

QUALITY OF FINANCIAL AUDIT IN THE REPUBLIC OF MOLDOVA: BETWEEN REGULATION, INDEPENDENCE AND EXPECTATIONS USED

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Abstract: The purpose of this study is to analyze the quality of financial auditing in the Republic of Moldova in terms of the regulatory framework, the requirements of professional independence and the expectations of the users of the financial statements. The study aims to highlight the main challenges faced by Moldovan auditors and to identify directions for improving audit practices, aligned with international standards.

The subject of the research is the quality of audit missions carried out by audit firms and individual auditors in the Republic of Moldova. The analysis methodology is based on the examination of the national and international regulatory framework (ISA, national audit legislation), on the study of the specialized literature and on the comparison with international good practices. Qualitative and interpretive analysis methods are used to assess the degree of compliance and the level of transparency of the financial audit.

The results of the study highlight that, although the Republic of Moldova has made considerable progress by harmonizing legislation with EU requirements and by strengthening public audit oversight mechanisms, problems related to auditors' independence, the pressure of low fees and the lack of modern technological resources persist. At the same time, there is a discrepancy between the expectations of the users of the financial statements (investors, state, public) and the perceived quality of the audit.

The study concludes that improving the quality of auditing in the Republic of Moldova depends on: strengthening the independence of auditors, promoting professional ethics, increasing the level of digitization of audit processes and intensifying continuous professional training. The implementation of these measures would contribute to increasing the credibility of financial reporting and aligning the audit sector with international quality standards.

Keywords: financial audit, quality, independence, regulation, Republic of Moldova, transparency.

JEL Classification: M42

1 Introduction

The quality of the financial audit is an essential element in ensuring the transparency and credibility of financial reporting, constituting a fundamental pillar of public trust in the information provided by economic entities. In the Republic of Moldova, the development of the audit services market is closely linked to the process of harmonization with international auditing standards (Handbook of International Auditing, Assurance and Ethics Regulations) and to the implementation of the legislative framework derived from European directives. However, audit quality remains a topical and debated topic, given the multiple challenges regarding auditor independence, the efficiency of public oversight and the growing expectations of users of financial statements.

According to Davis (1988), professionals, including auditors, have a distinct moral responsibility to act in the public interest, going beyond mere compliance with technical norms. At the same time, the study by Ettredge et al. (2017) highlights the fact that the pressure exerted by clients, especially in times of economic instability, can affect the auditor's

independence and implicitly the quality of the audit mission. In this context, professional independence becomes an indispensable condition for maintaining the objectivity and credibility of the audit opinion.

On the other hand, Farooq and Bakhadirov (2022) emphasize the role of qualified human resources in the choice of external audit services, demonstrating that access to an educated workforce favors better audit quality. In the Republic of Moldova, the transition to international standards and the implementation of regulations in line with EU Directives have contributed to the improvement of the regulatory framework, but challenges related to independence and competence persist. The expectations of users – investors, creditors, authorities and the public – require auditors not only professional rigor, but also integrity and transparency in the exercise of their missions. Thus, the analysis of the quality of financial auditing in the Republic of Moldova becomes a topical topic, placed between the requirements of regulations, professional ethics and the dynamics of the economic environment.

In the current economic context, characterized by increased competition and pressure on audit fees, the risk of compromising the objectivity and professionalism of auditors is increased. Also, differences in perception between users and auditors regarding the purpose and level of assurance provided by the audit generate the so-called "gap expectations". In this respect, financial audit quality research is not limited to technical compliance with standards, but also includes dimensions such as professional ethics, social responsibility and the added value of audit engagements.

This article aims to analyze the determinants of the quality of financial auditing in the Republic of Moldova, in terms of the regulations in force, the degree of independence of auditors and the perceptions of users. The study aims to contribute to a better understanding of the relationship between regulation and practice, while providing recommendations to strengthen trust in the audit profession and improve the quality of financial audit services.

2 Results obtained and discussion

The analysis of the quality of financial auditing in the Republic of Moldova highlights a direct correlation between the regulatory framework, the independence of auditors and the degree of trust of users of financial statements. According to Law no. 271/2017 on the audit of financial statements, the quality of the audit is based on compliance with the International Auditing Standards (ISA) and on ensuring the professional independence of auditors (Law on the audit of financial statements no. 271 of 15.12.2017).

