

**International Conference**  
***Prospects for Development of Accounting,  
Auditing and Analysis in the Context of  
Euro integration***

**19–20 May, 2011**



LITHUANIAN CHAMBER OF AUDITORS

**Odessa, Ukraine**

**The role of audit in business  
reporting:**

**The Lithuanian experience**



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**The president of the Lithuanian Chamber of Auditors,  
Mrs. Jurgita Kirvaitiene**

## State and economy

### Lithuania



**Area** – 65,200 sq. km.

**Population** – 3 million

**GDP (2010)** – EUR 27.329 bn

**Currency** – Lithuanian Litas (LTL)  
(1 Eur. = 3.4528 LTL, pegged ratio)

**The EU member** since 2004



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## Business in Lithuania

- ❖ **Companies are predominantly small and medium size (~ 95 %)**
- ❖ **> 66,500 SMEs as of 1 January 2011**
- ❖ **~ 130 public interest entities, i. e.:**
  - Listed Entities
  - Banks and Central Credit Union
  - Brokerage Houses
  - Investment Companies and Funds
  - Insurance and Reinsurance Undertakings
  - Central Securities Depository and Vilnius Securities Exchange

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## Financial reporting in Lithuania

### ❖ Financial reporting frameworks:

IFRS as adopted in EU	=> Listed Entities & Banks
Special regulations and Business Accounting Standards	=> Insurance undertakings
IFRS as adopted in EU or Business Accounting Standards	=> Other entities

- ❖ Business Accounting Standards are based on simplification of full IFRS
- ❖ Annual financial statements together with Annual report shall be approved in the Annual shareholders meeting by 30 April and submitted to the Register of Legal Entities within 30 days.

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## Audit profession and oversight

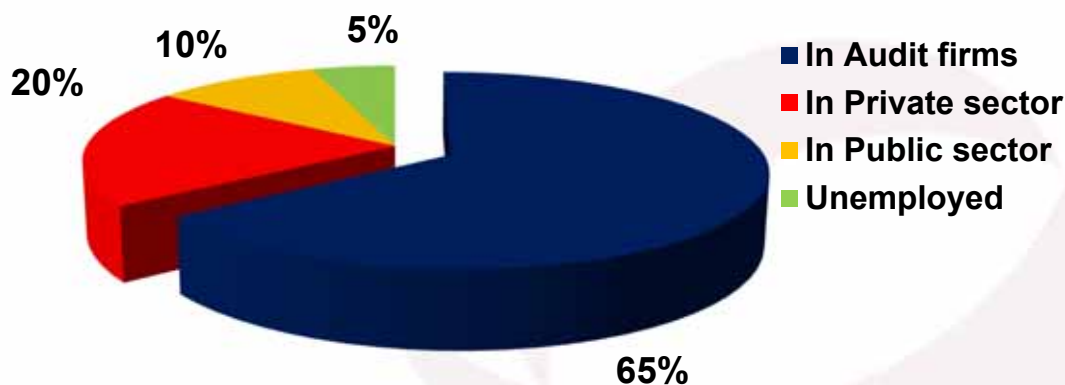
- ❖ Public oversight of audit profession is performed by Authority of Audit and Accounting controlled by Ministry of Finance
- ❖ The Lithuanian Chamber of Auditors (hereinafter - LCA) unifies all certified auditors of Lithuania - membership in LCA is mandatory
- ❖ The Lithuanian Chamber of Auditors is a member of IFAC and FEE



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## Certified auditors

- ❖ **First qualification examination for Lithuanian auditors was held in 1996**
- ❖ **At present (19 May 2011) the LCA unifies 399 certified auditors:**
  - ~ 65% in public practice
  - ~ 35% in various areas in industry, government and education



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## Professional standards

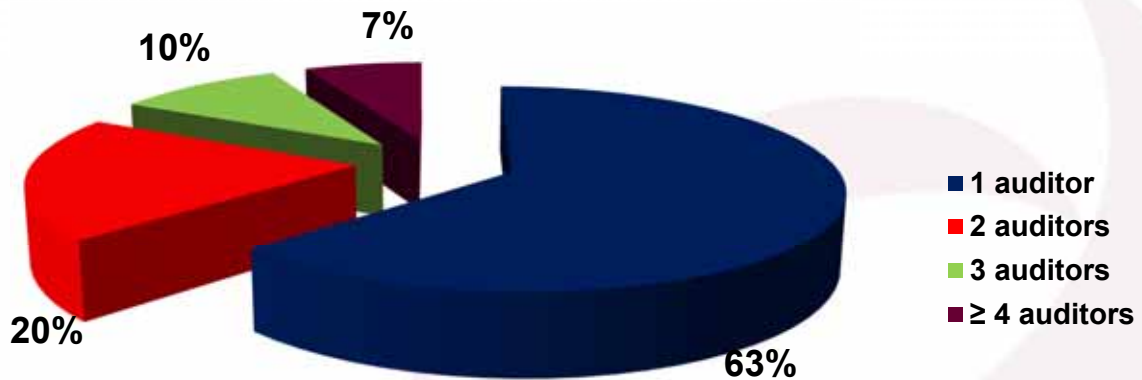
- ❖ **Professional standards mandatory for all Lithuanian auditors and audit firms since 2009:**
  - International Standards on Auditing by IAASB
  - International Quality Control Standard by IAASB
  - Code of Ethics of Professional Accountants by IESBA
- ❖ **National professional standards used until 2009 were developed on the basis of international professional standards**

