

VASILY RUDNITSKIY, EWA ZYCH*

Organisation and regulation of audit activities in Ukraine

Key words: audit, external audit, audit standards, organisation, regulation, audit activities

Summary: The paper discusses problems of organisation and regulation of auditing in the world, and solutions to the questions of organisation and regulation of audit activities in Ukraine. In addition, it deals with current problems in functioning of external audit.

1. Introduction

Economic development of most countries in the world is based on economic conditions of the market, in which the establishment and operation of the system protecting owners' interests as well as information on the activities of economic entities, available to external users, is of great importance. Auditing—whose importance grows each year—plays a major role in protecting interests of the owners.

Problems of organisation of audit activities in Ukraine were studied by the scientists: V. Bondar, F. Butynets, S. Rollins, N. Dorosh, A. Zagorodnyy, S. Zubilevich, A. Kuzminskiy, A. Petric, N. Petrenko, V. Rudnitskiy, O. Redko, B. Usach, V. Shevchuk and others.

Various countries around the world implemented their own systems of organisation and regulation of audit activities, but their professional management and principles of management are similar in most of the countries with market economies. However, the specifics of the organisation of auditing in different countries is manifested in different ways depending on the degree of government regulation and monitoring of the performance of the subject.

* Prof. Vasily Rudnitskiy, PhD—head of the Chair of Finances and Accounting, Małopolska School of Economics in Tarnów; Ewa Zych, MA—Małopolska School of Economics in Tarnów.

2. Models of organisation and regulation of auditing

Depending on the model of organisation of auditing selected by a given country, it creates an independent professional organisation, government regulation and management of auditing and public organisations. The fundamental principle in forming an appropriate model based on the priorities of the state or professional organisation is conducting organisational activities of auditing, issuing permits for those activities, regulation of activity of the audit, conducting monitoring of the operations, and adoption of measures regarding professional liability. Organisation of auditing provides solutions to such urgent tasks as determining the status of an auditor in relationships between business entities, financial institutions, government, setting out the rights and responsibilities of the auditor's relationships with customers, creating a system of laws and regulations in an audit environment.

Each country has different solutions to the above-mentioned tasks, so the legal status of the auditor and his role in the society is manifested in unequal measure, and depends on the model of organisation and regulation of auditing.

Evaluation of global approaches of an organisation and regulation of audit activities lets us determine the existence of two fundamental concepts of audit regulations—the public and the professional ones.

In France, Germany and Poland there is a state concept, which provides audit focused primarily on the needs of public authorities, as the main customers of auditing services. Thus, auditing and related services in these countries are rigidly regulated by the state. In addition, in most of European countries specific requirements for vocational education and work experience that is a basis for possible attestation for obtaining qualifications of the auditor are subject to regulation by the state.

In the countries with professional concept of regulation of auditing, particularly in the USA, the UK, the main users of auditors' reports are investors, lenders, banks, insurance companies, stock exchanges. Organisation, regulation and supervision of auditors are carried out according to the concept of professional organisations.

The basic principle of auditing depends on the level of economic development of a given country. If we estimate the degree of government regulation and control over the functioning of the subjects of audit activity as high, medium and low respectively, then we can define three models of organisation and regulation of auditing: a rigid, mixed and soft one. In the countries with higher economic development level there is usually the soft model of auditing. Countries that are at an early stage of market relations adopt rigid and mixed models.

In Figure 1 we see the three models of organisation and regulation of auditing, depending on the degree of government's control over auditing in a country.

