

**Speech of Mrs Rea Georgiou,**  
**Accountant General of the Republic of Cyprus**  
**For the Rotary Club of Nicosia**  
**19 April 2019 at Nicosia Hilton Hotel**

Ladies and Gentlemen,

First, I would like to thank the Rotary Clubs of Nicosia and in particular Mr. Marios Skandalis and Garo Zartarian for giving me the honour to be here today with you and speak about two topics: First on the regulation of the audit profession in Cyprus and secondly the Reform of Public Financial Management of our governmental sector.

**A. REGULATING THE CYPRUS AUDIT PROFESSION**

So to begin with, I would like to talk about the regulation of the Audit Profession in Cyprus in my capacity as chair of the Cyprus Public Audit Oversight Board (CyPAOB).

I will first give an overview of the CyPAOB. I will then describe the profile of the Audit Profession in Cyprus and the role of the Audit Committees. I will continue with the scope of the Inspections and the International presence of our Oversight Board (CyPAOB). I will conclude with the Oversight Board's role in the Audit Profession.

## **CyPAOB Overview**

The Oversight Board (CyPAOB).in its current form has been established by the Auditors Law of 2017 which came into effect on 2 June 2017 and which harmonized the national legislation with the relevant EU Directive (2014/56/EU). In addition, the EU Audit Regulation 537/2014 applies for all audits of Public Interest Entities (PIEs).

The (CyPAOB) is the Regulator of the audit profession in Cyprus and has the overall responsibility for the oversight of:

- The approval and registration of the Registered auditors and the Registered Audit Firms;
- The application of technical standards and of other standards on professional ethics and internal quality control of Registered auditors and statutory audit work;
- The continuous education of the Registered auditors;
- The System of quality control of the Registered auditors and Registered audit firms;
- The disciplinary procedures and the referral of the Registered auditors and Registered audit firms to disciplinary hearing by the Disciplinary committee.

The (CyPAOB) Oversight Board has signed a Delegation agreement with the Recognised Professional Body in Cyprus, the Institute of

Certified Public Accountants of Cyprus (SELK), in September 2017 and has delegated a number of responsibilities allowed by the EU Directive and the EU Regulation (537/2014). Certain tasks are retained by the Oversight Board such as:

- Determining criteria for the persons that are eligible for appointment as Registered Auditors;
- Monitoring audits of PIEs; and
- Investigations, adjudication and disciplinary measures arising out of monitoring audits or through any other function of the CyPAOB, or arising from referrals from other authorities

The Board currently comprises of a President, a Vice President and 5 members, all of whom were appointed by the Council of Ministers.

The CyPAOB has an independent Disciplinary Committee which comprises of a President and 2 members, all of whom were appointed by the Council of Ministers.

### **Profile of the Audit Profession in Cyprus**

Cyprus provides high quality professional services: Top quality accounting, auditing, tax and business administration. There is a high level of expertise of professional accountants in Cyprus and this is evident from the excellent results of our students in the professional

exams of the ICAEW and ACCA, whereby Cypriot Students are among the top prizewinners. This high quality of professional accountants contributed to Cyprus being an established financial services centre. Hence, there is a large number of Registered Auditors and Registered Audit Firms compared to the size of the country. In fact, the number of The Registered Auditors in April 2019, is 1016 persons and 692 Registered Audit Firms, out of which 14 are Audit Firms with PIE audit clients. There are 146 PIE's in Cyprus. PIE according to the legislation includes Credit Institutions (i.e. Banks), Insurances, Companies whose transferrable securities are admitted to trading on a regulated market within the EU (i.e. listed Companies).

### **The role of the Audit Committees**

The Audit Law of 2017 requires that all PIEs have an Audit Committee.

Article 78 of the Audit Law of 2017 establishes the composition and responsibilities of the Audit Committees – which now have a vital role in the performance of a quality audit.