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## Audit firms

- ❖ 192 audit firms (including ~25 non-operating as audit firm) are registered in Lithuania

Statistics on audit firms by number of auditors for 2010

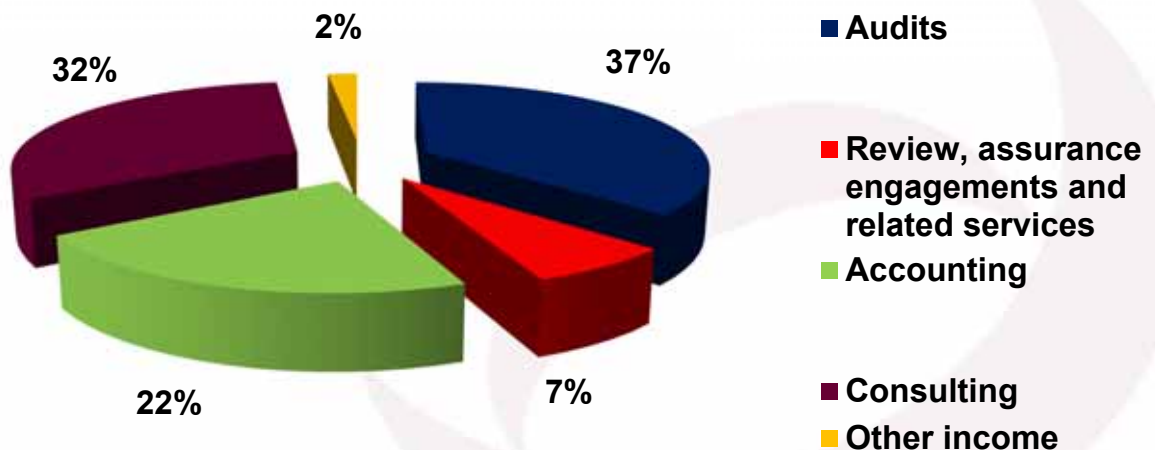


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## Services provided by audit firms

- ❖ Non-audit services (accounting and consulting) comprise a significant portion of services provided by audit firms

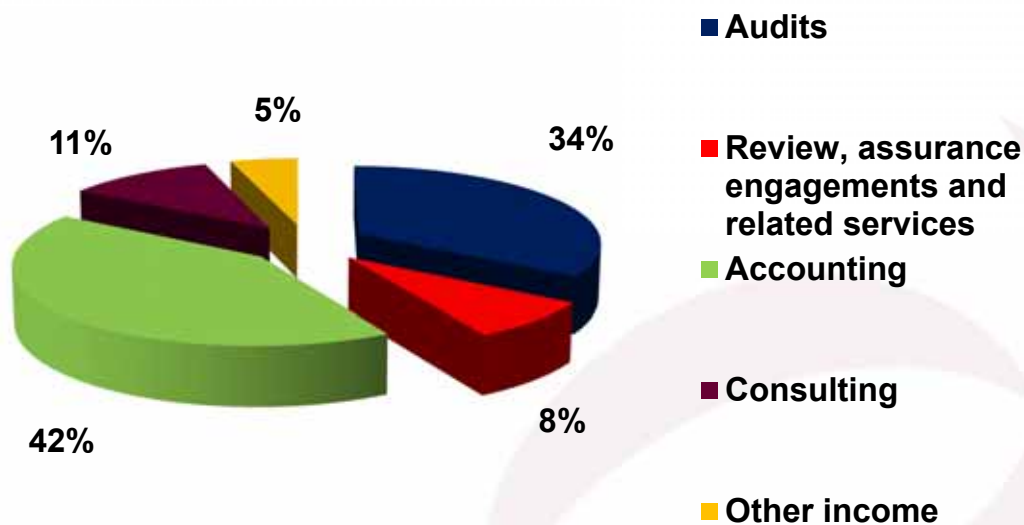
Revenue statistics for 2010



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## Services provided by SMPs

