

TO THE QUESTION OF THE QUALITY OF AUDIT ACTIVITY IN UKRAINE AND IN THE WORLD

Anatolii M. Kulish, Sumy State University

Nataliia Duravkina, Kharkiv National University of Internal Affairs

Ihor Ozerskyi, Petro Mohyla Black Sea National University

Liudmila Olefir, Academy of the State Penitentiary Service

Inna Kolodii, Chernihiv National University of Technology

ABSTRACT

The article is devoted to the research of the quality of audit activity in Ukraine and in the world. It is established that in the states of Europe the increase of the number of subjects of audit activity is relevant, while in Ukraine there is a tendency to decrease it, but the growth of the volume of services provided by them. It is concluded that for the countries of the world in general and for Ukraine, one of the urgent issues remains the question of monitoring the quality of the audit. It is determined that the basis of quality audit services in Ukraine and in the world is compliance with international auditing standards. The necessity of introducing a competitive mechanism for the auditor's determination in order to carry out the statutory audit, which exists today in Germany, Denmark, and the Czech Republic, is stressed. The attention is paid to the corrupt component during the audit, the unprofessional auditors, the lack of opportunities for the exchange of information between auditors who carry out internal and external audits, as well as the responsibility of audit entities, which are collectively those issues for which it is advisable to pay attention to quality improvement audit services.

Keywords: Audit, Quality of Audit Activity, Subjects of Audit Activity, International Standards of Audit, Auditor's Responsibility.

INTRODUCTION

The unstable development of the Ukrainian economy, the prevalence of financial and economic offenses (misuse of state funds, concealment of taxation, legalization of incomes, etc.), testify to the objective need to study the current state and prospects of carrying out an audit of financial and economic activity of enterprises. However, Gerakos and Syverson pay attention to the fact that the growth in the number of auditors (audit firms) reduces the quality of services they provide (Gerakos & Syverson, 2015). Taking into consideration the above, we emphasize that in Ukraine, unlike in the field of audit activity in Europe, there is a slightly different situation, which does not indicate an increase in the number of auditors (audit firms), but, on the contrary, decrease in their number and the rapid growth of the volume of services provided by audit entities activities. Thus, according to official data for 2016, the total number of auditors (audit firms) decreased by 8.9% from 1107 to 1008, while the volume of services provided by them in 2016 amounted to 1761.2 million UAH, and in 2017, 1973.1 million UAH and this tendency is observed today. The exception is only the Donetsk region, where today the provision of audit services is limited (Derevyanko et al., 2018). However, the question of the quality of audit services remains one of the most relevant for Ukraine.

The importance of audit services in the state results in an increase in the number of auditors (audit firms) and the volume of audit services, which forces states to address a number of issues related to organization and provision of audit services. One of them is the question of the quality of audit activity. In connection with this, theoretical understanding of the content of audit services and the identification of reasons that impede the quality performance of audit activity and, accordingly, determine the priority directions of further state policy in this area are relevant.

LITERATURE REVIEW

Torres et al. note that the effectiveness audit allows audit institutions to contribute to improving the economy, the efficiency of private and public sector entities through the recommendations of their reports (Torres et al., 2019).

Individual scholars focus on the importance, quality of audit services and, consequently, the inappropriateness of the simultaneous provision of auditing and non-audit services by one person at the moment in Denmark (Van-Liempd et al., 2019). Dao et al. emphasize that in the United States to improve the quality of internal audit, auditors were given the right to disclose information about partners in the audit reports. Despite the main argument in favor of such an idea, namely, that it would contribute to improving the quality and reliability of internal audit, it met a significant controversy among US experts (Dao et al., 2019). According to Zdyrko, One of the areas of improving the efficiency of internal state audits should be the introduction of an audit of effectiveness in practice, which should be oriented not only to the use of public finances, but also to the effectiveness of their formation (Zdyrko, 2016).

Many scholars also paid significant attention to the issue of the relationship between qualification requirements for auditors and the quality of their audit services provided. Popa, & Păun Attention is drawn to the fact that auditing in terms of cost-effectiveness, efficiency and effectiveness always requires analysis of a large number of data using appropriate methods and information technologies (Drobyazko et al., 2019). Therefore, the accuracy of the data obtained during the audit is based on the volume of information analyzed and professional competencies of auditors (Popa & Păun, 2018). In turn, Van-Linden & Hardies, based on a sample of 3,782 firms from 20 EU member states, assessed the link between such requirements and the quality of the audit and concluded that the requirement for an educational qualification level the master's degree compared to a bachelor's degree is largely due to the better quality of the audit. But there was also a lower quality of audit services in the states, which provides for the training of candidates for auditors of at least 3 years (Van-Linden & Hardies, 2018).

