



# Transparency Report 2010

Ernst & Young Moldova

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## Ernst & Young Moldova

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More information about Ernst & Young can be found in the Global Review on our website at [www.ey.com](http://www.ey.com)

# Country Managing Partner's letter



At Ernst & Young, we firmly believe the audit profession plays a vital role in promoting the transparency that underpins confidence in the world's capital markets and drives economic growth. We have welcomed the independent oversight that auditors have faced globally over the past decade, because we believe it has helped to further the quality of our work, and auditors have become more transparent to all of our stakeholders.

Law on audit activity No. 61-XVI of 16 March 2007 and Order of Ministry of Finance No. 115 of 26 December 2008 on approval of Methodical instructions on completion and presentation of the Information on compliance with the procedures of audit quality control and of Methodical instructions on completion and presentation of the Report on transparency of audit company, sole trader auditor require audit companies to publish annual transparency reports disclosing certain information..

This Ernst & Young Moldova Transparency Report 2010 complies with the Law No. 61-XVI of 16 March 2007 and Order of Ministry of Finance No. 115 of 26 December 2008, and covers the calendar year ending 31 December 2010.

At Ernst & Young Moldova we welcome the opportunity to provide this insight into our organization and are certain that you will find it both useful and interesting.

Alexandru Sipitca  
Administrator  
Ernst & Young SRL

Raisa Gonta  
Administrator (certified auditor)  
Ernst & Young SRL

30 April 2011

# General information, legal structure, ownership and governance

In Moldova, Ernst & Young SRL is a limited liability company incorporated in Chisinau and is a member firm of Ernst & Young Global Limited (EYG or Global). In this report we refer to ourselves as Ernst & Young Moldova, the “Firm” or “we” or “us”.

The direct shareholder of Ernst & Young Moldova is a Romanian company Ernst & Young Assurance Services SRL registered in Romania at 05 July 1999, registration number J40/5964/30.06.19 with its official address at Bucuresti, Sector 1, Str. Dr. Iacob Felix, Nr. 63-69, 2nd floor, Romania.

Various individuals are charged with management functions for Ernst & Young Moldova. These individuals are responsible for all day to day management activity and for the application of global and area level policy at the country level. Details of the formal/legal governing bodies of Ernst & Young Moldova are available in the public registry of companies in Moldova.

#### *Provided services*

Ernst & Young Moldova provides audit of the financial statements, tax and financial advisory, bookkeeping services and other business advisory services.

#### *License data*

The audit activity is provided based on the licence serial no. A MMII. 029637 issued on 16 May 2006.

#### *Total number of employees*

As of 31 December 2010, there were 20 employees at Ernst & Young Moldova, 12 of which are in our Audit Department.

#### *Number of employees holding international professional accounting qualification certificates*

At the moment there is one professional based in Ernst & Young Moldova holding an international professional accounting certificate (Certified Internal Auditor (CIA)).

#### *Used languages*

In addition to the state language, the following main languages are used in our professional audit activity: English and Russian.

Ernst & Young’s EMEIA Area comprises EYG member firms in 90 countries in Europe, Middle East, India and Africa. Ernst & Young (EMEIA) Limited (“EMEIA Limited”), an English company limited by guarantee, is the principal governance entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG.

In Europe, a holding entity, Ernst & Young Europe LLP (“Ernst & Young Europe”) was formed in conjunction with the EMEIA Area. Ernst & Young Europe is a UK limited liability partnership, owned by partners of EYG member firms in Europe. It is an audit firm registered with the ICAEW but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, Ernst & Young Europe has acquired or will acquire control of the EYG member firms in a number of European countries in the EMEIA Area. Ernst & Young Europe is a member firm of both EYG and EMEIA Limited.

Ernst & Young Europe has, as of 30 June 2009, ultimate control of Ernst & Young Moldova.

Ernst & Young Europe’s principal bodies are:

#### **Europe Executive**

The Europe Executive effectively operates as the Board of Ernst & Young Europe. It has authority and accountability for strategy execution and management of its operations under four dimensions being People, Quality, Growth and Operational Excellence. It is comprised of the Europe Managing Partner, the Europe Chief Operating Officer, the leaders for Markets, People, Quality & Risk Management, the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all Sub-Area Managing Partners of the Sub-Areas in Europe.

