



“Auditing” the Auditors – Oversight: Necessity or Compulsoriness?

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Abstract

Through their activity, financial auditors contribute to the investors' decision making, so that providing quality services leads to the increase of the confidence in the profession of financial auditor. In order to guarantee quality services of the statutory audit missions oversight bodies were created, which have the legal mission to verify the activity of the financial auditor. The purpose of this paper is to make a comparison of how the oversight bodies in countries of the European Union are regulated, their attributions, as well as the stage of the statutory audit reform in Romania, based on Directive 2014/56 / EU. The establishment of the oversight bodies was carried out as a result of poor-quality audit services, the oversight being necessary, but this activity could be the attribution of the professional bodies, if they had a greater coercive power over the members. Most irregularities arise as a result of non-compliance with all ethical principles, which is a challenge for every professional accountant. The institutional harmonization process is still ongoing, and the credibility of the oversight bodies can be confirmed in the medium and long term by the efficiency of the inspection actions on the financial auditors and by improving the quality of the audited financial reports.

Key words: oversight body; audit reform; financial reporting; ethic; quality

JEL Classification: M40, M41

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Introduction

As a result of the famous bankruptcies in the USA, since the beginning of the 21st century, financial audit legislators have realized the importance of quality audit as a key factor for an efficient capital market and have tried to identify the main factors that determine a quality audit. Thus, in the US, the Sarbanes-Oxley Act was adopted in 2002, which led to the establishment of the first public oversight authority, *The Public Company Accounting Oversight Board* (PCAOB). The globalization of economic activities has led to the establishment of oversight bodies in several countries, as well as to an audit reform in most countries.

The importance of the topic is based both on the requirements of the standards for a quality audit and on the need for financial auditors to give correct opinions on the financial statements so as not to mislead all stakeholders. The quality assurance of the activities performed by the auditors is the responsibility of the public oversight bodies. Therefore, it can be stated that they perform the activity of "auditing" the auditors, as the concept is developed in literature. (Lennox and Pittman, 2010; Carson et al., 2013; Ismail and Theng, 2015; Ismail and Mustapha 2015; Kumar, 2018).

The purpose of the paper is to make a comparison of the way in which the oversight bodies in countries of the European Union (EU) are regulated with their attributions, as well as the stage of the statutory audit reform in Romania, carried out based on Directive 2014/56 / EU. Given that Member States choose how to implement in their national legislation, the proper functioning of the oversight bodies is given by their characteristics. In order to analyze the correlations between the characteristics of the oversight bodies and the activities carried out by them, an econometric model was developed using the indicators that could influence their responsibility.

The sample consisted of 30 countries, of which 28 are EU member countries and 2 countries members of *European Economic Area* (EEA): Iceland and Norway. The indicators tested were: the source of funding of oversight body, the age, the involvement of the state bodies in the organization, the management structure, the existence of advisory committees, the activity of approval and registration of the statutory auditors, the adoption of the relevant standards of the statutory audit activity, the continuing education and the investigative and administrative disciplinary system.

The research will contribute to the literature because it offers an analysis of the available data regarding the activity of the oversight bodies of the statutory audit, from a perspective oriented towards the necessity or the compulsoriness of this activity, as well as of the role of professional bodies in strengthening the profession of financial auditor.

The paper is structured as follows: the first section contains a summary of the relevant literature on audit activity and its public oversight, followed by the second section, which describes the research methodology. The third section presents the results of the study together with the statistical interpretations, and the last section includes the conclusions, limitations of the study and future directions of research.

1. Literature review and regulatory framework

1.1. Literature review

The literature on the topic of financial audit of companies includes papers published by researchers in the field of accounting and financial audit, as well as by accountants and members of the professional bodies to which they belong, due to the practical of the audit activity.

Jensen and Meckling (1976) showed the reason why the company needs auditors, namely to certify the reports issued by companies listed on the financial markets.

DeAngelo (1981) examined the factors that influence the quality of the audit and defined the quality as the probability that an auditor would discover and report a violation of the regulations in the client's accounting system. Discovering a distortion depends on the quality and volume of knowledge accumulated and the ability of the auditor, while reporting the distortion depends on the auditor's motivation to reveal it. Watts and Zimmerman (1983) also point out that auditors need more than just technical expertise, they must also be independent in their reports. DeFond and Zhang (2014) consider that a high-quality audit is the one that assures a good quality of the financial reports of the companies.

In order to show the importance of financial audit, Gunther and Moore (2002) started from several questions regarding the need for audit, which means good audit and how to solve problems that may arise from questionable audit services.

To achieve a quality audit, it is necessary to respect the principles of the auditors' code of ethics. Lin and Tepalagul (2015) consider that independence is a key factor in maintaining the auditor's ethical behavior. In order to ensure independence, the measures that can be taken are the rotation of the auditor and the share of non-audit services provided to audit clients. In their study, conducted on a sample of 265 U.S. audit engagements during 2002-2003, Bell et al. (2015) found that these measures do not have a negative influence on the quality of the audit, as argued by the regulatory authorities.

Gaynor et al. (2016) conducts research on the factors that influence the quality of financial reporting and the quality of audit, as well as the relationship between the two concepts, because the variables used may be different in measuring quality. Auditor oversight may influence corporate financing policies, so Shroff (2017), based on a study of 6,924 companies from 35 countries listed on the US market, from 2012-2014, concluded that oversight of the auditors increases the capacity of external financing of the companies, which in turn facilitates corporate investments.

The effects of the auditors' oversight are reflected in their inspection activity and the publication of their inspection reports. Carson et al. (2013) studied a sample of companies from 33 countries during 2006-2010 and found that in countries where independent inspections are carried out the quality of the audit is higher. Also, the inspections carried out by the oversight bodies have an influence on the market share of the auditors (Aobdia and Shroff, 2017).

The way in which the oversight is carried out influences the compliance of the auditors with the applicable regulations. Dowling et al. (2018) conducted 15 semi-structured interviews with 4 members of the regulatory authorities and 11 auditors in Australia at the end of 2012 and the beginning of 2013. From the auditors' responses it was found that they perceived that the style of application of the regulatory authority has moved from a more collaborative style to a more coercive style in the last period studied.

At EU level, Osmá et al. (2017) conducted a comparative study of the process of implementation, harmonization and stabilization of public oversight systems for statutory auditors, in EU countries, according to the Directive no. 43/2006 and concluded that there is still a significant diversity between the

systems adopted by each EU member country. Also, Fülöp (2011) studied how the directive was adopted by the Member States and concluded that they have made progress on its adoption, especially on public oversight.

