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MODERNIZATION OF THE SYSTEM OF FOREIGN AUDIT IN UKRAINE: ADAPTATION OF FOREIGN EXPERIENCE

Summary. The article analyzes theoretical aspects of the adaptation of the model of organization of external audit in Ukraine in order to adapt to the requirements of the EU. The development of external audit in the world and domestic practice and its theoretical principles are considered, the description of the operating model of organization of audit activity in Ukraine is presented. The European approaches to the organization of the system of the external audit are analyzed, the functional model of organization of audit activity in Ukraine is substantiated: a combination of domestic features and European requirements.

Keywords: model of organization of external audit, audit activity, Audit Chamber of Ukraine, European Union directives, public oversight body, evaluation of internal quality control of services.

Formulation of the problem. The current economic situation in Ukraine reflects very complex world globalization processes. Ukraine takes part in international economic relationships, trying to integrate into the global economic environment, extrapolating on itself the advantages and disadvantages of the global economic space. The aggravation of crises in the national economy, the growth of abuse and bankruptcies of business entities, the shortage of domestic sources of funding and, accordingly, the need to raise capital in international markets and European integrational economic and political processes predetermine the need for the development of an important market institution – external audit. The effectiveness of audit activity depends on many factors, ones of which is the organizational and functional models of external audit in Ukraine.

The discrepancy of national legislation in the area of audit activity with the requirements of the European Union (and, above all, the organization of a system of public oversight of the activities of auditors and audit firms) led to the Ukraine's deprivation of the regime of the transition period in recognition of the findings of national auditors and audit firms in European capital markets since 2011.

Considering the mentioned above, the urgency of modernizing the system of external audit in Ukraine in order to adapt foreign experience is indisputable.

Analysis of recent researches and publications. The contribution of domestic scientists and practitioners into the development of the theory and practice of external audit is essential, in particular: N. Vygovska, Z. Gutsayluk, G. Davydov, P. Zhitniy, Ye. Kaluga, T. Kamenska, Ya. Krupka, A. Kuzminskyy, I. Lazaryshyna, V. Pan-teleyev, S. Petrenko, O. Petryk, O. Redko, V. Rudnitskyy, O. Skasko, L. Chyzhevska, V. Shevchuk and others. The methodological and organizational bases of external audit developed by them became the basis of its practical activity.

Despite the achievements of mentioned domestic scientists, it is crucial to recognize the need to improve the organization of the

system of external audit, which is conditioned by the globalization processes, changes in the internal and external environment, etc.

The Goal of the given article is the research of European and domestic requirements, approaches to the organization of the system of external audit, the isolation of progressive and negative sides, as well as forming of a functional model of organization of audit activity in Ukraine, which will combine the features of national and European requirements.

Description of the main results of the study. Among the various forms of control over the activities of economic entities, the external control plays an important role in ensuring their stability and is carried out by state institutions, public organizations, rating agencies and audit firms.

The main objective of the audit control is to confirm the reliability of the reflection of all transactions in accounting and financial reporting, risk assessment, detection of misconduct, etc.

In order to reform the scope of the external audit, the European Parliament and the Council adopted a Directive 2006/43/EU in 2006 “On the statutory audit of annual accounts and consolidated accounts”, which determined radically new approaches to the functioning of external audit in the countries of EU.

Instead, in Ukraine, which brings national legislation to European standards, no changes have taken place. Thus, external normative and economic globalization changes in the field of external audit lead to the fact that the researches of scientists and practitioners at this stage require new developments [2, 4].

The conducted analysis of scientific works on the subject of audit allows noting that domestic scientists do not have the same type of approach to the key issues of appointing an audit in the economy. Accordingly, V.V. Radska and Ya.V. Petrakov define audit “as a task for providing reasonable assurance about a complete set of financial statements. The main characteristic of external audit the authors determine the existence of tripartite relations, in which the auditor is independent of the other two parties” [12, p.32].

A. Zh. Pshenychna specifies that “the subject of an audit is an independent study of the reliability of the reflection of the process of expanded reproduction of a socially necessary product in the system of accounting and reporting, as well as the evaluation of the effectiveness of business activity in compliance with the current legislation” [11, p. 26].

The mentioned scholars in the essence of the audit rightly emphasize on the objectivity of the results of their activities, and not independence.