#### **Europe Advisory Council**

Ernst & Young Europe has an elected Europe Advisory Council, which is composed of a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, the financial reports of Ernst & Young Europe, and material transactions.

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, 141,000 people in over 140 countries are united by shared values and an unwavering commitment to quality. Ernst & Young makes a difference by helping its people, clients and wider communities achieve their potential.

# Network arrangements

In this report, Ernst & Young refers collectively to the global organization of member firms of Ernst & Young Global Limited (EYG or Global), a UK company limited by guarantee. EYG is the central entity of the Ernst & Young network and coordinates the member firms and cooperation among them. EYG does not provide services to clients. Its objectives include the promotion of the provision by its member firms of seamless, consistent, high-quality client service, worldwide. Each member firm is a legally distinct entity. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The member firms are grouped into four geographic Areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. The Areas comprise a number of Sub-Areas, which are composed of member firms or sections of those firms.

Ernst & Young Moldova is part of EMEIA, which comprises member firms in 90 countries. Within the EMEIA Area, there are 12 Sub-Areas. Ernst & Young Moldova is part of the Central and South-East Europe ("CSE") Sub-Area.

The structure of the global organization reflects the principles that governance and management roles be separated and that Ernst & Young as a global organization has one shared strategy.

EYG's principal global bodies include:

## **Global Advisory Council**

The Global Advisory Council is the main advisory body of the global Ernst & Young organization. It comprises a number of member-firm partner-level professionals (referred to as "partners") drawn from across the four Areas and, to facilitate stakeholder dialogue, will include independent non-executive representatives ("INEs"). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three - year term, with provisions for one successive re - appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG and Ernst & Young on policies, strategies, and the public interest aspects of their decision making. The approval of the Global Advisory Council is required for a number of significant matters that could affect Ernst & Young.

## **Global Executive**

The Global Executive brings together the leadership of Ernst & Young functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer; the Area Managing Partners; the global functional leaders – the Global Managing Partners of People, Markets, Quality & Risk Management and Operations and Finance; and the global service line Vice Chairs – Assurance, Advisory, Tax and Transaction Advisory Services. The Global Executive also includes a representative from the emerging markets practices.

The Global Executive and the Global Advisory Council approve nominations for the Chairman, Chief Executive Officer and the Chief Operating Officer of EYG and ratify appointments of Global Managing Partners. The Global Executive also approves appointments of Global Vice Chairs. The Global Advisory Council ratifies the appointments of any Global Vice Chair who serves as a member of the Global Executive. Furthermore, the Global Executive approves appointments of Area Managing Partners. Such appointments are subject to ratification by the Global Advisory Council.

## **Global Executive Committees**

Chaired by members of the Global Executive and bringing together representatives from the four Areas, the Global Executive Committees are responsible for making recommendations to the Global Executive. There are committees for People, Quality & Risk Management, Markets, Operations and Finance, Assurance, Advisory, Tax, and Transaction Advisory Services.

## **Global Practice Group**

This group brings together the members of the Global Executive, Global Executive Committees and Sub-Area leaders. The Global Practice Group seeks to ensure common understanding across member firms of Ernst & Young strategic objectives and consistency of execution across the organization.

Under the regulations of EYG, the member firms commit themselves to pursue Ernst & Young's objectives such as the provision of seamless, consistent, high-quality service, worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the minimum scope of service capability. They are required to comply with common standards, methodologies and policies including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources and technology enablers.

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with the applicable professional and ethical standards as well as with all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by our Global Code of Conduct and our Values.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the Ernst & Young organization such as the right and obligation to use the Ernst & Young name and the sharing of knowledge.

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology and human resources. As necessary, special focus reviews are performed to address situations or concerns as they arise. Member firms unable to meet the quality commitments and other EYG membership requirements are subject to separation from the Ernst & Young organization.



# Internal quality control system

Ernst & Young Moldova's reputation for providing high quality professional audit services in an independent, objective and ethical manner is fundamental to our success as independent auditors.

