

PROSPECTS OF AUDIT DEVELOPMENT IN UKRAINE

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Abstract. The article is devoted to the problems of development of audit in Ukraine. Ukraine's economy needs investments both from domestic and foreign investors. Although there are reasons that hinder the flow of capital. One of them is a low level of economic entities financial information credibility. Independent audit is the institute that should increase the transparency of economic information and investors' confidence. The article discloses the audit market in Ukraine. It gradually grows despite the recession of economy of the country. There are tendencies of concentration of audit market. The number of audit firms for the period 2008–2013 decreased but the fee per one firm increased accordingly. More than 50% of the market belongs to 10 biggest audit firms and their share is gradually increasing. The lacks in audit regulation system in Ukraine are described in the article, where the main is the consolidation of regulatory function within the Audit Chamber of Ukraine (APU). The priority directions of changes in audit regulation are proposed according to the processes of European integration of Ukraine.

Key words: audit, European Integration, regulation, public oversight, audit quality

INTRODUCTION

Ukraine's economy, like any other, depends on the flow of capital in globalization processes. Its condition today is very complex. To shift from the current point and ensure its development it requires significant investments. Thus, there is a potential for economic growth in Ukraine, and this potential is significant. However, there are reasons that hinder the flow of investments from both domestic and external investors. The main of them are political instability, the problems associated with corruption in government and the difficulties of doing business, and low confidence in the economic information provided by business and other economic agents.

The latest researches in accounting and audit theory [Zhuk 2013] gives us a reason to determine audit as a social and economic institute that aims to increase the credibility of economic entities' information. In countries with developed market economies audit has a long history of its development, which is more than hundreds of years. The level of development of its informal institutions (what is in people's heads) in the leading economies of the world actually meets the formal ones (laws and regulations). At the same time, audit in Ukraine in 2013 celebrated only its 20th anniversary. It is not surprising that today there are several areas of development, which include compliance with the best international practices, changes in its regulation and bringing it in line with European directives. The most important area is to increase its value for society, business and the economy as a whole [Shevchuk 2013; Redko 2014].

GOAL AND METHODS

The aim of this paper is to identify patterns and key features of audit in Ukraine, as well as determining the main directions of its improvement in the context of Ukraine-Europe integration processes.

To achieve the goal, we have to analyze the parameters of the audit market in Ukraine, systematize existing approaches to the regulation of audit in Ukraine and to set directions of its improvement in accordance with the current level of audit institutional environment in Ukraine with the requirements of European directives.

RESULTS AND CONCLUSIONS

In Ukraine, only audit firms and individual auditors that are included in the appropriate Register of the Audit Chamber of Ukraine (ACU) can do audits.

At the beginning of 2014 in the Register of ACU were 1 488 audit firms and auditors. During the period 2008–2013 we can see a decline by 37.16% in the total number of audit firms and auditors included in the Register APU (Table 1).

TABLE 1. Dynamics of Auditors and Auditing Entities

Description	Year					
	2008	2009	2010	2011	2012	2013
Index						
Certified Auditors	3204	3136	3075	3129	3139	2993
Audit firms and auditors amount	2368	2303	2252	1862	1672	1488
Certified Auditors per 1 Audit Entity	1,35	1,36	1,37	1,68	1,87	2,01

Source: data from the Audit Chamber of Ukraine.



The main reasons for this decline are the crisis in the economy and society, strengthening of the requirements for the audit profession and the quality of audit services by the regulator (ACU), changes in tax laws. In particular, almost half of auditors and audit firms in Ukraine have not passed a quality control tests by APU (Table 2).

TABLE 2. Inspections of quality control system audit services

Description	Year		
	2011	2012	2013
Audit Entities that are:			
Successfully passed APU quality control inspection	112	125	108
Not passed the inspection	100	110	95
Total inspections	212	235	203

Source: data from the Audit Chamber of Ukraine.

This indicates the low level of quality control systems of audit services at the level of audit firms. APU measures in this area are, on the one hand, justified and aimed at clearing the audit market from unscrupulous auditors. However, on the other hand, making a strict “culling” is possible only in the case when ACU has made all possible measures to ensure the methodological formulation and guidelines on quality control system in audit firms. We unfortunately cannot note this. Therefore, it is not surprising that there are anonymous statements from representatives of the profession about the corruption component of quality control of those responsible from APU.

During the study period, there was a slight reduction in the number of certified auditors. These changes resulted in the fact that the number of certified auditors per one audit entity index increased and reached 2.01. However, this figure is still low and characterize lack of certified auditors in audit firms.