Scientists and practitioners express their opinion on the need to reform the organizational system and the methodology of audit in Ukraine. Accordingly, M. L. Krapyvko and O.Yu. Redko believe that “...the mission of the audit in Ukrainian society today is to increase the level of trust by expressing the truth to the society about

the subject of his interests". An audit is required for Ukrainian society as a form of independent control from the state power and from large majority owners [8, p.56].

One of the important reasons for such a stagnation in the audit is the existing model of organization (formation of the composition, function, financing) of the Audit Chamber of Ukraine, which does not create proper (corresponding to the realities of the economy) organizational, methodological and methodical provision of the sphere of audit services.

A new vision of the concept of building an external audit is needed, as many business entities, veracity of reporting of which has been confirmed, have been subject to instant bankruptcy during the 2008-2009 crisis.

In accordance with the requirements of the Law of Ukraine "On Audit Activities", the Audit Chamber of Ukraine (ACU) is an independent and non-profit organization, which possesses its own seal and maintains accounting records independently of its audit activities in Ukraine by the governing body (organizational and methodological support).

The key problem in the model built in Ukraine is the excessive concentration (monopoly) of the ACU's functions. At present, the ACU is endowed with the right to formulate the rules for conducting audit activities, which is relevant certification of auditors, development, and approval of audit standards and other methodical functions. [1]

The requirements of the Directive 2006/43/EU of the European Parliament and of the Council "On the statutory audit of annual accounts and consolidated accounts" (article 49) [2] foresee the presence of two competent bodies in the field of external audit and not one in practice in Ukraine.

In Ukraine, the quality control of audit services is carried out by the ACU on its own and by the individuals who are practicing auditors. Instead, the Directive of the European Parliament and the Council of the EU [2], as well as the experience from other countries of the world, emphasize that abidance of the principle of the independent management should be ensured by non-practitioners, who are knowledgeable in areas related to the external audit. At the same time, the EU Directive does not specifically specify the competent authority that will carry out external (public) oversight of the quality of audit services [6].

In order to develop new, more progressive approaches in the organization of external control, it is necessary to conduct a comprehensive critical analysis of foreign experience in this area of control.

In France, the external audit is administered by the Ministry of Justice. The main functions of professional auditors are performed by commissioners at the expense. In France, there are two main organizations (two competent authorities) that carry out the audit of the country: the House of Expert Accountants and the Companionship of Commissioners in calculations. The main differences between expert accountants and commissioners in calculations are that accountants are invited to conduct audits of accounting and reporting, and commissioners in calculations are obliged to conduct inspections.

The French audit model is similar to the one in Italy. The Italian register of auditors is under the control of the Ministry of Justice and includes both auditing firms and individually-certified auditors and executives of registered audit firms.

The scope of the audit in Italy meets the requirements of the EU Directive, which foresees a dominant role of the state in the regulation and supervision of audit services.

In Germany, audit activities are regulated by two competent bodies: the Audit Chamber and the Audit Supervision Commission. In addition, the German Audit Institute exists which promotes the development of an audit profession, trains specialists in audit, develops common professional ethical principles and norms. The Institute of Auditors voluntarily includes approximately 80% of all members of this profession.

In domestic practice, measures of influence on auditors or audit firms and sources of financing of the Audit Chamber are too limited. The adaptation to domestic practice of such measures as reprimand, public condemnation, and fines, which at the same time form the revenues of the public oversight body, will promote, on the one hand, the effectiveness of measures, on the other – the expansion of the sources of funding and insurance of the implementation of the principle of formation of the scope of audit – independent funding.

Summarizing foreign experience, it should be noted that in such European countries as France, Italy, Germany, the functions of regulation and supervision of the audit sphere are demonopolised: some of the functions of regulating audit activity are entrusted to public self-regulatory organizations of auditors, but most of the functions including external quality of the audit services provide public oversight body formed by the government through the Ministry of Justice, Finance or Economics that delegate not practicing persons in this body [7].

On the other hand, there are essentially different tendencies in Ukraine that require changes to the existing principles of organization of audit activity and their consolidation in the new wording of the Law of Ukraine "On Audit Activity" [5].

Based on the critical analysis of foreign experience, it is proposed:

1. Use the experience of France with regard to the use of the sample selection software by all auditors, which restricts the influence of the human factor on the quality of inspections.
2. Implement the approach of Italy to maintain a single register of auditors by the Ministry of Justice.
3. Apply the experience of Germany in appointing members of a public oversight body for a term of four years and a criterion for a non – practitioner who, at least 5 years before the appointment, should not be a member of a self-regulatory organization or a practicing auditor.

