased their activities. As a negative trend, it should be noted that in the Republic of Moldova there is no inflow of foreign capital for the creation of audit firms,

2) The market of audit services in the Republic of Moldova depends on the provisions of the regulatory and legislative acts in this area. So, for example: amendments were made to the Law on Accounting and Financial Reporting of the Republic of Moldova on the statutory audit of large and medium-sized enterprises, starting from 2019, and thus the income from the audit of the financial statements of audit firms in Moldova increased,

3) Due to the epidemiological situation in the world, the growth of revenue of audit firms in many countries, including Moldova, slowed down in 2020. However, it should be noted that in the revenue structure of audit firms at the global level, more than 70% is revenue from the audit of financial statements, while in the Republic of Moldova this figure does not reach 40%. This suggests that the capacity of the financial report audit market in the Republic of Moldova is small and in order to survive financially, local audit firms must provide various services in addition to auditing: consulting, maintaining and restoring accounting, etc.

4) There has been a tendency to decrease positive audit opinions during the audit of financial statements from 73.95% of the total in 2017 to 53.32% in 2021. This fact indicates the increased responsibility of auditors, the in-depth application of quality control procedures in the performance of the mission, as well as a decrease in the quality of information in the financial statements audited entities.

Forecasting the development of the audit services market in the Republic of Moldova, we can state the following:

1) in terms of the audit of financial statements: it is necessary to consider two of its components: a statutory audit and an on-demand audit. An increase in sales revenue from statutory audit should not be expected, this amount will be at the level of 2021. Since the mandatory audit is strictly related to the established requirements of the legislation on the list of those enterprises that are required to be audited, in this regard, changes in the legislation are not expected. From the point of view of on-demand audit development trends, a slight growth of this audit segment at the level of 1-2% per year is possible. Thus, it can be assumed that next year the growth in revenues of the audit firms of the Republic of Moldova from sales in terms of the audit of financial statements will be up to 2%.

2) in terms of other services provided by audit firms:

- advising in the field of taxation may increase by 5-10%, primarily because in connection with the acceptance of the Republic of Moldova by an EU candidate, both residents and non-residents of the Republic of Moldova will need consultations in this area,
- on accounting: one should not expect an increase in the income of audit firms, as more and more enterprises in the Republic of Moldova prefer to have an accounting service, rather than outsourcing services. A slight increase in other services of audit firms is possible, especially in the preparation of consolidated financial statements, confirmation of forecasting information, etc.

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