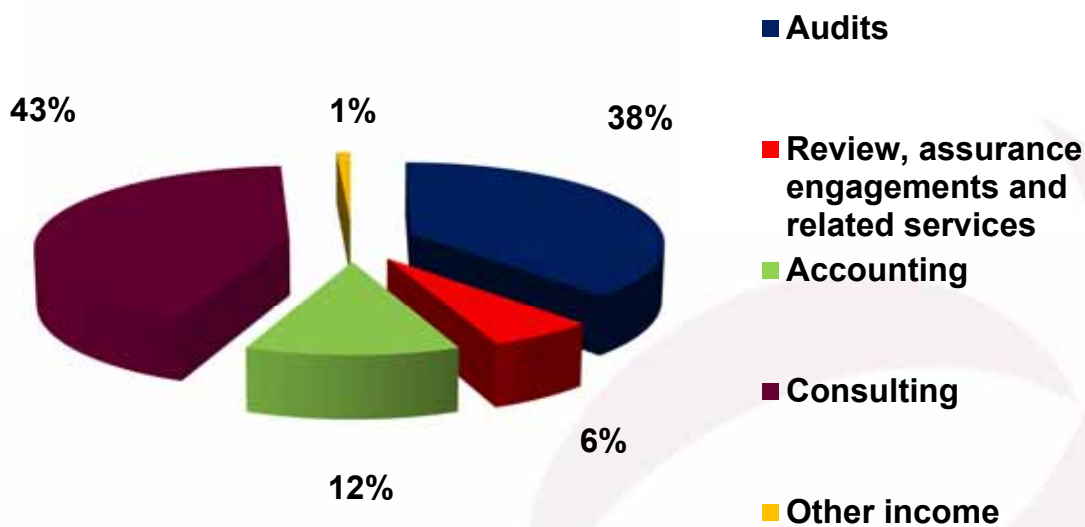
### ❖ Annual revenue distribution of SMPs for 2010



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## Services provided by Big4

### ❖ Annual revenue distribution of Big4 for 2010



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## Mandatory audit requirements

### ❖ Statutory audit of financial statements is compulsory for:

- Public interest entities
- State and municipal enterprises
- Public limited liability companies
- Private limited liability companies where the shareholder is the State and (or) municipality
- Private limited liability which satisfy predetermined criteria

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## Audit thresholds

### ❖ For private limited liability companies statutory audit is required if least two of the following criteria are met:

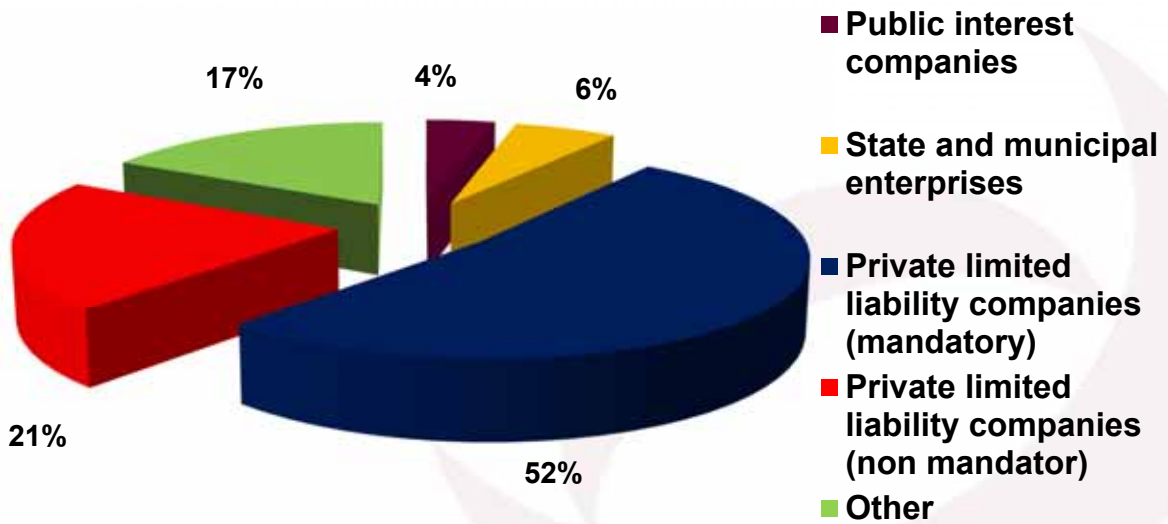
- **net turnover** during a financial year - LTL 12 million (**EUR 3.5 million**)
- **value of assets** in the balance sheet - LTL 6 million (**EUR 1.7 million**)
- average number of payroll **employees** during a financial year - **50**

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## Audit market

- ❖ Private limited liability companies represent a large share of the economy and audit market