At Ernst & Young Moldova, our role as auditors is to provide assurance on the fair presentation of audit clients' financial reports. We bring together qualified teams to serve our clients, drawing on our expertise - across industry sectors and services. We continually strive to improve our quality and risk management processes so that the quality of our client service is at a consistently high level.

We recognize that in today's environment – characterized by continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important. Reflecting the strength of our commitment to delivering quality in everything we do, Ernst & Young has continued to invest heavily in developing the audit methodology, tools and training to support quality service delivery. While the market continues to demand high-quality audits, it also demands increasingly efficient and effective delivery of audit services. Ernst & Young continues to seek ways to improve the effectiveness and the efficiency of the audit methodology and processes, while maintaining audit quality.

## Effectiveness of quality control system

Ernst & Young has designed and implemented a comprehensive set of global audit quality control policies and practices, as described herein. These policies and practices meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). Ernst & Young Moldova has adopted these global policies and procedures, and has supplemented them as necessary to comply with local laws and professional guidelines and to address specific business needs. We also execute the Ernst & Young Audit Quality Review (AQR) program and annually evaluate whether our system of audit quality control has operated effectively in a manner so as to provide reasonable assurance that Ernst & Young Moldova and our personnel comply with applicable professional and Ernst & Young standards and regulatory requirements.

The results of the AQR program and external inspections are evaluated and communicated within Ernst & Young Moldova to provide the basis for continuous improvement in audit quality, consistent with the highest standards in the profession.

In this section, we describe the various components of our audit quality control system:

- ▶ Instilling professional values
- ▶ Performing audits
- ▶ Review and consultation
- ▶ Internal and external accountability
- ▶ Audit quality reviews

"We recognize that in today's environment the quality of our audit services has never been more important"

**Garry R Collins, Head of Assurance Services, Moldova**

## Instilling professional values

### Tone at the top

Setting the right “tone at the top” is a key responsibility of our senior leadership team. We communicate to our people that quality and professional responsibility starts with them and is the most important thing they do every day. Our approach to ethics and integrity is embedded in training programs and internal communications. Senior management regularly reinforces these expectations and the importance of performing quality work and complying with professional standards and our policies. Also, we assess quality of professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration and consultation and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We also emphasize the importance of determining that an engagement team and client have correctly followed consultation advice when necessary. Our internal message consistently has been that no single client is more important than professional reputation - the reputation of Ernst & Young Moldova and the reputation of each of our professionals. “Quality In Everything We Do” is a message that we continually reinforce to our people and clients.

### Code of conduct

We promote a culture of integrity, as well as the performance of high-quality audits, among all Ernst & Young professionals. The Global Code of Conduct provides a clear set of the standards and behaviours that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone within Ernst & Young Moldova to guide behaviour across all areas of activity:

- ▶ Working with one another
- ▶ Working with clients and others
- ▶ Acting with professional integrity
- ▶ Maintaining our objectivity and independence
- ▶ Respecting intellectual capital

Through our procedures to monitor compliance with the Global Code of Conduct and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

We also have EY/Ethics, a global ethics hotline, to provide Ernst & Young Moldova people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behaviour that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. EY/Ethics is operated by independent external organizations that provide confidential and, if so desired, anonymous, hotline reporting services for companies worldwide.

In addition to the Global Code of Conduct we have specific anti-bribery and insider trading policies.

## Our values

### Who we are

People who demonstrate integrity, respect and teaming.

People with energy, enthusiasm and the courage to lead.

People who build relationships based on doing the right thing.

## Performing audits

### Audit methodology

The Ernst & Young Global Audit Methodology (EY GAM) provides a global framework for delivery of high-quality audit services through consistent application of thought processes, judgments and audit procedures in all audit engagements. One of the cornerstones of EY GAM is making (and reconsidering and modifying, when appropriate, throughout the audit) risk assessments and then determining the nature, timing and extent of audit procedures based on those risk assessments. EY GAM also places emphasis on the application of appropriate professional scepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in Moldova to comply with the local Moldovan auditing standards and regulatory or statutory requirements.