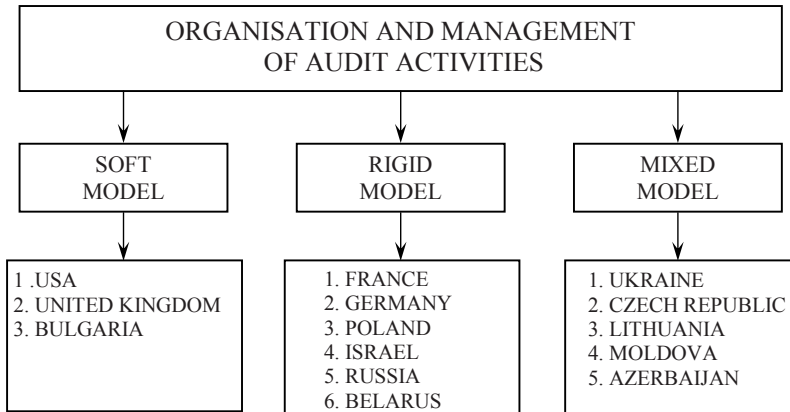


Figure 1. The types of models of organisation and regulation of audit activities

Source: authors' own study.

3. Features of an organisation and regulation of audit activities in Ukraine

Ukraine is a representative of the mixed model of organisation and regulation of audit activities (Figure 2).

The mixed model means that regulation of audit activities in Ukraine is carried out both by the authorities of the country, and independent professional organisations. The Supreme Council of Ukraine and the Government of Ukraine shall be the legal regulation of audit activities by the approval of the Basic Law of Ukraine “On Auditor’s Activity” (Supreme Council of Ukraine, 1993) and several other legal acts.

Apart from the state independent professional body which carries out the organisational and methodological management audit activities in Ukraine, there is the Audit Chamber of Ukraine (ACU). This body is developing guidelines regarding the audit as well as approving the national standards, rules, regulations, and instructions on auditing.

According to Article 12 of the Law of Ukraine “On Auditing” the ACU provides:

- certification of persons who have an intention to engage in audit activity;
- developing and adopting national standards for the audit;
- approving the training of auditors;
- maintaining a register of auditors;
- supervising the work of auditors (audit firms);
- implementing measures to ensure independence of auditors in conducting their activities and oversight over the quality of audit services.

Each year the ACU receives progress reports from audit companies, provides analysis and reports a compilation of information on audit activities in Ukraine to the Council of Ministers.

The ACU functions as an independent body, as it is a legal entity and has an appropriate accounting and reporting. It is working according to the rules of partnership and its delegates are the auditors of Ukraine as well as the representatives of public authorities. The total number of the ACU members are 20 persons. The public authorities are represented by a delegate of Ministry of Finance, Ministry of Justice, Ministry of Economy, State Tax Administration, State Committee for Securities and Stock Market, State Committee for Regulation of Financial Services Markets, Accounting Chamber and Main Audit Office of Ukraine.