The ISA 700 (Revised) standard emphasizes that the formulation of the opinion must be clear, objective and complete, in order to allow users to understand the degree of assurance offered (ISA 700 (Revised)). However, in the context of the regulatory framework, 'unreserved' opinions are sometimes mistakenly perceived as a guarantee of the absence of any financial risk, which reveals a problem of financial education and public perception.

Another significant aspect is the finding that auditors' independence is sometimes affected by prolonged economic relationships with clients. According to ISA 200, the auditor must act with professional scepticism and avoid any influence that could compromise the objectivity of the assessments. However, there is a risk of economic dependence on fees, especially in small firms, which can put pressure on the quality of audit findings.

Comparing national and European regulations highlights a clear alignment, but an implementation that is still ongoing. Regulation (EU) no. Regulation (EU) No 537/2014 establishes requirements on the rotation of auditors and the limitation of non-audit services, aimed at reducing the risks of independence (Regulation (EU) No 537/2014). These principles are transposed into Law no. 271/2017, but their application depends on the degree of supervision exercised by the Public Audit Oversight Board. If partner rotation is not applied according to the deadlines, it can significantly reduce user trust.

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Regarding professional competence, Decision no. 15/2019 on the rules for the training of audit trainees contributed to the improvement of the practical training framework (Decision No. 15 of 06-08-2019). However, there is a need for more frequent updates of the training content and a closer correlation with the new standards issued by IFAC (Handbook of International Auditing, Assurance and Ethics Regulations). This discrepancy between regulated theory and actual practice may affect the consistency of audit results and investor confidence.

At the same time, users' perception of audit quality depends to a large extent on the transparency of reporting and the clarity of the explanations provided by the auditors. In this regard, the consistent application of ISA 700 and ISA 260 on communication with the entity's governance becomes important to strengthen the relationship of trust between the auditor and stakeholders. There is also a positive trend towards the adoption of international practices in the audit of public interest entities, where quality control requirements are more rigorous.

The quality of financial auditing in the Republic of Moldova depends simultaneously on three essential factors: a robust and consistently applied regulatory framework, maintaining real professional independence and continuously adapting to user expectations. Although legislative progress is evident, their practical effectiveness is conditioned by continuous professional training, active supervision and individual ethics of auditors. Strengthening these elements could contribute to increasing the credibility of the audit profession and to Republic of Moldova more effective integration into the European Financial Reporting and Auditing Area.

Table 1. Determinants of the quality of financial audit

Factor determinant	Description and implications	Impact on the quality of the financial audit
<i>Robust and consistently enforced regulatory framework</i>	Law no. 271/2017 establishes the general principles of the audit activity, the requirements regarding licensing, supervision and the responsibilities of auditors. The consistent application of legal rules ensures the uniformity of audit processes and the credibility of reports.	Strengthening the legal framework contributes to the prevention of distortions, transparency and increased public confidence in the results of the audit.
<i>Maintaining real professional independence</i>	The auditor's independence ensures the objectivity of the conclusions. Regulation (EU) no. 537/2014 imposes restrictions on fees, non-audit services and rotation of audit partners, in order to prevent conflicts of interest.	It ensures the impartiality of the audit process, increases the credibility of the audit report and protects the public interest.
<i>Continuous adaptation to user expectations</i>	The quality of the audit also depends on the ability of auditors to respond to the evolving needs of users – investors, creditors, regulators – through the use of digital technologies and the adoption of standards internationale (ISA).	Adapting to market requirements and public expectations maintains the relevance and social utility of the auditing profession.

Source: author own study or based on Law no.271/2017, Regulation (EU) No 537/2014

The quality of financial auditing in the Republic of Moldova results from the complex interaction between the regulatory framework, the professional independence and the adaptability of auditors to user expectations. A normative system, such as the one established by Law no. 271/2017, provides the necessary legal basis for a unitary and transparent practice. At the same time, the application of the principles of professional independence laid down in Regulation (EU) no. 537/2014 guarantees the objectivity and credibility of the audit process. At the same time, the continuous adaptation to market requirements and international standards

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ensures the relevance and social utility of auditing, transforming it into an instrument for protecting the public interest and strengthening corporate governance.