Despite the reduction in the number of audit firms and individual auditors in Ukraine, the market of audit services for the period from 2008–2013 increased (+ 197 850.6 thousand UAH, + 17.72%) and in 2013 reached 1 314 596.3 thousand UAH (Table 3). During the period, the total number of engagements reduced by 39.55%, however, the average fee increased nearly twice (+ 14.43 thousand UAH, + 94.49%). The dynamics of the audit market in Ukraine indicate a strong tendency of revenues increasing, despite the steady decrease in their quantity. Thus, the average annual income of audit entity in 2013 amounted to 905.37 thousand UAH, which is almost twice higher than in 2008. The highest average annual income per audit entity is in Kyiv and Kyiv region – 1 624.1 thousand UAH. The smallest is in the Mykolaiv region – 152.6 thousand UAH. Average audit fee in 2013 was 29.7 thousand UAH. It varies from 5.0 thousand UAH in the Ternopil region to 49.6 thousand UAH in Kyiv and Kyiv region.



TABLE 3. The dynamics of the audit market

Description	Year					
	2008	2009	2010	2011	2012	2013
Index						
Auditors and firms amount	2309	2278	2048	1792	1609	1452
Services Volume, UAH '000	1116745,7	1280188,8	1213098,3	1258307,0	1266826,5	1314596,3
Engagements Amount	73147	60229	56471	53685	50125	44218
Income per 1 Audit Entity, UAH '000	483,65	561,98	594,07	702,18	787,34	905,37
Engagements Amount per 1 Audit Entity	31,71	26,5	27,6	30,0	31,2	30,5
Average Fee, UAH '000	15,27	21,3	21,5	23,4	25,3	29,7

Source: data from the Audit Chamber of Ukraine.

In 2013 in comparison with previous periods were almost no changes in the distribution of engagements by type of audit services. Most engagements were on assurance. The main customers of these services were entities of mining and manufacturing – 20,85%, financial and insurance activities – 17.26% and entities engaged in other economic activities – 23.16%.

The engagements, their quantity and the fees depend on the capacity and solvency of the entities (clients) in the regions of Ukraine. Average fee in 2013 was 29.6 thousand UAH. In comparison, this figure in Kyiv and Kyiv region was 49.6 thousand UAH. This disparity is mainly because large entities, holdings, banks, finance and insurance companies choose large national and international audit firms to provide their services. In most cases, these audit firms are in Kyiv and major business centers in Ukraine, where there are businesses, and the major part of practicing auditors.

In 2013 in Ukraine 10 audit companies provided services for more than 10 million UAH each. Their share in audit market reached in 2013 55.28%. Another 150 audit firms provided services from 1 to 10 million UAH each. Their share was 24.09%. The structure of the audit market in 2013 is shown in Figure 1.

Moreover, from the previous years' data, we can see the continuing process of gradual concentration of the Ukrainian audit market. The largest audit companies' share tends to expand in the coming years and can reach 60–62%. Audit firms, which currently have the lowest incomes, will have to merge, or gradually come out of the market because their transaction costs substantially exceed the benefits of market presence. Therefore, in the next few years the trend in reduction of audit entities in Ukraine will remain.

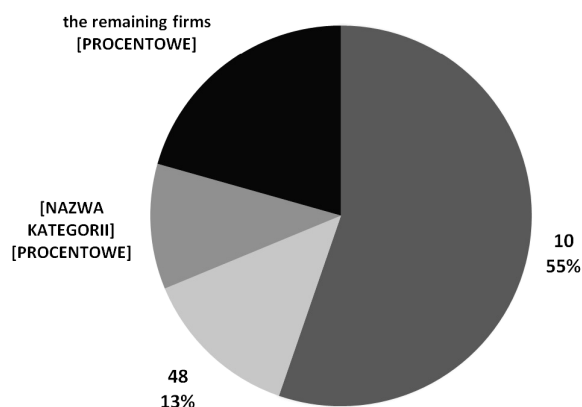


FIGURE 1. Structure of the Ukrainian audit market in 2013

Source: data from the Audit Chamber of Ukraine.

The research on audit market in Ukraine has given us a possibility to identify the following negative points that determine each other:

- Lack of the necessary number of certified auditors (specialists of the highest qualification) in audit firms,
- Imperfection of quality control systems in firms level,
- Low average audit services fee level.

Solving these negative aspects of Ukrainian Audit partially possible in the course of the improvement of audit regulation in line with international best practices and increasing the role of professional organizations of auditors in the process.

Audit activity in Ukraine is made in accordance with the Law "On Auditing". Independent body that mainly performs audit regulation in Ukraine is the Audit Chamber of Ukraine (ACU). This is a non-profit organization. But it is not a professional non-governmental organization. It is formed on a parity basis with the representatives of public authorities and auditors.

Audit Chamber of Ukraine performs the functions:

- 1) supervision and application of penalties;
- 2) regulation of auditing activities;
- 3) Register of audit firms and auditors maintenance;
- 4) quality control;
- 5) certification of auditors.