METHODOLOGY

The methodological basis for the study of the quality of audit activity in Ukraine and in the world is the comparative legal method and the method of critical analysis. Thus, the comparative legal method has allowed revealing the peculiarities of ensuring the quality of audit activity in Ukraine and in the world. The method of critical analysis has been used in the study of doctrinal and legislative provisions on the quality of audit services in Ukraine and other countries.

FINDINGS AND DISCUSSION

To date, the Law of Ukraine "*On Audit of Financial Statements and Audit Activities*" of December 21, 2017 defines audit activity as an independent professional activity of auditors and audit entities registered in the Register of Auditors and Auditors in providing audit services (Law of Ukraine, 2017).

In turn, the definition given in the legislation of Ukraine differs from the definitions of "*audit activity*" of the member states of the European Union, which more emphasize the content of the audit. In particular, according to the Law of the Czech Republic "*On Auditors*" of March 26, 2009, audit activity is a statutory audit, an audit of the management of the economy in accordance with the legislation, if such inspections are to be carried out by auditors, checking of accounting records, if provided by legislation, verification of another economic information held in compliance with the audit standards (Law of Czech Republic, 2009). Obviously, Ukrainian legislation, in contrast to the legislation of the Czech Republic, in the definition of audit activity does not emphasize the fact that it should be carried out in compliance with the audit standards, while the relevant authorities have control over it.

Speaking about the standards of auditing and monitoring of their compliance, one cannot but draw attention to the fact that the main condition for Ukraine's accession to the European Union, as noted by Kantsir and Plekan, is the reform of the system of regulation and supervision of audit activity in Ukraine, that is, auditing the services provided in Ukraine must be in line with the standards of European and world auditing practices. At the same time, a dominant factor in the effective functioning of independent control over audit activity is the choice of a model of oversight of the mechanism for its implementation; development of a system for monitoring the quality of audit services; improvement of the legal and regulatory framework for audit activity (Kantsir & Plekan, 2017).

According to Liubenko A., taking Ukraine into account of existing standards in the field of audit services will help to achieve transparency and accountability of audit activity, will allow to plan and carry out an audit qualitatively, provide professionalism and high quality of the results of control, the sequence in presenting these results to society, establish the correct audit procedure (Lyubenko, 2015).

The current legislation of Ukraine in order to comply with the requirements of Directive 2006/43/EC enshrines the obligatory external audit of the quality control system of audit services (at least once every five years) of all business entities included in the Register of Audit Firms and Auditors. In addition, the aforementioned Law of Ukraine "*On Audit of Financial Reporting and Auditing*" already takes into account most of the existing international standards of audit activity. In particular, it is provided that the right to compulsory audit is limited to those subjects of audit activity that have passed the audit of the quality control system of audit services, with at least 3 auditors working at their main place of work, and their civil liability is insured before the third parties. In a separate group, the subjects of audit activity, which have the right to carry out the statutory audit of enterprises of public interest, are allotted. Such subjects of audit activity put forward such requirements as: (1) at the main place of work in them should work not less than 5 auditors; (2) the total number of their full-time employees involved in the execution of tasks, not less than 15 people.

Instead, many international standards regarding specific requirements for mandatory audit of entities of public interest, which include more stringent requirements for audit fees, the prohibition of the provision of other services in the conduct of statutory audit, compliance with independence, quality control of tasks, transparency of activities the subjects of audit activity,

external quality control by the competent authorities, still remain unregulated. In particular, nowadays companies that is subject to statutory audit independently select auditors from those who have the right to provide such services. Whereas, for example, in Italy, Denmark, Germany, for today there is a mechanism for open competition in the conclusion of contracts for the execution of tasks for compulsory audit. In Ukraine, the absence of such a mechanism calls into question the transparency and objectivity of the choice of the auditor's public interest. Namely, transparency and objectivity are key factors in combating corruption in the audit environment. As Shendryhorenko and Shevchenko note. It is the auditor's findings that increase the credibility of the company's financial activity, loyalty to business by the stakeholders - owners, investors, potential customers, suppliers, authorities. Therefore, the question of the exclusion of a corruption component between an auditor and a client company during the organization and conduct of an audit is an issue of importance for both Ukraine and other states (Shendryhorenko & Shevchenko, 2018).

The appropriateness of combating corruption in the field of audit activity is also confirmed by the fact that the reports on the conducted internal audit are the basis for external audits. At the same time, poor-quality internal audit stipulates the need for critical analysis of the relevant conclusions by external auditors, which alters the importance of internal audit, creates an imbalance between the activities of internal and external auditors. First of all, external auditors have no confidence that the internal auditors performed the audit in a qualitative way, and the question of their professionalism and independence arises with regard to internal auditors. This necessitates the need for increased efficiency, independence, professionalism and quality of audit (Argento et al., 2018).