A robust and consistently enforced regulatory framework is the first basic condition for ensuring a uniform and transparent audit practice. In the absence of clear standards and effective supervision, the risk of a decrease in audit quality increases, affecting the credibility of financial information.

Regulations are not sufficient if they are not doubled by coherent implementation mechanisms and proportionate penalties. In this respect, an effective regulatory framework must ensure not only formal compliance, but also the ethical and professional responsibility of auditors. The second determining factor is the maintenance of real professional independence, which is considered to be the core of audit quality. This is not limited to avoiding conflicts of interest, but involves a mental attitude of objectivity and constant professional skepticism.

Economic pressures, prolonged client relationships, and reliance on fees can compromise independence, reducing the auditor's ability to issue impartial opinions. Therefore, audit partner rotation mechanisms and transparency in fee reporting can help to safeguard this independence.

Thirdly, continuous adaptation to user expectations becomes essential in an ever-changing economic and technological context. Users of financial statements – investors, creditors, authorities and the general public – are increasingly demanding audit added value that goes beyond mere compliance with standards. Auditors must meet these expectations through methodological innovation, the use of analytical technologies and a communication of risks and professional judgments.

To overcome the situation where economic pressures, protracted client relationships and dependence on fees can compromise the independence of auditors, a complex approach aimed at strengthening regulatory, ethics and professional transparency mechanisms is needed. Firstly, the regulatory framework governing audit work needs to be strengthened by introducing stricter control and supervisory measures on compliance with the principles of independence and objectivity. At the same time, it is essential to promote an organizational culture based on integrity, accountability and respect for ethical standards, so that auditors are able to withstand external pressures and avoid conflicts of interest.

Diversifying sources of remuneration and limiting economic dependence on a single client can also help reduce the risk of professional compromise. Practices such as regular rotation of audit partners and firms, transparent publication of fees and continuous training in the field of professional ethics can strengthen users' confidence in the impartiality of the audit opinion. Essentially, effective solutions must combine institutional interventions with educational and ethical ones, in order to restore the balance between economic interests and the auditor's fundamental obligation to act independently and objectively.

Addressing the situation implies orienting the audit profession towards innovation, transparency and continuous development. First, there is a need to integrate modern technologies such as artificial intelligence, advanced data analytics, and blockchain, which can increase the efficiency and quality of the audit process, providing deeper insight into the risks and reliability of financial information. Practice reconfiguring the way of communicating with users of financial statements by extending the audit report so that it includes clear explanations of the professional reasoning, uncertainties and risks identified.

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Table 2. Orientation of the audit profession towards innovation, transparency and continuous development

Main direction	Proposed measures	Impact on audit quality
<i>Technological innovation in auditing</i>	Integration of modern technologies such as artificial intelligence, advanced data analytics, and blockchain.	It increases the efficiency of the audit process, reduces errors, provides a deeper insight into the risks and reliability of financial information.
<i>Transparency in reporting</i>	Extension of the audit report to include detailed explanations of the professional reasoning, uncertainties and risks identified.	Improves the confidence of financial statement users and makes it easier to understand the auditor's decisions.
<i>Continuous professional development</i>	Reconfiguring the way of communication and updating skills through continuous training and adaptation to new technological and ethical requirements.	Ensures that professional relevance and competence are maintained, helping to strengthen the reputation and quality of the audit.

Source: author own study or based on Farooq, O. et al. (2022)

Artificial intelligence, advanced data analytics and blockchain are tools that transform the way auditors collect, process and interpret accounting information, helping to increase the efficiency, transparency and reliability of the audit process. Artificial intelligence allows large amounts of data to be analyzed in real time, identifying patterns and anomalies that may indicate risks of misrepresentation or possible fraud, which increases the ability of auditors to issue more substantiated opinions. Advanced data analytics, based on complex statistical and algorithmic techniques, expands the testing area from limited samples to the entire set of transactions, leading to a more comprehensive risk assessment and internal control.

At the same time, blockchain technology contributes to the creation of a distributed, immutable and transparent database, which provides a high level of trust in the authenticity and integrity of financial information. In this way, the audit becomes more oriented towards real-time validation of transactions, reducing the need for manual checks and strengthening the credibility of the process. Recent studies emphasize, however, that these benefits are conditional on the existence of a robust technological governance framework, the validation of the algorithms used and the professional skills of the auditors. Lack of digital expertise or over-reliance on automated tools can create risks of misinterpretation of results and affect the objectivity of decision-making.