1.2. Regulatory framework of public oversight bodies for statutory audit

The oversight of the statutory audit activity can be done through an independent public body or it can be exercised by the bodies overseeing the activity on the financial markets. The audit reform led to the possibility of establishing oversight entities as independent bodies.

Internationally, the United States of America is the first country in which was established the public oversight authority (*The Public Company Accounting Oversight Board – PCAOB*), under the Sarbanes-Oxley Act in 2002. The responsibility of the PCAOB are divided into four activities: registration of auditors, inspection, setting of relevant standards and sanctioning of auditors.

As a result of the globalization of financial markets, independent oversight bodies have been created in the coming years in several countries. Thus, in 2006, “The International Forum of Independent Audit Regulators” (IFIAR) was set up in Paris, which brought together the independent audit oversight bodies from 18 international jurisdictions. The objectives of the organization are to improve the quality of the audit at global level and to take over the status of strategic leader in the field of audit.

The audit reform at European level was based on Directive 43/2006, which was amended by Directive 2014/56 / EU, based on which it was established in 2016 “The Committee of European Auditing Oversight Bodies” (CEAOB). CEAOB is the framework for cooperation between the oversight bodies in the EU and contributes to the effective cooperation between the competent authorities in order to maximize the effectiveness of the EU legal framework regarding statutory audit.

The implementation of the Directive was performed differently in EU countries, some countries opting for oversight bodies to be fully controlled by government bodies, others choosing to involve auditors' professional bodies more. In Romania, the provisions of the Directive were transposed into Law no. 162/2017 by which it was established “Public Oversight Authority for Statutory Audit Activity” (*Autoritatea pentru Supravegherea Publica a Activitatii de Audit Statutar – ASPAAS*), which

has all the functions of: authorization and registration of financial auditors and audit firms; adoption of relevant standards, continuing education; quality assurance systems and investigation and discipline systems.

2. Research methodology

The research methodology consists in analyzing the regulation adopted by the EU countries regarding the supervision of the statutory audit activity, by implementing in the national laws the *Directive 2014/56/EU*, using logical and comparative analysis by countries. The sources of data analysis were represented by the study carried out by the professional organization Accountancy Europe in 2018 and by the information provided on the website of the IFIAR.

The sample comprises 30 countries, of which 28 countries are members of the European Union and 2

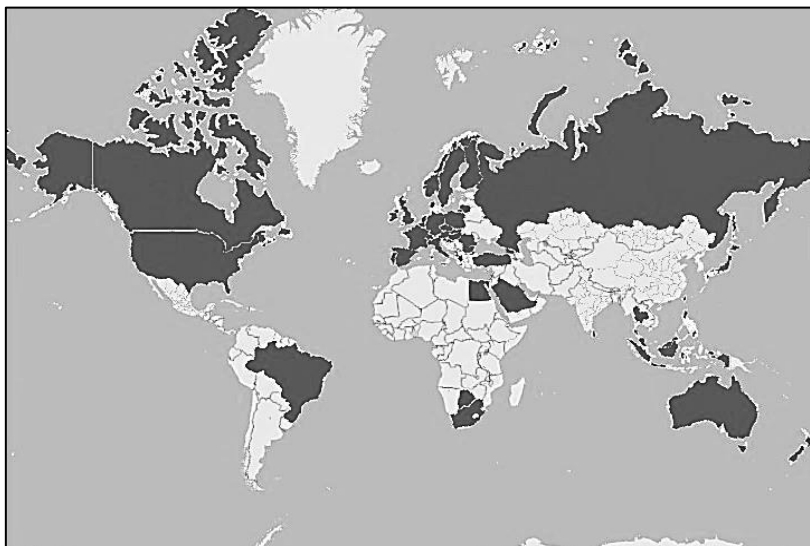
countries are members of the *European Economic Area (EEA)*, respectively Iceland and Norway.

Based on the characteristics of the identified public oversight bodies, an econometric model was tested on the correlation between them and the attributions of the oversight bodies using a linear regression.

3. Results

The analysis of the information published by IFIAR shows that they have joined this organization oversight bodies in 55 countries (*Figure no. 1*) among which are almost all EU member countries (except Estonia and Latvia), Switzerland, USA, Canada, Japan, South Korea, Russia, Brazil, United Arab Emirates, Turkey and South Africa. It is noted that countries such as China, India, Argentina, Mexico, members of the G20 group, which do not yet have an independent oversight body, have not been identified.

Figure no. 1. The geographical representation of the IFIAR member countries



Source: Author's work, 2019

From the analysis of the implementation of Directive 2014/56/EU in the national legislation of the EU Member States it was found that all the Member States have transposed the provisions of the European Directive, but in a different way from country to country, which shows that cultural influences are in line with the EU motto "unity in diversity". The analysis of the implementation in

practice could not identify a common criterion of some countries, from the east or west of the continent or from the north or south of it. A common criterion that can be identified is that some countries were located in the extreme to let all the duties of the oversight body, while other countries were positioned at the opposite extreme of limiting its powers and to provide increased powers to professional bodies.

The main characteristics analyzed referred to the age of the oversight bodies, respectively if it was newly created, based on the provisions of the directive, if the state bodies, through ministries and governmental agencies are involved in the organization, in the appointment of the members of its management structures. Also, other characteristics are whether the management structure is provided by a single body, or by several bodies, such as the Managing Board and the Supervisory Board or specialized departments, and whether or not advisory committees have been set up.

An important feature is the funding of the oversight bodies, which ensures its proper functioning, ensuring the premises of independence. The funding can be made entirely from the state budget, entirely from the professional body or directly from the financial auditors, or a mixed financing in different proportions.

In **Table no. 1** are presented in detail by country, the mentioned characteristics, with the highlighting of the situation of Romania.