Statistics on number of audits for 2010



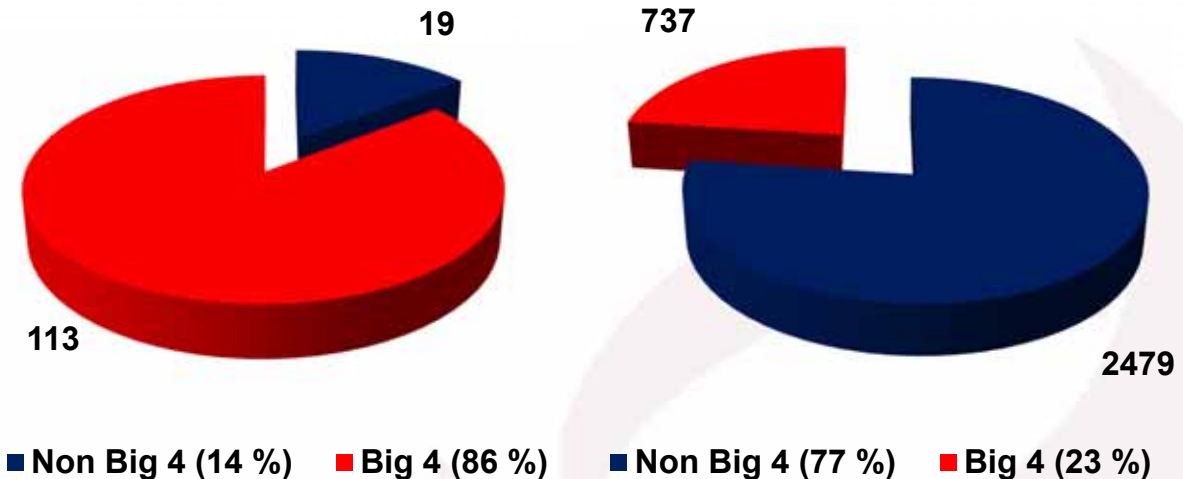
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## Audit market concentration

- ❖ Audits of Public interest companies

- ❖ Audits of other companies

Statistics on number of audits for 2010



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## Purpose of Audit

- ❖ **According to the Law on Audit, the aims of the audit of financial statements are to establish whether:**
  - The **financial statements** of the enterprise give, in all material respects, a true and fair view of the financial position of the enterprise, the results of its operations, and cash flows
  - The **data** given in the **annual report or activity report** of the enterprise correspond to the data presented in the financial statements

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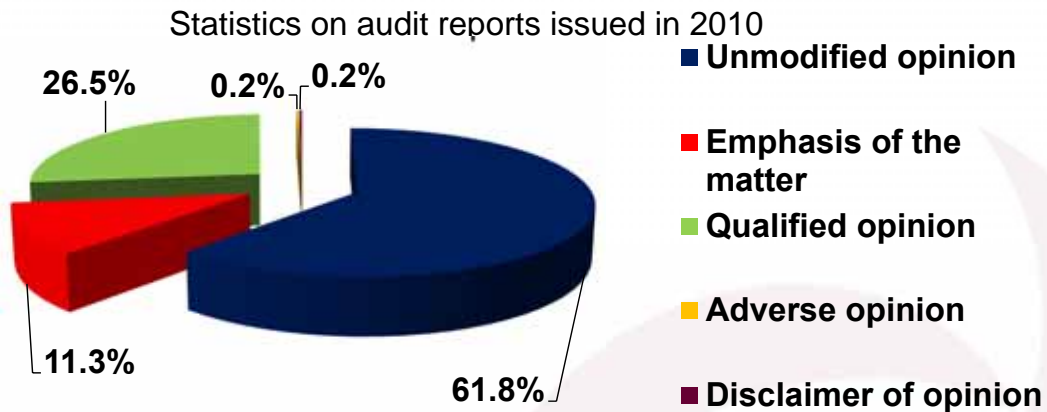
## Additional reporting requirements

- ❖ **Report on Audit - required for audits of public interest entities, state and municipal enterprises**
- ❖ **Content of Report on Audit:**
  - Scope of audit
  - Explanations of circumstances leading to modification of audit report
  - Financial statements related recommendations
  - Assessment on compliance of Annual report or Activity report with audited financial statements
  - Internal control
  - Comments on compliance with specific law requirements, if any
  - Other matters of importance to governance
  - Other matters included in audit contract

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## Quality of financial reporting

### ❖ Distinctive characteristic of Lithuanian financial statements - number of qualified audit reports



- ❖ Lack of active accounting enforcement, except for listed companies and certain financial institutions
- ❖ No formal organized accountancy profession; accountants generally do not have a formal professional qualification

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## Proposals for future

- ❖ Measures proposed by LCA to enhance quality of business reporting:
  - Strengthening of accounting profession & introduction of qualification requirements
  - Revision of audit thresholds and/or introduction of review thresholds for private companies
  - Accounting enforcement in small and medium size enterprises

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