The researchers draw attention to the need for continuous training of professionals in fields such as data science, cybersecurity and the evaluation of information systems, so that they can understand, control and validate the models used. There is also a need to adapt auditing standards to new technological realities, in particular as regards the recognition of electronic evidence and the auditor's accountability towards decisions generated by intelligent systems. Overall, the integration of modern technologies represents a strategic direction towards innovation and sustainable development of the audit profession, providing the premises for increasing the quality of financial auditing, provided that rigorous supervision and a balance between automation and professional reasoning are maintained.

The integration of artificial intelligence, advanced data analytics and blockchain offers the opportunity to improve audit quality through more evidence coverage, efficiency and the possibility of continuous auditing. However, the benefits are not guaranteed: they require strong governance, technical validation for impact measurement, training and regulatory

adaptation. Regulators emphasize precisely the importance of these conditions for the technology to deliver on its promises in practice.

Expanding the audit report to include detailed explanations of the professional reasoning, uncertainties and risks identified has a significant impact on the quality of the audit, according to recent scientific research. Communicating professional reasoning and identified risks helps users better understand the audit process and appreciate its complexity. This transparency can reduce unrealistic expectations and increase confidence in the audit report.

Discussing risks and uncertainties in the audit report allows investors to better assess a company's sustainability and revenue quality. This can lead to more informed investment decisions and a more accurate assessment of the associated risks. By providing detailed information about risks and uncertainties, investors can better assess a company's value, which can reduce the initial undervaluation of the stock.

While transparency can be beneficial, detailed disclosure of risks and uncertainties can lead to an increased perception of risk by investors, which could negatively influence their decisions. Implementing these extensions of the audit report may involve additional costs and greater complexity in the audit process, which could affect its efficiency.

Reconfiguring the way of communication and updating skills through continuous training and adaptation to new technological and ethical requirements have a significant impact on the quality of the audit. In the context of the audit, effective communication between the audit team and the client is essential. The auditor's ability and willingness to communicate with the client significantly influences the auditor's responses to the auditor's requests, contributing to the success of the audit process. The continuous training of auditors is a principle for maintaining and improving the quality of the audit. A study has shown that audit firms' commitment to auditor education and training significantly increases audit quality.

Emerging technologies, such as artificial intelligence and data analytics, have significantly transformed audit practices. Studies show that technological innovations improve audit transparency through improved documentation, real-time reporting and increased stakeholder engagement. They contribute to the objectivity of the audit by automating repetitive tasks, facilitating advanced data analysis and promoting standardised audit procedures. However, technology implementation can be complex, and ethical risks, such as potential algorithmic bias, must be carefully managed to maintain the integrity of the audit process.

3 Conclusions

More transparent communication builds public trust and highlights the added value of the audit. At the same time, the continuous training of auditors becomes a priority, as they have to develop their skills in areas such as data analysis, sustainability, corporate governance and professional ethics. In this way, financial auditing can dynamically respond to the increasingly complex requirements of users and the challenges posed by economic and technological changes.

Extending the audit report to include clear explanations of the professional reasoning, uncertainties and risks identified can significantly improve the quality of the audit by increasing transparency and understanding of the audit process. However, it is important for auditors to carefully manage how this information is presented in order to avoid creating an unjustified negative perception and to ensure the efficiency of the audit process.

The integration of effective communication, continuous training of auditors and adaptation to new technologies and ethical requirements are a basic condition for improving audit quality. These measures contribute to a more accurate and objective assessment of financial statements, strengthening public confidence in financial processes and ensuring compliance with international standards.

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Thus, the perception of audit quality is significantly influenced by how auditors manage to anticipate and satisfy these user requirements. Thus, audit quality is not a static result, but a dynamic process that involves balancing regulatory requirements, professional ethics and social relevance. Therefore, the quality of financial auditing depends simultaneously on the existence of a coherent and applied regulatory framework, on the preservation of real professional independence and on the ability of auditors to continuously adapt to the needs of society. Only by combining these three dimensions can audit continue to serve as a guarantor of transparency and trust in the modern economy.

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