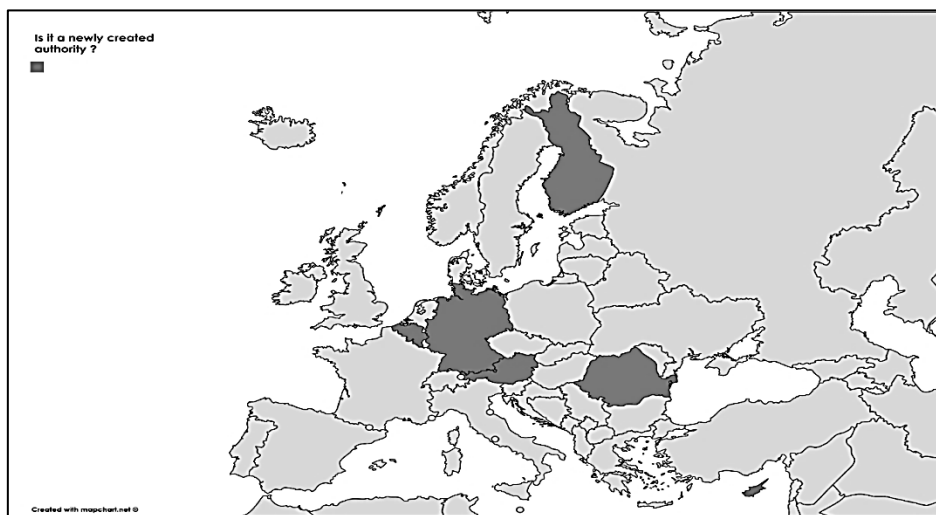
| Table no. 1. Characteristics of oversight bodies from EU and EEA countries | | | | |
|---|---|--|--|---|
| No. | Indicators | Version 1 | Version 2 | Version 3 |
| 1 | Is it a newly created authority? | Yes | No | There are several authorities? |
| | Countries | Austria, Belgium, Cyprus, Finland, Germany, Romania | Bulgaria, Croatia, Czech Rep., Denmark, Estonia, France, Greece, Hungary, Iceland, Ireland, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, UK | Italy |
| 2 | The involvement of state bodies | Integral | Partially | |
| | Countries | Austria, Bulgaria, Croatia, Denmark, Greece, Hungary, Latvia, Lithuania, Poland, Romania , Slovenia, Sweden | Belgium, Cyprus, Czech Rep, Estonia, Finland, France, Germany, Iceland, Ireland, Italy, Luxembourg, Malta, The Netherlands, Norway, Portugal, Slovakia, Spain, UK | |
| 3 | Governance | Single structure | Several structure | |
| | Countries | Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Malta, Norway, Poland, Portugal, Romania , Slovakia, Slovenia, Sweden, UK | Austria, Czech Rep., Germany, Greece, Luxembourg, The Netherlands, Spain | |
| 4 | Is there an advisory committee? | Yes | No | |
| | Countries | Austria, Belgium, Czech Rep., Denmark, Germany, Italy, Latvia, Lithuania, Luxembourg, Spain | Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Malta, The Netherlands, Norway, Poland, Portugal, Romania , Slovakia, Slovenia, Sweden, UK | |
| 5. | Funding | Entirely from the state budget | Entirely from professional bodies/ auditors | Mixed |
| | Countries | Bulgaria, Croatia, Czech Rep., Latvia, Lithuania | Austria, Belgium, Denmark, Finland, France, Iceland, Luxembourg, The Netherlands, Norway, Poland, Spain, Sweden, UK | Cyprus, Estonia, Germany, Greece, Hungary, Ireland, Italy, Malta, Portugal, Romania , Slovakia, Slovenia |

Source: Author's work, after study made by de Accountancy Europe, 2018

From Table no. 1 results that only in 6 countries the oversight body was newly created, following the

application of Directive 2014/56/EU, including Romania (Figure no. 2).

Figure no. 2. Countries where new authority was created

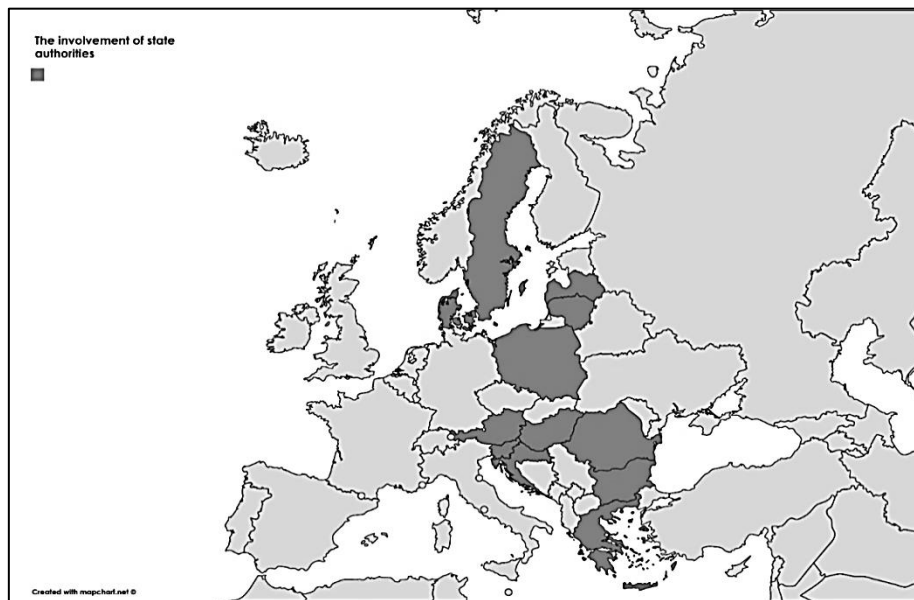


Source: Author's work, 2019

Also, there is a complete involvement of the state bodies in the oversight body activity in 12 countries, from

different geographical areas and levels of economic development (Figure no. 3).

Figure no. 3. Countries where the involvement of state bodies are integral



Source: Author's work, 2019

Most countries have opted for a single management structure of governance, including Romania, and a number of 7 countries have regulated two or more

management structures, a common feature of these countries being the high level of economic development (*Figure no. 4*).