EY GAM is organized into interdependent phases designed to focus on the client's business and financial statement risks and how those risks affect our audit of the financial statements. EY GAM reflects the typical flow of an audit's execution. The methodology and related guidance is presented in a three-layer format. The three parts of EY GAM consist of the GAM Framework, GAM Performance Guidance and GAM Enablers. The GAM Framework is a concise description of how Ernst & Young Moldova performs an audit and provides links to the GAM Performance Guidance. The GAM Framework is a concise description of how our professionals perform an audit and provide links to the GAM Performance Guidance. The GAM Performance Guidance also describes parameters for making certain audit decisions. The GAM Enablers consist of templates, examples, checklists, and leading practice illustrations for performing and documenting audit procedures.

Enhancements to the audit methodology are made on a regular basis as a result of new standards, emerging auditing issues, or implementation experiences. For example EY GAM was completely rewritten this past year to incorporate new auditing requirements as a result of the issuance of new and clarified ISAs.

As part of EY GAM, there are procedures required to be completed to assess independence from the audit client.

### Technology enablers

Numerous technology enablers are used by audit engagement teams to assist in executing and documenting the work performed in accordance with EY GAM. For example, GAMx is an audit support tool that drives uniform execution of EY GAM and appropriate audit documentation, strengthening our ability to deliver consistent, high-quality audits. It provides linked access to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to execute and document a risk-based audit effectively. GAMx provides a team-collaboration environment that facilitates sharing information and the documentation of procedures and conclusions. GAMx also enables secure peer-to-peer communications so our people can work together as if they were in the same physical location. Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations and data acquisition and analysis functions.

### Formation of audit engagement teams

Ernst & Young Moldova policies require an annual review of partner assignments by our Assurance leadership and Professional Practice Director (PPD) to make sure that the professionals leading listed company audits possess the appropriate competencies, i.e., the knowledge, skills and abilities to fulfill their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

The assignment of people to audit engagement teams is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include: competence, engagement size and complexity, specialized industry knowledge and experience, timing of work, continuity and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal specialists are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

## Review and consultation

### Reviews of audit work

Ernst & Young policies describe the requirements for timely, direct executive participation on audits and various levels of reviews of the work performed. Members of the audit engagement team perform a detailed review of the audit documentation while engagement executives perform a second-level review. A tax representative reviews the significant tax and other relevant working papers. For listed companies, an engagement quality review partner (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the listed audit client's financial statements and our report thereon. The nature, timing and extent of the reviews of the working papers that are appropriate in a given instance depend on many factors, including the materiality, subjectivity and complexity of the subject matter; the ability and experience of the audit team member preparing the audit documentation; the level of the reviewer's direct participation in the audit work and the extent of consultation employed.

These policies also describe the roles and responsibilities of each audit engagement team member and the requirements for documenting their work and conclusions.

### Consultation requirements

Consultation requirements and related policies and procedures are designed to involve the right resources so that audit teams can reach appropriate conclusions on relevant accounting, auditing, reporting, regulatory and independence matters. Consultation is a part of the decision-making process, not just a process to provide advice. For complex and sensitive matters, we require or encourage consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. We provide guidance on matters that require consultation.

Ernst & Young policies also describe our requirements for documenting consultations, including the requirement to obtain written concurrence from the person consulted to demonstrate the consultant's understanding of the matter and its resolution.

### Engagement quality reviews

Engagement quality reviews, performed by audit partners in compliance with professional standards, are required for audits of all listed companies. Engagement quality reviewers are experienced professionals with significant subject-matter knowledge, independent of the engagement team and able to provide a further objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual. The engagement quality review is an activity that generally spans the entire engagement cycle and is not limited to a review of the financial statements at the time of issuance of our report. Policies and procedures for the performance and documentation of engagement quality reviews, which were strengthened this past year to place more emphasis on this important quality feature, provide specific guidelines on the nature, timing and extent of the procedures to be performed. Our PPD reviews and approves all engagement quality review assignments.