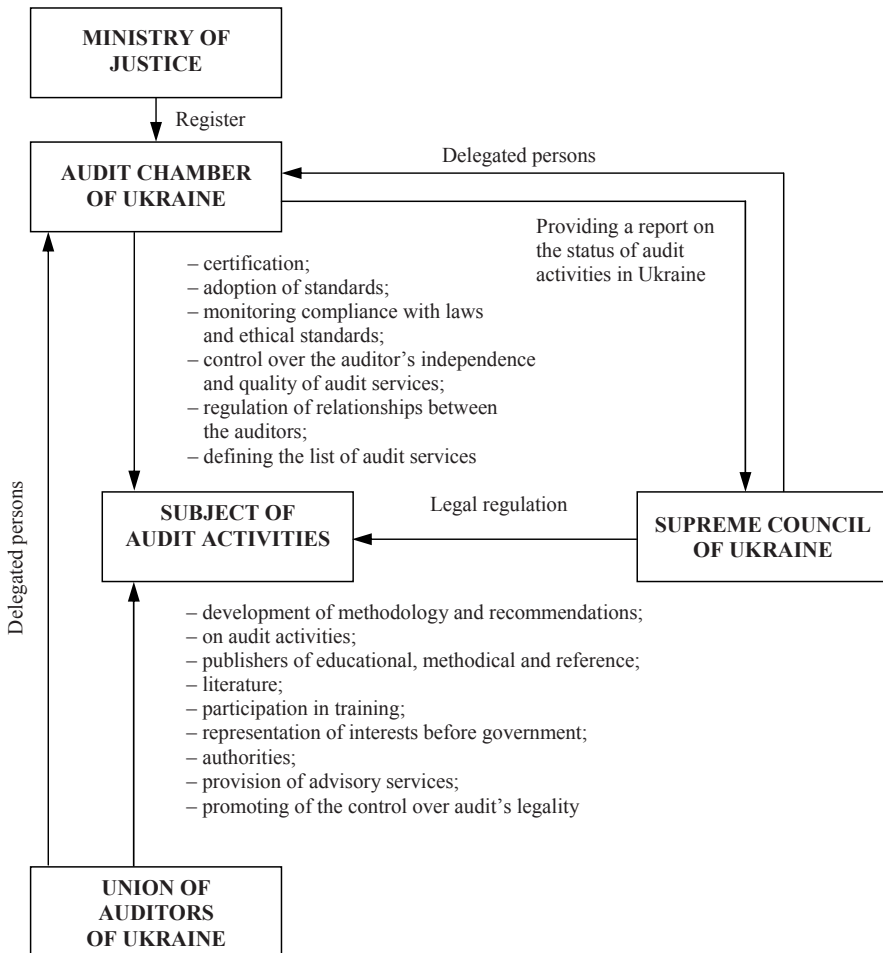


Figure 2. Regulatory framework of auditing activities in Ukraine

Source: authors' own study.

The ACU consists of 10 qualified auditors with experience in auditing at least 5 years, as well as representatives of universities and scientific organisations. The Chamber may establish regional branches on the territory of Ukraine. The term of office of a ACU member is 5 years. The same person cannot be delegated in the ACU for more than two consecutive terms. The members—except the chairman of this body—shall perform their duties on a voluntary basis.

The sources of funding of the ACU are the fees for issuing certificates to persons entitled to take action to control, charges for inclusion in the Register of Auditors, the voluntary contributions of the professional organisations of Ukraine and other sources.

In addition to the ACU, in Ukraine there is a professional public organisation called the Union of Auditors, which focuses on the principles of practising auditors on a voluntary basis, develops draft regulations, provides guidance on the implementation of the audit and other services related to audits.

4. Current problems in the functioning of external audit in Ukraine

External audit has been one of the most important types of auditing in Ukraine for over 17 years. However, its development is closely dependent on the growth in economy, i.e. the number of enterprises that need confirmation of their financial statements.

In recent years, audit has been faced with new tasks consisting in improving the quality of audit services in accordance with the principles and guidelines of the International Standards on Auditing (ISA) and the ethics of the auditor. This is due primarily to great scandals in the activities of some international accounting firms.

Development of audit in Ukraine and improvement of its quality, in our view, depends on a number of challenges: improvement of the information base audit, providing of control in accordance with the ISA, ethical principles of conduct by the auditor referred to in the Code of Ethics for Professional Accountants (auditors).

Provision of information in the audit process includes a diverse set of legislative and legal acts regulating control activities in general, and the audit process in particular.

The audit process is based largely on the ISA. It should be noted that decision on refusal of national standards of the audit (NSA) for the ACU and its transition to the ISA was a right solution. The NSA was imperfect and incomplete compared to the ISA. Comments on the use of international standards, which are prepared by the ACU, should be clear, professional, unbiased, and the terms and phrases used in them should be understandable for the public.

The subject of auditing is economic activity of enterprises, with special regard to financial statements and notes thereto. Therefore, financial statements of an enterprise pro-

vide the most information gathered in an audit process. It is obvious that the sources of auditing are also other main documents, accounting registers, etc. (4, p. 288).

Nowadays, organisation and procedure of accounting and financial reporting are regulated by the law “On Accounting and Financial Reporting in Ukraine”, established by the Supreme Council of Ukraine in 1999, and national regulations (standards) of accounting (RSA). However, the existing RSA in certain areas do not meet the IAS and the European Union Tacis Project “Accounting Education Programme in Ukraine” of 2004. At the same time, in accordance with the Council of Ministers of Ukraine document “On approval of measures on realisation of priority directions of development of corporate governance in joint stock companies”, no. 25 of 18 January 2003, all public companies active in years 2004–2005 were to be included in the EU Tacis Project.