Figure no. 4. Countries where there is a single management structure of governance

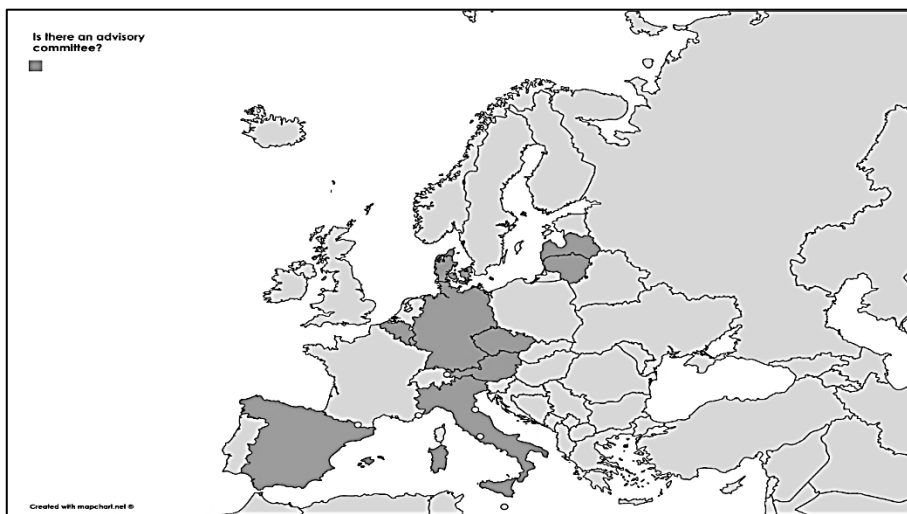


Source: Author's work, 2019

The advisory committees of the oversight bodies were set up in 10 countries, choosing to involve

experts and practitioners in the supervision process (*Figure no. 5*).

Figure no. 5. Countries where there is an advisory committee

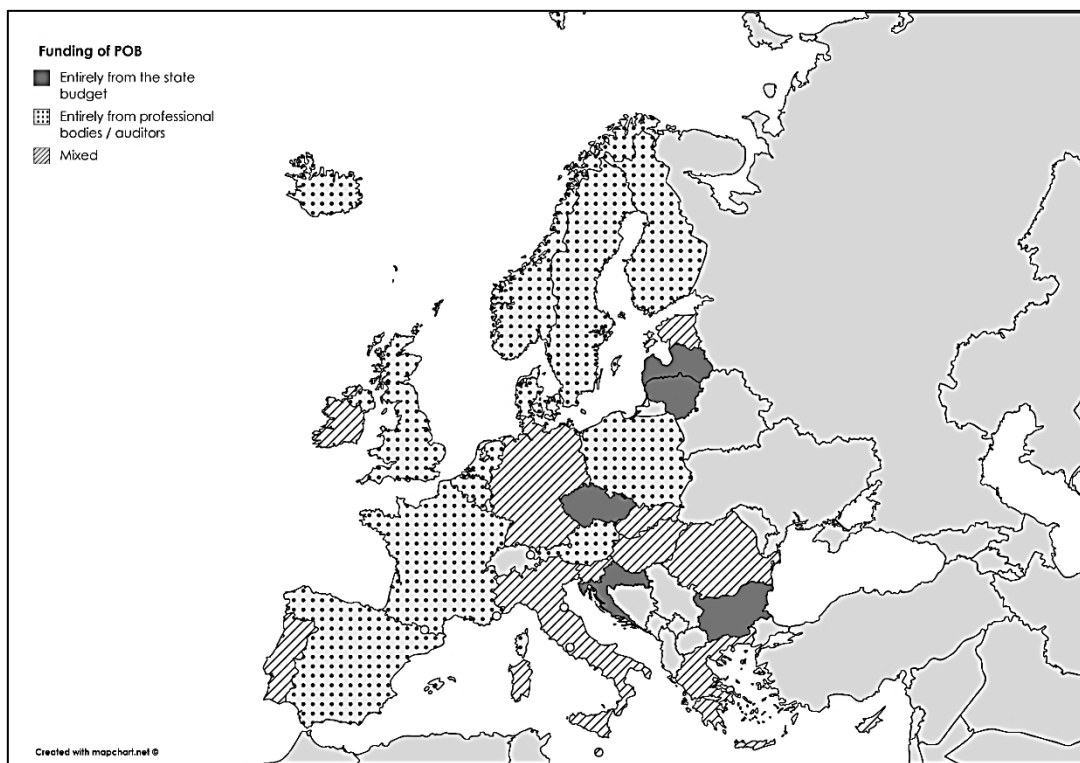


Source: Author's work, 2019

Regarding the financing of the activities of the oversight bodies, from **Table no. 1** results in three situations, namely the full financing from the state budget in 5 countries belonging to the Central and Eastern area of the EU, full financing from professional bodies and directly from auditors in 13 countries, most of them economically developed,

as well as mixed financing in 12 countries (**Figure no. 6**). It should be mentioned that in the countries belonging to the group of Central and Eastern Europe the funding from the state budget is majority, compared to the developed countries of the EU where the emphasis is placed on funding from professional bodies.

Figure no. 6. Funding of public oversight bodies



Source: Author's work, 2019

In organizing the oversight bodies, the distinction is made between public interest entities (PIE) and the other entities (non-PIE), the supervision being more severe in public interest entities. In order to achieve this differentiation, there is also the situation in which two oversight bodies were established, as in Italy. Also, for non-PIE entities the oversight bodies have delegated more of their attributions to the professional bodies.

Of the activities that the oversight bodies can carry out, quality assurance system is fully in the competence of oversight bodies in all EU Countries, as required by the

Directive, and in Iceland and Norway. The other activities may be carried out by the oversight body, recognized professional bodies or both institutions in common. The key activities of the oversight bodies for public interest entities are detailed in **Table no. 2**.

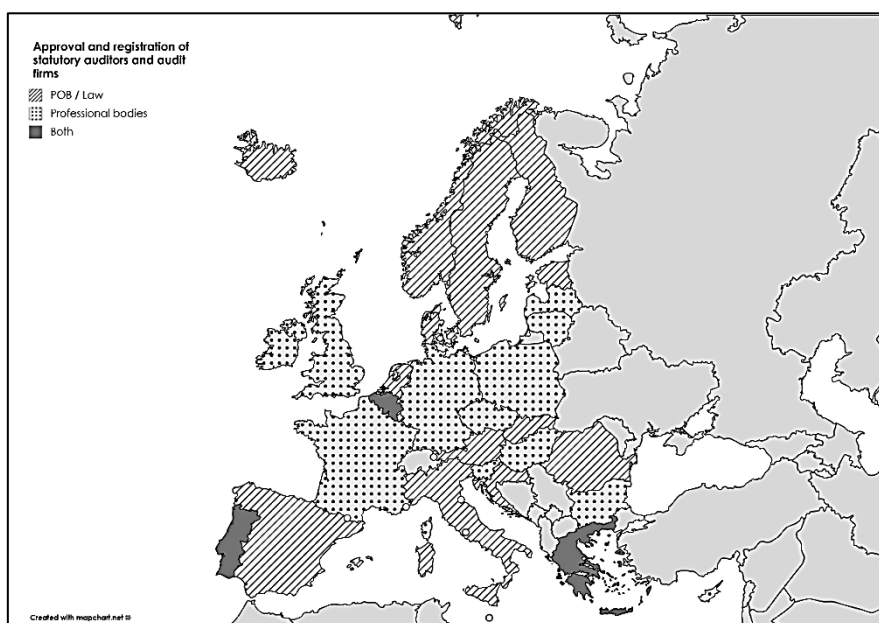
The activity of approval and registration of statutory auditors and audit firms can be carried out by the oversight body in 15 EU countries or it can be delegated to recognized professional bodies in 12 other countries or jointly carried out in 3 countries (**Figure no. 7**). The structure of the two major groups is heterogeneous, so a common feature cannot be identified.