### Audit engagement team disagreement-resolution process

We have a collaborative culture and encourage our people to speak up if a professional disagreement arises or they are uncomfortable about a matter having to do with a client engagement. Policies and procedures are designed to empower our people by requiring members of an audit engagement team to raise any disagreements that are considered to be material or that may affect our opinion on the financial statements being audited. Such policies are introduced at the entry level and reinforced thereafter to instill in our people both the responsibility and authority to require a thorough hearing and vetting of differing viewpoints.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any individual involved in the discussion of an issue is not satisfied with the decision, he or she has both the right and the obligation to see that the issue is referred to the next level of authority. If the engagement quality reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the appropriate consultative processes for resolution of professional differences. When a matter that goes beyond the audit engagement team is ultimately resolved, our policies require it to be documented in the same manner as described previously for consultations.

**Document retention and data privacy**

Ernst & Young Moldova's record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. The policy also addresses Moldovan legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.

Ernst & Young has a global policy on data privacy that sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers and business associates. It provides a foundation for maintaining the privacy of all personal data used by Ernst & Young Moldova. Furthermore, Ernst & Young Moldova has a policy to address its specific Moldova data privacy requirements and business needs.

## Internal and external accountability

### Auditor rotation

We comply with the auditor rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and Moldova's standard setter and/or regulator. Ernst & Young Moldova supports audit partner rotation because it provides a fresh perspective and promotes independence from company management while retaining expertise and knowledge of the business.

Under Moldovan legislative requirements for local audited entities, the licensed auditor (individual who holds the auditor qualification certificate issued by the local authorities signing the audit report) is rotated after three years. Following rotation, the licensed auditor may not resume the role until a minimum of three years has elapsed. In addition, the Global Independence Policy requires the lead engagement partner and the engagement quality reviewer on listed companies, be rotated after seven years. Following rotation, the partner may not resume the lead or engagement quality review role until a minimum of two years has elapsed.

To monitor requirements on partner rotation effectively, we have tools with which we track partner rotation. We also have implemented a process for partner rotation-planning and decision-making that involves consultation with and approvals by our Professional Practice and Independence professionals.

### Client acceptance and continuance

Ernst & Young's client acceptance and continuance policy sets out principles to determine whether to accept a new client or a new engagement, or to continue a relationship with an existing client. These principles are fundamental to maintaining quality, managing risk, protecting our personnel and meeting regulatory requirements. The objectives of the policy are to:

- ▶ Establish a rigorous process for evaluating risk and making decisions to accept/continue clients or engagements
- ▶ Meet applicable independence requirements
- ▶ Identify and deal appropriately with any conflicts of interest
- ▶ Identify and decline clients that pose excessive risk
- ▶ Require consultation with designated professionals to identify additional risk-management procedures for specific high-risk factors
- ▶ Comply with legal, regulatory and professional requirements.

In addition, the global conflicts policy forms the framework for the client and engagement acceptance and continuance process as far as it relates to conflicts of interest. It defines categories of conflicts of interest as a global standard as well as a process for identifying potential conflicts of interest.

Furthermore, the global conflicts policy includes provisions for managing conflicts of interest, which have been identified by that process, as quickly and efficiently as possible, through the use of appropriate safeguards. Such safeguards range from obtaining the relevant clients' consent to act for two or more clients to member firms ceasing to act in order to remove an identified conflict.

The Global Tool for Acceptance and Continuance (GTAC) is an intranet-based system for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC takes users step-by-step through the acceptance and continuance requirements and connects to the resources and information needed to assess both business opportunities and associated risks.

The client acceptance process involves a careful consideration of the risk characteristics of a prospective client and several due-diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and that the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new listed audit engagement may be accepted without the approval of our PPD.

In our annual client continuance process, we review our service delivery and ability to continue to provide quality service and confirm that clients share Ernst & Young Moldova's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate. As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit, and some clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must concur with the continuance decisions.

Both client acceptance and client continuance decisions depend on, among other things, the absence of any perception that a company's management pressures the audit engagement team to accept inappropriate accounting and reporting or uses financial pressures to undermine audit quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Audit quality reviews

The global Audit Quality Review (AQR) program is a cornerstone of Ernst & Young's efforts to maintain and improve audit quality. Ernst & Young Moldova executes the global Audit Quality Review (AQR) program. The primary goal of the global AQR program is to determine whether systems of quality controls, including those of Ernst & Young Moldova, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards and regulatory requirements. The global AQR program complies with guidelines in the International Standard on Quality Control No. 1, as amended (ISQC No.1) and is supplemented where necessary to comply with Moldova professional standards and regulatory requirements. The AQR program also aids Ernst & Young Moldova's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

The global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the Global Q & RM network.