The responsible Regulator to oversee the establishment and performance of the audit committees is:

- The Securities and Exchange Commission for Cyprus listed entities in any regulated market of an EU member state except banks, insurance and reinsurance entities.
- The Central Bank of Cyprus for all licensed banking institutions.
- The Superintendent of Insurance for insurance and reinsurance entities.

### **Scope of Cy PAOB inspections**

The CyPAOB is mandated by the EU Directive and Regulation to carry out direct oversight of PIE auditors. In that capacity, our scope of inspections covers the big 4 audit firms on an annual basis while the other audit firms with PIE clients are inspected on a three-year cycle. The scope of CyPAOB also covers the oversight of SELK in respect of the Implementation of the Delegation Agreement.

The CyPAOB has contracted two audit quality reviewers with extensive experience in the audit profession, to perform the inspections.

The inspection methodology is based on the Common Audit Inspection Methodology, which has been prepared by the Committee of European Auditing Oversight Bodies (CEAOB) and covers areas such as:

- Tone at the top
- Ethics and independence

- Acceptance and Continuance
- Partner matters
- Staff matters
- Methodology
- Training
- Consultations
- Engagement Quality Control Reviews
- Other quality control reviews
- Audit documentation and data security
- Internal monitoring
- Complaints and allegations etc

Our reviewers utilize an inspection software which accommodates the Common Audit Inspection Methodology as well as report writing.

### **CyPAOB International Presence**

CyPAOB is a member of:

- The Committee of European Auditing Oversight Bodies (CEAOB) where CyPAOB actively participates in the following subgroups:
  - Member of the Organising Committee of the Inspections subgroup (ISG).

- Member of the International Standards subgroup.
  - Chairing the Smaller Regulators Inspectors Task Force (of CEAOB ISG).
  - Member of the Deloitte, EY, KPMG and PwC Colleges of CEAOB.
- The International Forum of Independent Audit Regulators (IFIAR).

### **CyPAOB role in the Audit Profession**

The CyPAOB, as the regulator of the audit profession, would like to ensure a fundamental sound of the Audit Profession in Cyprus through:

- Monitoring and promoting improvements in the quality of auditing of the Audit Profession with a particular focus to the audit of Public Interest Entities.
- Enhancing the role of audit committees.
- Communication with other regulators.
- Maintaining open communication channels with professional bodies and audit firms. To this respect a Technical Advisory Group meets regularly to discuss and find solutions to technical matters faced by the audit profession. So far 14 Technical circulars have been issued which are available on the CyPAOB website.

Some weaknesses that have been identified in the procedures at the level of audit firms and in the audit files of PIEs, have been notified in writing to the audit firms which, in turn, make efforts to improve. We have particularly noticed that there is improvement as compared to the first round of inspections. Moreover, through our participation in the four Colleges which correspond to the four large audit firms, there is frequent communication with their leadership at the European and global level, a practice that contributes to a steady improvement.

Ladies and Gentlemen,

In concluding this topic, I would like to stress that CyPAOB wants to see a healthy and dynamic audit sector in which auditors play their role in helping the Cyprus economy to grow. Undoubtedly, reliable financial reporting and auditing, effective supervision and consistent application of the rules and legislation, can contribute to boost stakeholders' confidence in companies and their financial information to the benefit of the economy at large.

Now I will continue to talk about the

## **B. REFORM PROGRAM OF THE PUBLIC FINANCIAL MANAGEMENT IN CYPRUS**

In my capacity as Accountant General of the Republic.

A far-reaching and ambitious reform program, covering the entire Cyprus Government, is being implemented effectively in recent years. This program has been strategically planned by the Treasury of the Republic, a Service that has a key horizontal role in public financial management in the Government. This program is based on the best practices in public financial management at an EU and international level.

I must stress from the outset that while sound and transparent public accounting does not in itself lead to high quality Public Financial Management, it is a necessary component. Better accounting leads to better reporting, which provides the information necessary for better decision making which in turn should lead to better use of public resources. Public Sector entities and their stakeholders' need to understand the full, long term economic impact of their decisions on financial performance, financial position and cash flows.