Table no. 2. The main activities of the Public Oversight Bodies (POB) for public interest entities

| No. | Indicators | POB / Law* | Professional bodies | Both |
|-----|---|--|--|---|
| 1 | Approval and registration of statutory auditors and audit firms | Austria, Croatia, Denmark, Estonia, Finland, Italy, Iceland *, Luxembourg, Malta, The Netherlands, Norway, Romania , Slovakia, Spain, Sweden | Bulgaria, Cyprus, Czech Rep., France, Germany, Hungary, Ireland, Latvia, Lithuania, Poland, Slovenia, UK | Belgium, Greece, Portugal |
| 2 | Adoption of relevant standards | Bulgaria*, Cyprus, Estonia, Greece, Ireland, Luxembourg, Malta*, The Netherlands*, Romania , Slovakia, UK | Croatia, Czech Rep., Denmark, Finland, Germany, Hungary, Latvia, Norway, Poland, Portugal, Sweden | Austria, Belgium, France, Italy, Lithuania, Slovenia, Spain |
| 3 | Continuing education | Denmark, Finland, Iceland, Italy, Luxembourg, Norway, Romania , Spain | Bulgaria, Cyprus, Czech Rep., Estonia, Germany, Hungary, Ireland, Latvia, Lithuania, The Netherlands, Poland, Portugal, Slovakia, Slovenia, UK | Austria, Belgium, Croatia, France, Greece, Malta, Sweden |
| 4 | Investigative and administrative disciplinary system | Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Norway, Poland, Romania , Slovakia, Slovenia, Spain, Sweden, UK | | Austria, Czech Rep., Ireland, Portugal |

Source: Author's work, after study made by de Accountancy Europe, 2018

Figure no. 7. Approval and registration of statutory auditors and audit firms

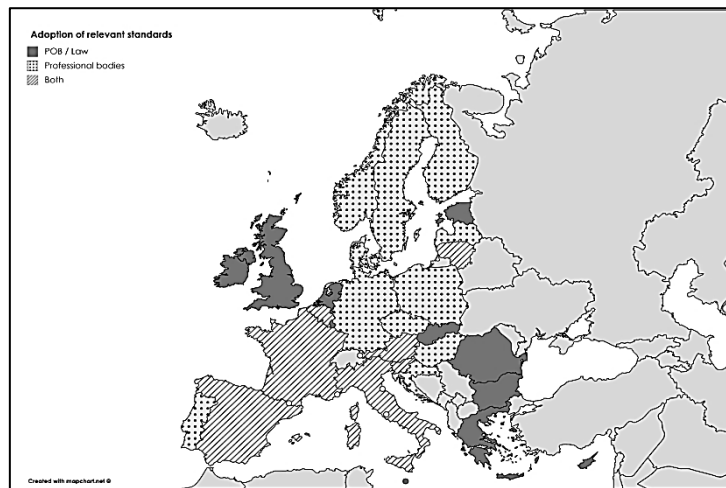


Source: Author's work, 2019

Adopting the standards relevant to the statutory audit activity is the responsibility of the oversight body or the law in the case of 11 countries, the professional bodies

in the case of 11 other countries, as well as a common task in the case of 7 countries (*Figure no. 8*). For Iceland, no information has been identified.

Figure no. 8. Adopting the standards relevant to the statutory audit activity

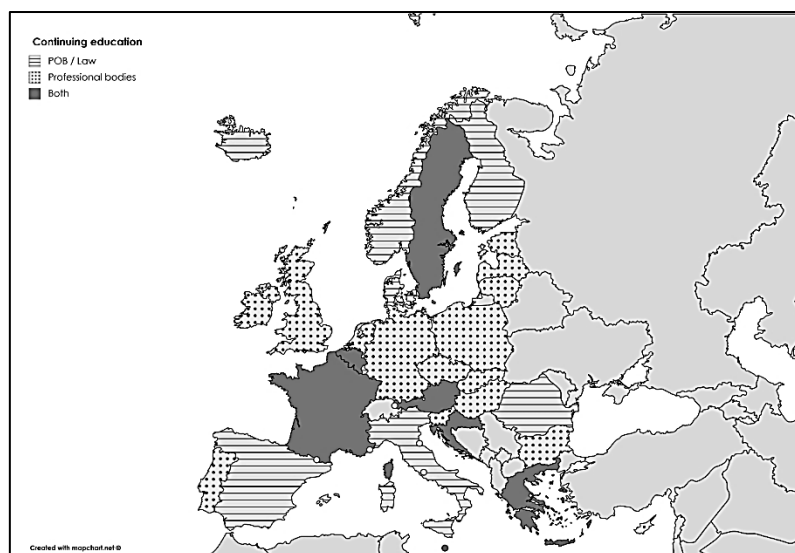


Source: Author's work, 2019

Continuing education was considered the main attribute of professional bodies in the case of a group of 15 countries, other 7 countries regulated this activity as

being common to both parties involved in the statutory audit activity, and 8 countries left this attribution only to the oversight body, including Romania (*Figure no. 9*).