To perform its functions ACU creates commissions from among its members. ACU also may involve experts who are not its members to work in commissions.

The current system of audit regulation, in which all the functions are consolidated in the ACU, does not comply with best international practice. The current system has several disadvantages, namely:

- there is no system of public oversight of the audit profession. ACU does not match with the status of a public oversight body. There is no the majority of non-practitioners in it and there is a conflict of interest, since both functions certification and quality control that are subject to supervision are carried out by ACU,
- there is no effective system of supervision on ACU by the professional community and society. Regulations of ACU do not pass state registration, although they are affecting the rights and interests of citizens and businesses,
- there is a significant impact of practicing auditors on the activities of ACU,
- public interest entities are not clearly defined and, accordingly, there are no legal requirements for statutory audits of such entities. Today statutory audits are obligatory for joint stock companies, entities issuing bonds and securities, security market professional participants and financial institutions.

Such imperfection of national legislation on auditing and its non-compliance with EU Directives have led to the European Commission decision 2011/30/EU of 19 January 2011 according to which Ukraine was excluded from the list of third countries and territories with the equivalence of public oversight, quality assurance, investigation and penalty systems for auditors and audit entities. It obviously has a negative impact on the development of the profession and the European integration process in Ukraine.

Signing of the Association Agreement between Ukraine and the EU requires bringing the legislation of Ukraine in accordance with Directive 2006/43/EU of the European Parliament and of the Council of 17.05.2006 on statutory audits of annual accounts and consolidated accounts. The provisions of the Directive should be implemented within 3 years from the date of entry into force of the Association Agreement.

On 27.05.2014 in the Official Journal of the EU Directive 2014/56/EU of the European Parliament and of the Council of 04.16.2014, amending Directive 2006/43/EU on statutory audits of annual accounts and consolidated accounts was published. It entered into force on 18.06.2014. The provisions of the Directive should be implemented into law of the Member States within 2 years from the date of its entry into force (up to 06.18.2016). The provisions of the Directive is a landmark for improvement of audit regulation in Ukraine. Directive more clearly separate the competent authority responsible for the authorization of auditors and audit firms to carry out statutory audits and public oversight body. Directive lays down requirements for the maintenance of the state register of auditing firms and auditors, it limits auditor choice of only some categories or special registers. By the way in Ukraine in addition to the ACU Register there are 3 additional Registers of Auditors: of the National Bank of Ukraine, of the National Commission on Securities and Stock Market, of the National Commission for Regulation of Finan-

cial Services. It certainly exacerbate the burden on the audit firms and does not promote the development of national audit.

As the result of the study, we can state that despite the short period of its development (only 20 years), the institute of audit in Ukraine has formed. Of course, its level of development is not the same as in developed countries. There are many problems, such as the development of audit market through increasing its value for society, business and the economy as a whole, and its regulation.

Signing of the Association Agreement between Ukraine and the EU is an important step to a gradual convergence of national audit with the requirements of a modern, civilized, democratic society.

The priority directions of improvement of the national audit in the context of the European integration process are the introduction of the institute of public oversight, changes in the regulation model and transfer of certain regulatory functions from the ACU to independent agencies and professional organizations and the creation of a transparent and effective system of auditing services quality assurance.

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PERSPEKTYWY ROZWOJU AUDYTU NA UKRAINIE

Abstrakt. Artykuł przedstawia problem rozwoju audytu na Ukrainie. Gospodarka Ukrainy potrzebuje inwestycji zarówno od inwestorów krajowych, jak i zagranicznych. Do przyczyn, które utrudniają przepływ kapitału, należy niski poziom wiarygodności informacji finansowych podmiotów gospodarczych. Niezależny Instytut zajmujący się audytem zwiększyłby przejrzystość informacji ekonomicznej i zaufania inwestorów. Artykuł opisuje rynek audytu na Ukrainie, który stopniowo rośnie – pomimo recesji w gospodarce Ukrainy. Pojawiają się tendencje koncen-



tracji rynku audytu, a liczba firm audytorskich w latach 2008–2013 zmniejszyła się, pomimo że średnia opłata za przeprowadzenie audytu w jednym przedsiębiorstwie zwiększyła się. Więcej niż 50% rynku należy do 10 największych firm audytorskich, a ich udział stopniowo wzrasta. W artykule przedstawiono luki w regulacjach systemu audytu na Ukrainie. Wiodącą jednostką, w której skonolidowane są funkcje regulacyjne, jest Obrachunkowa Izba Ukrainy (APU). Opisane w artykule priorytetowe proponowane kierunki zmian w rozporządzeniu dotyczącym audytu są zgodne z procesami integracji europejskiej Ukrainy.

Słowa kluczowe: audyt, integracja europejska, regulacje, nadzór publiczny, jakość audytu