Having analyzed the European approaches to the organization of the external audit and having studied the international experience of auditing, it becomes clear that it is necessary to form and implement a functional model of organization of audit activity in Ukraine.

Taking into account the foreign experience in the process of developing a unified approach to external control of the quality of work of audit organizations will introduce a certainty to the rules for building the relationships between controllers and auditors.

Fig. 1 presents the proposed functional model of organization of audit activity in Ukraine.

Essential reasons for changing the model of organization of audit activity in Ukraine are:

- firstly, the external quality control of audit services is carried out by practicing members of the ACU;
- secondly, non-compliance with the principle of independent financing, since the Committee of quality control of audit services is funded by the ACU, revenues of which, in turn, form auditors and audit firms [10, 13].

The proposed model for organizing a public oversight body includes:

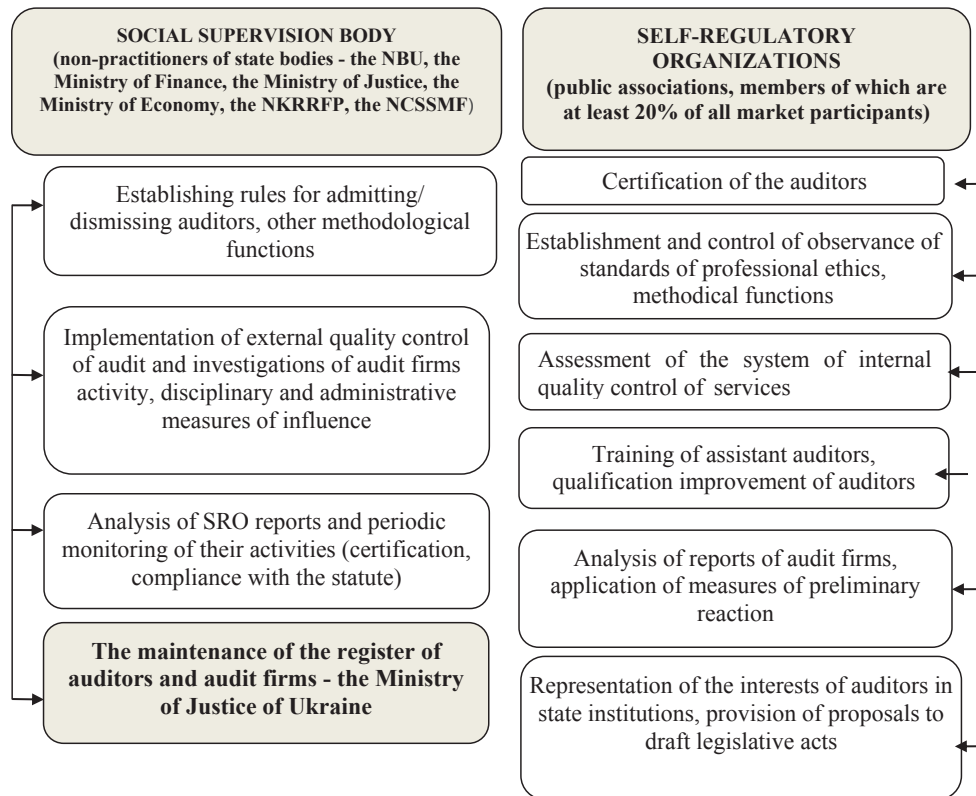


Fig. 1. The proposed functional model of organization of audit activity in Ukraine

– the management of the public oversight body will be carried out by non-practitioners (auditors) delegated by state institutions with a minimum term of implementation of duties of at least 3 years and early release only by a court decision;

– financing of the public oversight body should be carried out at the expense of the state budget and proceeds from the applied penal sanctions;

– the investigation of the activities of auditors and audit firms, the adoption of appropriate measures will be carried out by a competent authority that does not represent the interests of the auditors – a public oversight body.

An important conceptual idea when forming a public oversight body is that the state cannot and should not release from its field of view the control over the quality of the activities of auditors and audit firms that play a significant public interest.

In order for the system of social (public) oversight of auditors and audit firms to function effectively, it must be independent, transparent, competent and responsible for its actions.

The other competent authority for regulating and controlling the scope of the audit in the functional model of the organization of audit activity should be self-regulatory organizations of auditors. Mandatory organizational requirements for self-regulatory organizations (SROs) should be:

– participation of all auditors (according to the register) in the SRO and only in one;

– formation of compensation fund at SRO through liability insurance of auditors;

– participation in each of them not less than 20% of all professional participants in the audit market.