Figure no. 9. Continuing education

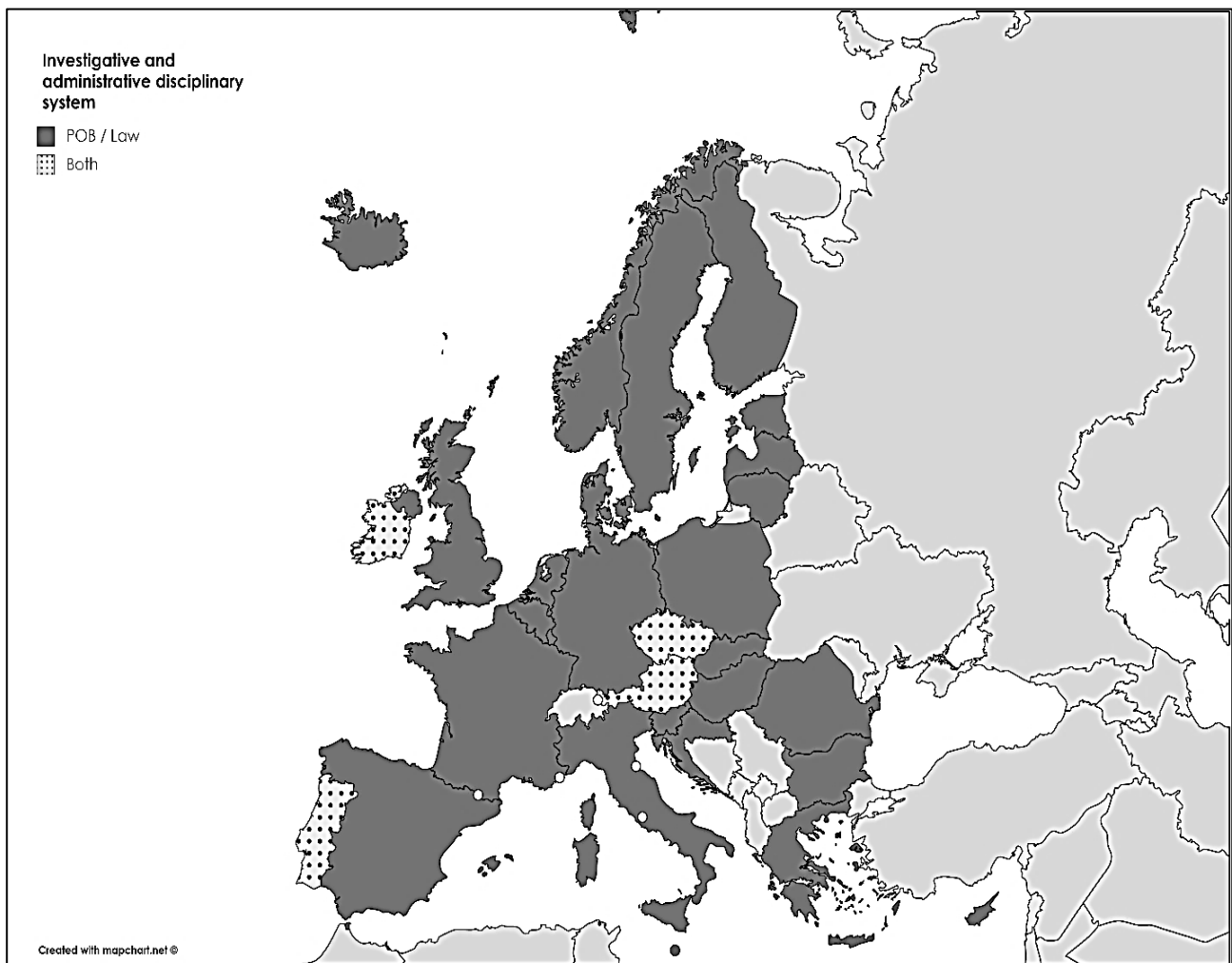


Source: Author's work, 2019

The investigative and administrative disciplinary system was regulated as the main attribution of the oversight bodies, the professional bodies being able

to carry out this activity only with the oversight bodies in the case of four EU countries (*Figure no. 10*).

Figure no. 10. The investigative and administrative disciplinary

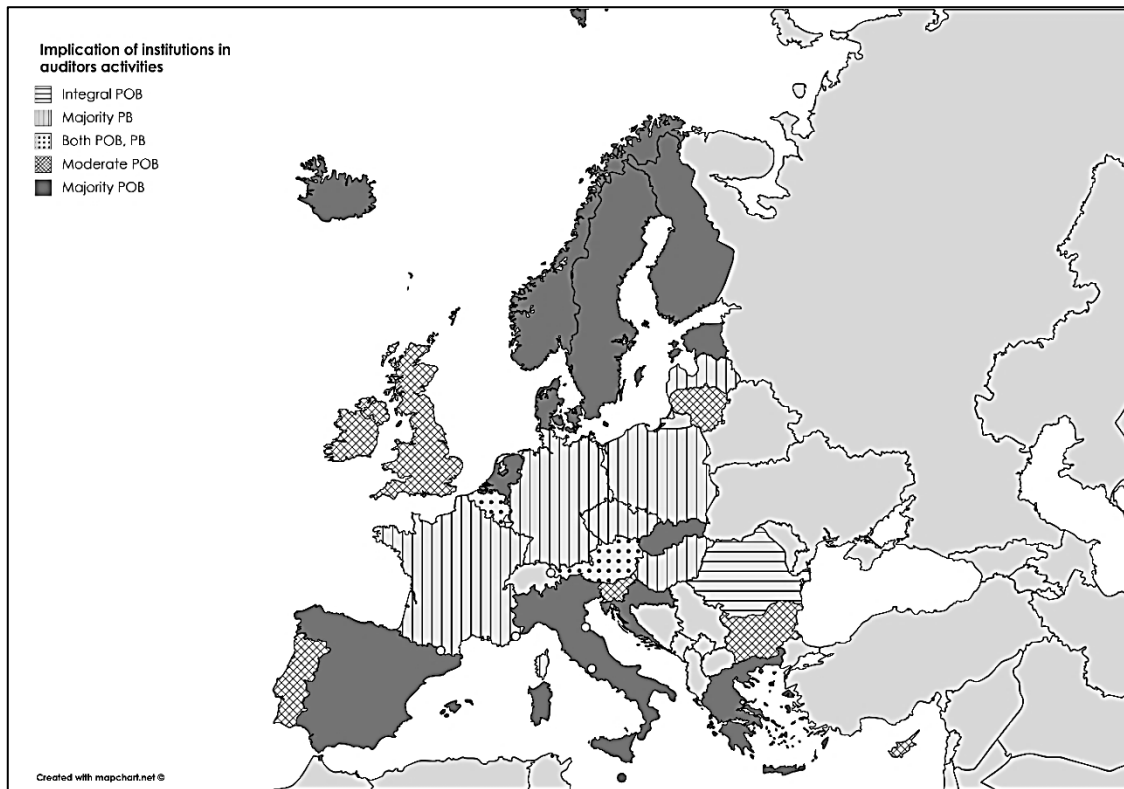


Source: Author's work, 2019

From **Table no. 2** it is observed that each of the 4 mentioned activities is divided in almost equal proportions between the oversight bodies and the professional bodies, of course in different countries. It should be noted that Romania and Luxembourg are the only countries in which the oversight bodies have taken

over all the attributions regarding the statutory audit of the financial statements of public interest entities. In contrast, the Czech Republic, Germany, Hungary, Latvia and Poland are countries that have been more involved with the professional bodies in the oversight of the statutory audit activity (*Figure no. 11*).

