

Accounting service providers to be licensed (1/43/18)

One of the proposals for amending the Accounting Act intends to license accounting service providers. The proposed amendments are to come into force on 1 September 2019.

Key amendments

Accounting service providers are covered by the following amendments:

- An external accountant is an individual or entity that undertakes to provide or provides a customer with accounting services under a written contract (other than an employment contract) and whose competence in accounting matters is certified by a licence under recast article 3(3)(2) of the Accounting Act;
- An external accountant's professional civil liability insurance coverage must not be lower than the minimum prescribed by the Cabinet of Ministers' Regulation under recast article 3.1(2) of the Accounting Act;
- An external accountant is only permitted to provide accounting services after taking out a licence and during its operation under a new article 3.2 of the Accounting Act.

The Accounting Act is to have another new article 15.2 laying down procedures for licensing and supervising external accountants, the amount and maintenance of information to be entered on the Register of Accounting Service Providers, as well as external accountants' professional civil liability insurance coverage.

When it comes to choosing an accounting service provider, Latvia does not have a nationally recognised mechanism for finding out whether a person is knowledgeable and reliable, and what their ethics and sense of responsibility are. The quality of accounting documents and financial statements clearly depends on accountants and their competence, but the accounting profession is not on the list of regulated professions in Latvia.

Since the accounting profession is neither properly regulated nor required to meet quality standards, there is no confidence that taxes are calculated correctly. And if the national accountancy oversight system is weakened, the shadow economy can take advantage of underqualified accountants.

Under article 3 of the Accounting Act, an accountant may be a person that has not acquired appropriate education but has relevant experience, so there is the risk of the accounting service provider's competence being insufficient to provide quality services.

The proposed amendments aim to tidy up the accounting industry, raise the quality of accounting services, minimise shadow economy, strengthen the credibility of public financial statements and introduce accountant licensing. To achieve these goals, there are plans to adopt a mechanism for licensing accounting service providers. An entity seeking a licence will be required to employ an appropriate number of qualified accountants in order to meet quality standards. The function of licensing individuals and entities and recognising their credentials is to be delegated to an association that unites industry peers. Credentials, their recognition and procedures for granting and cancelling a licence, as well as the content

of the Register of Accounting Service Providers and its maintenance conditions are to be governed by the Cabinet of Ministers' Regulation.

According to the European Commission's database of regulated professions, there are currently 20 EU/EEA countries that regulate the accounting profession and the tax consulting profession,¹ while in 2016 there were ten EU/EEA countries that licensed their accounting service providers.²

The licensing of accounting service providers is expected to improve Latvia's economy and ability to attract investment by boosting confidence in publicly available financial statements, raising the quality of accounting documents and the accounting industry's reputation, as well as minimising risks of money laundering and terrorist financing.

¹ Austria, Belgium, Croatia, Czech Republic, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, United Kingdom

² Austria, Belgium, Bulgaria, France, Greece, Italy, Luxembourg, Malta, Norway, Romania, Hungary