The engagements reviewed each year are selected on a risk-based approach emphasizing clients that are large, complex or of significant public interest. The AQR program includes detailed, risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements and relevant local professional standards and regulatory requirements. In addition, practice level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set forth in ISQC No. 1. The AQR program complements external practice monitoring and inspection activities, such as regulatory inspection programs and external peer reviews.

The professionals who serve as AQR reviewers and team leaders are selected based on their skills and professional competence in both accounting and auditing as well as their industry specialization. Additionally, team leaders and reviewers frequently work in the AQR program over a period of several years and possess a high level of skill in the execution of the program. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

Results of the AQR program and external practice-monitoring and inspection activities are evaluated and communicated so that quality improvement actions can be taken at the appropriate level. Measures to resolve audit quality issues noted from the AQR program, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD. The actions identified are monitored by our PPD. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.



# External quality assurance review

The Council of Supervision of the Audit Activity has the right to control audit companies on compliance with the audit quality requirements. EY Moldova was not controlled by the regulator until now.

# Independence practices

Ernst & Young independence policies and processes are designed to enable Ernst & Young Moldova and our professionals to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) and under Moldovan independence rules provided for in the Law on audit activity No. 61-XVI of 16.03.2007 and other local specific regulations. All professionals and certain other employees are required to participate in annual independence learning, to help maintain our independence when performing services for audit clients. The goal is to help our people understand both their personal and Ernst & Young Moldova's obligations to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in serving an audit client.

We consider and evaluate independence from several relevant perspectives, including the financial relationships of both our Firm and covered persons (as defined by applicable professional standards), employment relationships, business relationships, the potential non-audit services we provide to audit clients, partner rotation, fee arrangements, Audit Committee pre-approval where applicable and partner remuneration and compensation.

A professional's failure to comply with applicable professional independence requirements will generally factor into promotion and compensation decisions, and may lead to other disciplinary measures.

We have implemented Ernst & Young global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

## **Global Independence Policy**

Ernst & Young's Global Independence Policy contains the independence requirements for member firms, professionals and other employees. It is a robust policy predicated on the IESBA independence code, with more stringent requirements where prescribed by a given regulator. The Global Independence Policy also contains helpful supplementary guidance on a wide range of topics to aid professionals and other employees in applying the complex independence rules. The Global Independence Policy is readily accessible through our intranet.

## **Global Independence System**

Ernst & Young's Global Independence System (GIS) is an intranet-based tool that helps us, our professionals and other employees determine the listed entities from which independence is required and the independence restrictions that apply to each one. Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of the listed audit client and is updated periodically by client-serving engagement teams. The entity data includes notations that indicate the independence rules which apply to each entity so our professionals can readily see both the entity and the independence notations. GIS is frequently used by our professionals to determine the type of services that can be provided to the client based on the independence notations.

## **Global Monitoring System**

Ernst & Young's Global Monitoring System (GMS) is another important global tool that assists us and our professionals in identifying proscribed securities and other financial interests that are not permissible to own. Professionals of manager or higher rank are required to report the securities, which they or their immediate family members hold, into the GMS. When an individual enters a proscribed security into GMS, the individual will receive a notice and be required to dispose of the security in a timely manner. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

GMS also permits annual and quarterly confirmation of compliance with Ernst & Young independence policies, as described in greater detail below.

### **Independence compliance**

EYG has established a number of processes and programs aimed at monitoring the compliance with independence requirements of Ernst & Young professionals and member firms. These include the following activities, programs and processes:

#### ***Independence confirmations***

Annually, each member firm and its associated entities are included in an Area-wide process to confirm compliance with the Global Independence Policy and requirements and to report identified exceptions, if any.