Figure no. 11. Implication of institutions in auditors' activities



Source: Author's work, 2019

A balanced involvement of all the decision makers in increasing the quality of the statutory audit activity can be considered a permanent wish for increasing the reputation of the financial auditors and increasing the confidence on the activity performed.

The results of the activity of the oversight bodies are measured by the number of inspections carried out and the conclusions of these inspections. Due to the lack of data or the existence of incomplete data, statistical analyzes and interpretations could

not be carried out to determine the effectiveness of the surveillance activity in EU countries.

The proper functioning of the oversight bodies is ensured by the existence of a transparent and continuous funding. In order to reflect the correlation between the dependent variable – the funding and the independent variables represented by the characteristics of the oversight bodies and the activities performed by them in the EU and EEA countries, an econometric model will be tested using a linear regression equation of a multifactorial type, according to the following formula:

$$F_b = \alpha_{it} + \beta_1 A_n + \beta_2 I_s + \beta_3 G + \beta_4 C_a + \beta_5 A_a + \beta_6 S_r + \beta_7 E_c + \beta_8 I_a + \epsilon_{it} \quad (1)$$

In order to determine the explanatory power of the proposed model, hypothesis testing will be carried out through several models in which all independent variables will be included, as well as testing only with variables

whose statistical significance will be more relevant.

In **Table no. 3** is presented the description of the indicators, quantification that was carried out similarly in the study conducted by Osma et al. (2017).

Table no. 3. Description of variables

| Variable | Description |
|---|--|
| Funding of the oversight body (Fb) | 1 – if is fully funded from the state budget 0.5 – if it is a mixed funding 0 – if is fully funded from the de professional bodies (PB)/ auditors |
| New created authority (An) | 1 – if is a new authority 0 – if is not |
| Involvement of the state bodies (Is) | 1 – if the involvement is full 0 – if the involvement is partially |
| Governance (G) | 1 – if there is only one structure 0 – if there are two or more structures |
| Advisory committee (Ca) | 1 – if there is an advisory committee 0 – if there is no advisory committee |
| Approval and registration of statutory auditors (Aa) | 1 – if the activity is carried out by the authority 0.5 – if the activity is carried out by both institutions 0 – if the activity is performed by the PB |
| Adoption of relevant standards (Sr) | 1 – if the activity is carried out by the authority 0.5 – if the activity is carried out by both institutions 0 – if the activity is performed by the PB |
| Continuing education (Ec) | 1 – if the activity is carried out by the authority 0.5 – if the activity is carried out by both institutions 0 – if the activity is performed by the PB |
| Investigative and administrative disciplinary system (Ia) | 1 – if the activity is carried out by the authority 0 – if the activity is performed by the PB |

Source: Author's work, 2019

In order to highlight whether the source of the funding of the public oversight body is influenced by the other factors, a descriptive statistic of the analyzed indicators presented in the **Table no. 4.**

A correct statistical description regarding the average of the indicators can be made only for those with values of 1 or 0, where it is observed that out of the total number of observations, from 30 countries, on average in 20% of them are newly established

authorities. Also, on average, 37% of the state bodies are involved in the activity of the oversight bodies. Similarly, on average 77% of the number of countries have a single governance structure and only one third of them have constituted advisory boards within the oversight body. Of the total number of observations, in the case of 87% of them the disciplinary system of investigation and administration is the responsibility of the oversight body.

Table no. 4. Descriptive statistics

| Variables | Average | Standard error | Standard deviation |
|-----------|---------|----------------|--------------------|
| Fb | 0.3667 | 0.0675 | 0.3699 |
| An | 0.2000 | 0.0743 | 0.4068 |
| Is | 0.3667 | 0.0895 | 0.4901 |
| G | 0.7667 | 0.0785 | 0.4302 |
| Ca | 0.3333 | 0.0875 | 0.4795 |
| Aa | 0.5500 | 0.0875 | 0.4798 |
| Sr | 0.5167 | 0.0812 | 0.4450 |
| Ec | 0.3833 | 0.0784 | 0.4292 |
| Ia | 0.8667 | 0.0631 | 0.3458 |

Source: Author's work, 2019

The correlation between the 9 variables analyzed is presented in **Table no. 5**, from which it results that the dependent variable *funding* (Fb) is in a moderate positive correlation with *the involvement of state bodies* (0.28) and in a significant negative correlation with *the continuing education* (-0.48), but also with *the approval and registration of the statutory auditors* (-0.40). Of the independent variables, the most relevant positive

correlations identified are between *continuing education* and *approval and registration of statutory auditors* (0.70), as well as between *the governance structure* and *the investigative and administrative disciplinary system* (0.25). Also, the relatively moderate negative correlations can be mentioned between *the adoption of the relevant standards* with *the involvement of the state bodies* and *the existence of advisory committees* (-0.27).

Table no. 5. Correlation matrix

| | Fb | An | Is | G | Ca | Aa | Sr | Ec | Ia |
|----|---------|---------|---------|---------|---------|--------|---------|--------|----|
| Fb | 1 | | | | | | | | |
| An | -0.1604 | 1 | | | | | | | |
| Is | 0.2790 | -0.0346 | 1 | | | | | | |
| G | 0.1228 | -0.1182 | 0.0927 | 1 | | | | | |
| Ca | 0.0648 | 0.1768 | 0.0489 | -0.4458 | 1 | | | | |
| Aa | -0.3984 | 0.0353 | -0.0807 | -0.1086 | 0.0000 | 1 | | | |
| Sr | -0.0384 | -0.0190 | -0.2662 | -0.0691 | -0.2694 | 0.1171 | 1 | | |
| Ec | -0.4816 | 0.1382 | -0.0355 | -0.0591 | 0.1955 | 0.6992 | -0.0346 | 1 | |
| Ia | -0.1438 | -0.0490 | 0.0950 | 0.2473 | -0.1387 | 0.1455 | 0.1270 | 0.2401 | 1 |

Source: Author's work, 2019

The econometric model was tested with all independent variables, and in **Table no. 6** the results of the

regression are presented.