Thus, enterprises in Ukraine can be divided into three groups:

- 1) small businesses that keep records and prepare financial statements according to a simplified scheme;
- 2) companies that keep records and prepare financial statements in accordance with the clause of the RSA;
- 3) joint-stock companies that prepare their financial statements under International Financial Reporting Standards (IFRS).

Thus, audit information base as well as the results of inspection procedure will depend on the standards of accounting represented by the management of a company.

The auditor should take into account that between the ISA and the RSA there are some differences, and with regard to this, certain individual standards do not match. For example, very often the RSA will not be as detailed as the related ISA. Such differences result from definite restrictions of the RSA if compared to the ISA. Firstly, such restrictions are to be noticed concerning the absence of alternative approaches in the RSA, as well as lack of specific requirements for public information.

An important issue of the audit practice in Ukraine is that the auditors should pay more attention to the acknowledgment of headings entitled “Balance” and “Report on financial results”. At the same time, the “Statement of Cash Flows”, “Statement of Changes in Equity” and “Notes to Financial Statements” are often left without proper attention of the auditor, while they contain interesting information for different groups of users.

5. Conclusions

It is important that the auditor drew attention not so much to the form of a report as to its content. Also, the presence of subjective factor in interpretation of this or another report indicator should be noted. It basically depends on qualifications of the auditor and his/ her practical experience.

A significant problem of audit activity in Ukraine is that often the subject of auditing are not the shareholders (owners), but executive directors (managers). Such a practice is incompliant with ethical principles—the principle of independence in particular. In this case, the auditor agrees the audit contract terms with the manager and thus to some extent becomes dependent on him.

Quality and effectiveness of audit largely depend on the standards used by a business entity for preparation of financial statements. At the same time, the use of the ISA in audit practice takes into account modern experience of foreign countries.

However, in recent years there has been a tendency in Ukraine towards a rigid model of organisation and regulation of auditing and simultaneously reducing the role of the Union of Auditors, an independent professional organisation. In addition, the number of members of the Audit Chamber of Ukraine delegated by government agencies was increased.

Bibliography

1. Law of Ukraine “On Auditing” of 22 April 1993, no. 3125-XII (as amended). Available from Internet: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=3125-12>.
2. Law of Ukraine “On Accounting and Financial Reporting in Ukraine” of 16 July 1999, no. 996-XIV (as amended). Available from Internet: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=996-14>.
3. International Standards on Auditing (as amended in 2008). Available from Internet: http://proaudit.com.ua/audit/mijnarodni_standarti_auditu/mizhnarodni-standarti-auditu-angliiskoyu-movoyu.html.
4. Крупка J., Zадорожnyi Z., Litvin B. et al. 2000. *Бухгалтерский учет по национальным стандартам: Практическое пособие* (Accounting for national standards: Practical guide). 2nd edition, supplemented and revised. Moskva: Экономическая мысль (Economic Thought), p. 288.
5. *Пособие по бухгалтерскому учету* (Benefit accounting). 2004. Part 1: *Финансовая отчетность* (Financial statements). The EU Tacis Project “Accounting Education Programme in Ukraine”. Moskva: Selko (Selko), p. 553.
6. *Компендиум* (Compendium). 2004. The EU Tacis Project “Accounting Education Programme in Ukraine”. Moskva: Ernst & Young Ukraine and Holding, p. 115.

Организация и регулирование аудиторской деятельности в Украине

Аннотация: В статье рассматриваются проблемы организации и регулирования аудиторской деятельности в мире. Раскрыты вопросы особенностей организации и регулирования аудиторской деятельности в Украине. Кроме того, затронуты современные проблемы функционирования внешнего аудита.

Ключевые слова: аудит, внешний аудит, стандарты аудита, организация, регулирование, аудиторская деятельность