The members of the self-regulatory organization of auditors may be independent auditors, audit organizations, individuals, and organizations not related to audit activity. At the same time, there

is a condition that in such a self-regulatory organization of auditors the independence of auditors and audit firms should be ensured in the exercise of their functions directly associated with audit activity [4, p. 36-39].

We believe that these non-practitioners should delegate certain state institutions that are represented in the Audit Chamber of Ukraine and exercise control and regulatory functions in those areas that are subject to external audit.

Consequently, the domestic audit in Ukraine is at the stage of its formation, therefore, at the present stage, the market for audit services is unstable and still insufficiently effective. Under these conditions, each subject of audit activity during the economic activity faces a risk of low-quality audit services. Audit services quality control systems are being developed by audit firms to increase the effectiveness of audit activity [14].

Our proposed model will allow us to streamline and thereby make the procedures of external audit quality control more effective and meet all the requirements of the European Union.

Conclusions and perspectives of further researches. Summarizing all the above analyzed, we can say that audit is a rather new field of entrepreneurial activity, therefore, it has a number of shortcomings in its functioning. The problems that arise in the audit activity affect both the company and the economic situation of the state.

The conducted research shows that the potential of audit activity in Ukraine and the audit capabilities in ensuring the economic security of the state and society remain unfulfilled. Therefore, it would be advisable to apply the new proposed functional model of the organization of audit activity to strengthen the control over the quality of external audit.

In order to adapt audit activity to current economic conditions and implement a new model of audit activity in Ukraine in accordance with the requirements of the EU, it is necessary to rationally

determine the further directions of development of such activity, which should be:

1) strengthening the cooperation of Ukrainian auditing organizations with international and European professional organizations of accountants and auditors, which will help to gain practical experience of work of international auditing organizations;

2) development of methodical materials for the audit oversight of financial statements of enterprises;

3) development of common standards for the functioning of the audit activity in Ukraine, in which the audit activities should be directly identified;

4) implementation of international quality control systems for audit services in the work of auditors and audit firms.

Research and practical use of foreign experience in auditing activities will ensure the application of those rules and principles that are appropriate to be adapted in Ukraine for improving the organization of audit activity. An important factor that should be inherent in Ukraine's audit is the introduction of new approaches to quality control of audit services and mechanisms to reduce the impact of human factors on the quality of inspections. It is these changes that will accelerate the European integration intentions of Ukraine, as they will meet the European standards of audit activity.

Thus, the implementation of the above proposed organizational principles for the functioning of external audit at the present stage will help to bring it closer to European standards, to exit stagnation and, at the same time, will lead to the progressive development of banking institutions through increased confidence in them.

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Банера Н.П., Гелей Л.О. Модернізація системи зовнішнього аудиту в Україні: адаптація зарубіжного досвіду

Анотація. У статті досліджено теоретичні аспекти адаптації системи зовнішнього аудиту в Україні до вимог ЄС. Розглянуто розвиток зовнішнього аудиту в світовій та вітчизняній практиці та його теоретичні засади, наведено характеристику діючої моделі організації аудиторської діяльності в Україні. Проаналізовано європейські підходи до організації системи зовнішнього аудиту, обґрунтовано функціональну модель організації аудиторської діяльності в Україні: поєднання вітчизняних особливостей та європейських вимог.

Ключові слова: модернізація системи зовнішнього аудиту, аудиторська діяльність, Аудиторська палата України, директиви Європейського Союзу, орган суспільного нагляду, оцінка системи внутрішнього контролю якості послуг.

Банера Н.П., Гелей Л.О. Модернизация системы внешнего аудита в Украине: адаптация зарубежного опыта

Аннотация. В статье исследованы теоретические аспекты адаптации системы внешнего аудита в Украине к требованиям ЕС. Рассмотрено развитие внешнего аудита в мировой и отечественной практике и его теоретические основы, приведена характеристика действующей модели организации аудиторской деятельности в Украине. Проанализированы европейские подходы к организации системы внешнего аудита, обоснована функциональная модель организации аудиторской деятельности в Украине: сочетание отечественных особенностей и европейских требований.

Ключевые слова: модель организации внешнего аудита, аудиторская деятельность, Аудиторская палата Украины, директивы Европейского Союза, орган общественного надзора, оценка системы внутреннего контроля качества услуг.