Table no. 6. Results of regression for Model 1

| Regression Statistics | |
|-----------------------|--------|
| Multiple R | 0.8175 |
| R Square | 0.6683 |
| Adjusted R Square | 0.5173 |
| Standard Error | 0.3473 |
| Observation | 30 |

| ANOVA | | | | | |
|------------|----|--------|--------|--------|----------------|
| | df | SS | MS | F | Significance F |
| Regression | 8 | 5.347 | 0.6683 | 5.5413 | 0.000765 |
| Residual | 22 | 2.6534 | 0.1206 | | |
| Total | 30 | 8 | | | |

| | Coefficients | Stand errors | t Stat | P-value |
|-----------|--------------|--------------|---------|---------|
| Intercept | 0 | #N/A | #N/A | #N/A |
| An | -0.0773 | 0.1613 | -0.4791 | 0.6366 |
| Is | 0.2279 | 0.1362 | 1.6741 | 0.1083 |
| G | 0.2950 | 0.1473 | 2.0028 | 0.0577 |
| Ca | 0.3145 | 0.1397 | 2.2503 | 0.0348 |
| Aa | 0.0384 | 0.1881 | 0.2040 | 0.8402 |
| Sr | 0.1723 | 0.1494 | 1.1534 | 0.2611 |
| Ec | -0.4339 | 0.2258 | -1.9215 | 0.0677 |
| Ia | 0.0069 | 0.1845 | 0.0375 | 0.9704 |

Source: Author's work, 2019

From **Table no. 6** results that there is a significant link between the variables, respectively the modification of the independent variables influences in a proportion of 67% the modification of the dependent variable. The model is validated only for the variables Is, G, Ca, Ec, concluding that the funding can be influenced only by these variables.

Subsequently, the model was tested only with these four variables (Model 2) for which the model was validated, where the modification of the four variables influences in a proportion of 63% the modification of the dependent variable, and the Multiple R shows a very strong link between them. (**Table no. 7**).

Table no. 7. Results of regression for Model 2

| Regression Statistics | | | | | |
|-----------------------|--------------|----------------|---------|---------|----------------|
| Multiple R | | 0.7962 | | | |
| R Square | | 0.6340 | | | |
| Adjusted R Square | | 0.5533 | | | |
| Standard Error | | 0.3356 | | | |
| Observation | | 30 | | | |
| ANOVA | | | | | |
| | df | SS | MS | F | Significance F |
| Regression | 4 | 5.0717 | 1.2679 | 11.2576 | 0.0000 |
| Residual | 26 | 2.9283 | 0.1126 | | |
| Total | 30 | 8 | | | |
| | Coefficients | Standard Error | t Stat | P-value | |
| Intercept | 0 | #N/A | #N/A | #N/A | |
| Is | 0.2128 | 0.1268 | 1.6787 | 0.1052 | |
| G | 0.3774 | 0.0957 | 3.9448 | 0.0005 | |
| Ca | 0.3117 | 0.1268 | 2.4589 | 0.0209 | |
| Ec | -0.3710 | 0.1432 | -2.5913 | 0.0155 | |

Source: Author's work, 2019

The results of the statistical processing confirm the hypothesis that the variant of ensuring the funding of the oversight body by transfer from the state budget or by the contribution of professional bodies is influenced most by the state's involvement in organizing the activity, the existence of advisory committees and the type of governance structure. An inverse relationship was found between the funding and the continuing education, a confirmed relationship also in the correlation matrix.

The other 4 variables (An, Aa, Sr, Ia) do not have an influence on the funding form chosen, but together with the variables for which the model has been validated give greater explanatory power to the proposed model.

Therefore, the funding modality is an important indicator that can be correlated with the activities of the oversight bodies and contributes to ensuring the independence of them and to ensuring their decision-making transparency.

Conclusions

The activity of financial auditors is carried out in a regulated framework and in compliance with professional standards established by professional bodies. Weaknesses in the activity of financial auditors have led to a decrease in public confidence in their mission. In response to this situation, public oversight bodies of the activity of auditors have been created to ensure investor confidence in decision making, especially for public interest entities.

The aim of the paper was to highlight the manner in which the oversight bodies established in developed countries and the European Union, as well as the comparative study on how the EU Directive 2014/56/EU was implemented in the national laws of the members states.

From the analysis, it was found that each country has chosen its own way of transposing the regulations and organizing the public oversight bodies. The econometric

model chosen showed that there is a direct relationship between the source of the funding of the oversight bodies and their characteristics, respectively the involvement of the state bodies in organizing the activity, the existence of advisory committees and the type of governance structure. An inverse relationship was found between the funding source and the continuing education of the auditors.

An important conclusion that can be drawn is that the oversight of statutory auditors has become a necessity, from the fact that any activity can be improved, and an additional control leads to improvement. Increasing the quality of the audit must also be a permanent concern of the auditors, not only the (Chersan, 2019). The events in the economy and society have led this activity to go from the voluntary situation provided by professional bodies based on their own quality standards, to a mandatory one, regulated by the appearance of public oversight bodies. After a while it will be confirmed or denied if this option is the best solution.

Practical implications of the paper are the fact that it presents systematically the information regarding the

organization of the oversight bodies from the countries EU members and show Romania's situation compared to the other countries. Also, the econometric model developed can be a reference source for future research in order to test or improve it.

The paper contributes to the knowledge of the reality in the field of financial audit, especially in the field of oversight of this activity by the public authorities. The paper can be a reference for researchers, as well as for practitioners in financial audit, through information on the importance of collaborating with the public oversight bodies.

The limits of the research are given by the fact that the data were collected manually, the sample was relatively small, being limited mainly to countries EU members, and the description of the variables could not be achieved in a unitary way. Future directions of research can be materialized in the sample extension by comparing the public oversight bodies from all countries which created these bodies, as well as the correlation of the indicators regarding their characteristics with relevant indicators of the financial markets.

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