Cash accounting systems fail to capture information on public sector assets and liabilities and present a very short term view of public finances in primary financial reports.

Thus, a complete modernisation of our accounting systems and practice was considered to be necessary, in order to ensure that the Treasury will identify the financial threats of the public finances on time, which will give the opportunity to the politicians to react and avoid financial crisis.

The Treasury of the Republic is not alone in this journey. We have the support of the EU Institutions, the IMF and the OECD, as well as the support of the German Government, through the technical assistance in the form of consultancy services from Partnerschaft Deutschland (PD), a state-owned entity of the German Government.

We have also the political support from the Government and the Minister of Finance, as well as from the political parties. Furthermore, our main partners in this program consist of the Ministry of Finance, the Department of Public Administration and Personnel, but partners are also the whole-of-government Ministries/ Departments/ Services.

The program is on track for implementation and we monitor it on a continuous basis, adjusting it if and when needed, in order to achieve the expected results.

The reform program for the modernization of public financial management consists of three different but interlinked projects, being

1. the adoption of the accrual basis of accounting,
  2. the development of an Enterprise Resource Planning (ERP) system,
  3. the functioning of the Accounting and Financial Management Directorates (Finance Functions) at each Ministry,
- and the change management project, as well.

More specifically, the preparation of the Government's opening statement of assets and liabilities on an accrual basis is scheduled to be prepared for internal purposes on 1/1/2020, with the opening official statement of assets and liabilities to be completed on 1/1/2021. The accrual basis of accounting in the public sector will ensure the provision of comprehensive financial information to all relevant stakeholders, from tax payers to politicians, that will assist them in decision making and financial evaluation of the government's performance.

With the core functions of the ERP system to be in operation by 1 January 2021, we seek to implement and maintain the accrual basis for the Government in an automated ERP environment. The new system covers, beyond accounting and budgeting functions, the Human Resource management function, enabling the integration of public financial and qualitative/ non-financial information.

In such an integrated environment, we look forward to achieving the strengthening of our central financial management function, as well as

the operation of public finance functions at the Ministries. We expect to be in a position to transform the traditional role of our Accountants to a modern role of a Chief Finance Officer – CFO.

The successful implementation of the reforms is expected to provide significant support to management and staff in the public sector in exercising their role, for the benefit of financial and other information recipients.

In particular, financial management services in the public sector will be expanded, the procedures will be simplified and automated, bureaucracy will be reduced, productivity will be increased, information will be used more effectively in making important decisions etc.

The users of the Government's financial reports will be able to:

- i. Assess the accountability for all resources the government controls and the deployment of those resources.
- ii. Assess the financial position, financial performance and cash flow of the government.
- iii. Make decisions about providing resources to, or doing business with the Republic.

It is therefore expected to increase transparency and accountability as well as to improve service delivery to the citizens.

My personal experience has proven that we would have not been able to perform any major developments in the Treasury and in the government of Cyprus as a whole, if we had been isolated from the rest of the world. Many of the proposed reforms have been successfully applied in many other developed countries (and not only), which have been learning for many years what the best practices should be. I feel that the advice received from our consultants and partners, at all levels, keeps us alert of the things we need to implement, and that they provide us with the extra motivation we need, to keep trying harder and harder.

## **Conclusion**

It is very clear to us that we will face a lot of challenges, trying to coordinate all different aspects of such a complicated modernisation project of not only the Treasury but of the government in general. However, we know that this is a one-way road for us, if we want to take our country's financial reporting and decision making to a much upgraded and professional level.

By doing so we hope that we will have the valuable contribution and cooperation with all of our stakeholders in society, such as you, the Rotarians, that will provide us with valuable ideas and expertise on how other organizations have dealt with in similar circumstances. And, it is with pleasure that we accept invitations to attend and participate in

events like this. I am sure that this cooperation with your club is continued and enhanced in the future.

Thanking for your attention and I wish all the best to you and to your clubs for the future.