All Ernst & Young professional personnel and certain others based on their role or function are required to confirm compliance with Ernst & Young independence policies and procedures no less than annually. All partners are required to confirm compliance quarterly.

Timely and accurate completion of annual and quarterly independence confirmations is a high priority for the responsible leadership teams.

#### ***Global Independence Compliance Team***

Ernst & Young's Global Independence Compliance Team (GICT) conducts an array of testing and member firm visits to assess compliance with several independence matters, including reviewing for non-audit services, business relationships with audit clients and financial relationships of member firms.

Furthermore, the GICT establishes the annual program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

Ernst & Young Moldova confirms that the GICT completed an internal review of independence compliance during 2010.

#### **Non-audit services**

Compliance with professional standards governing the provision of non-audit services to audit clients is designed to be achieved through a variety of mechanisms including the use of SORT (described below), training, tools and required procedures completed during the performance of audits and our internal inspection processes.



**Global independence learning**

EYG develops and deploys a variety of independence learning programs within Ernst & Young.

The annual independence learning program covers the Global Independence Policy and focuses on changes but also recurring themes and topics of importance. The annual independence learning must be completed by professionals and certain other personnel. Timely completion of annual independence learning is required and is monitored closely.

In addition to the annual independence learning program, there are numerous other independence learning programs or content such as in the new hire program, certain milestone programs and core service line curricula.

**Service Offering Reference Tool**

We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, and to make sure that we have the right methodologies, procedures and processes in place as we develop new service offerings. When appropriate, we exit or restrict services that could present independence or other risks. The Service Offering Reference Tool (SORT) provides our people with information about our service offerings. SORT includes guidance around which services can be delivered to audit and non-audit clients, and independence and other risk management issues.

**Business Relationship Evaluation Tool**

We oversee compliance with business relationships independence requirements through our Business Relationships Evaluation Tool. Our Firm, our professionals and other employees are required to evaluate and obtain approval of potential business relationships with an audit client in advance so that our business relationships are consistent with applicable independence professional standards.



# Continuing education of statutory auditors

## **Recruitment and hiring**

A strategic objective is to attract and build life-long relationships with talented audit professionals. Recruiting for the Assurance practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience.

Candidates are evaluated based on the following competencies:

- ▶ Technical skills and knowledge
- ▶ Intellectual competence
- ▶ Leadership skills
- ▶ Team/personal skills
- ▶ Motivation
- ▶ Communication skills
- ▶ Administrative skills

## **Professional development**

Following its launch last year, we continue to deploy EYU, Ernst & Young's globally consistent career development framework. Through EYU, we provide our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

EYU expands the commitment to coaching via various forms of counseling and mentoring, from the moment people are recruited through the various phases of their careers.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all of our people develop the right technical and personal leadership skills wherever they are located around the world. The core audit training courses are supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues. We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40 % (eight hours each year and 48 hours over a three-year period) must cover technical subjects related to auditing and accounting. Above these we expect our registered statutory auditors to comply with local requirements in terms of continuous education.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment.

## **Performance management**

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers. Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of service line competencies that articulate the knowledge and skills that should be maintained and developed for the respective rank.

# Information on qualified auditors

There is 1 (one) individual at Ernst & Young Moldova holding certificates of qualified auditors issued by the local competent authorities as follow:

<b>Las name, first name</b>	<b>Certificate Information</b>	<b>Qualification description</b>
Gonta Raisa	AG Nr. 000096 of 08.02.2008	General Audit
	AIF Nr. 0009 of 26.01.2010	Audit of Financial Institutions



# Appendix: Public interest entity audit clients

The definition of Public Interest Entities under Moldovan law includes the following companies:

“An entity of public interest is deemed that entity that has a special importance for the public due to its field (type) of activity and it is a financial institution, an investment fund, an insurance company, a non-government pension fund, a commercial company whose shares are listed on the Moldovan Stock Exchange.”

For the financial year ended 31 December 2010, Ernst & Young Moldova performed statutory audits of the following public interest entities:

- ▶ Banca Comerciala Romana Chisinau SA
- ▶ Banca de Finante si Comert SA
- ▶ BC Mobiasbanca - Groupe Societe Generale SA



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