Taking this into consideration, Yulia et al. stressed the need to create a unified information base for making conclusions and recommendations of auditors, which would allow them to be tracked in the activities of the entity audited, and, if necessary, check the quality of the audit conducted to evaluate the activity already the auditor. But the introduction of such a base for the exchange of information, in our opinion, may violate one and the key principles of auditing. The principle is the confidentiality and professional secrecy of audit activity, according to which the subjects of audit activity should keep the confidentiality of the information received during the provision of audit services, not to disclose the information to which they have access during the provision of audit services and not to use them in own interests or in the interests of third parties. In connection with this, substantial measures should be taken to minimize the risks associated with the introduction of such an information base (Yulia, 2018).

In the opinion of Cordery and Hay, to ensure the proper quality of audit activity is possible by establishing the accountability of auditors for their activities (Cordery & Hay, 2018). Today, the legislation of Ukraine provides that in case of revealing repeated facts of low quality of the audit carried out by him, warnings, suspension of validity of the certificate for one year or cancellation may be applied to it. However, attention should be paid to the experience of Germany, which is advanced in terms of auditors' responsibility. The peculiarity of its legislation in this area is the activity of the Audit Chamber of Audit Courts dealing with violations in the activities of auditors, including the poor quality of the audits carried out by them, resulting in imposing administrative penalties on the perpetrators in the form of a fine or deprivation of the right to audit. Obviously, such an approach to responsibility for poor quality audit is more thoughtful and well-grounded.

RECOMMENDATIONS

Taking into account the above, it is obvious that Ukraine and other countries face one of the important issues - implementation and adherence to international auditing standards. At the same time, in Ukraine, carrying out of auditing activities in accordance with generally accepted international standards is restrained by a number of factors. Considering that it is appropriate for Ukraine to focus on minimizing corruption in the relationship between auditors and clients, professionalism and responsibility for the poor quality of the services of audit entities, as well as increasing transparency and objectivity in the selection of the auditor for carrying out the statutory audit. While at the international level, the issue of controlling the implementation of international standards of auditing in the states, taking into account the reasons for its slowdown, and assisting in their elimination, is relevant.

CONCLUSION

In the conditions of the development of financial and economic relations, the growth of financial and economic violations of the audit is appropriate, but related issues, including corruption, unprofessional auditors, their responsibility, etc., still need to be resolved. In many countries, including Ukraine, where auditing activities are new to the above circumstances, they may restrict or actually impede the provision of audit services in accordance with existing international auditing standards, with the result that the priority direction of international institutions should become a comprehensive assistance to such states in eliminating these causes.

REFERENCES

- Argento, D., Umans, T., Håkansson, P., & Johansson, A. (2018). Reliance on the internal auditors' work: Experiences of Swedish external auditors. *Journal of Management Control*, 29(3-4), 295–325.
- Cordery, J.C., & Hay, D. (2018). Supreme audit institutions and public value: Demonstrating relevance. *Financial Accountability and Management*, 35(2), 128-142.
- Dao, M., Xu, H., & Liu, L. (2019). Impact of the disclosure of audit engagement partners on audit quality: Evidence from the USA. *International Journal of Auditing*, 23(1), 112-124.
- Derevyanko, B., Nikolenko, L., Syrmamiik, I., Mykytenko, Y., & Gasparyevich, I. (2018). Assessment of financial and economic security of the region (based on the relevant statistics of the Donetsk region). *Investment Management and Financial Innovations*, 15(4), 283-295.
- Drobnyazko, S., Hryhoruk, I., Pavlova, H., Volchanska, L., & Sergiychuk, S. (2019). Entrepreneurship innovation Model for telecommunications enterprises. *Journal of Entrepreneurship Education*, 22(2), 1-7.
- Gerakos J., & Syverson C. (2015). Competition in the audit market: Policy implications. *Chicago Booth Research Paper*, 8(1), 13-63.
- Kantsir, I., & Plekan, M. (2017). Reform of regulatory policy in the field of supervision of audit activity. *Baltic Journal of Economic Studies*, 3(5), 170-174.
- Law of Czech Republic (2009). *On auditors No. 93/2009*. Retrieved from https://www.kacr.cz/file/835/Act%20on%20Auditors%20No%2093_2009.pdf
- Law of Ukraine. (2017). *On auditing activities: d 12.12.2017 p*. Retrieved from <https://zakon.rada.gov.ua/laws/show/2258-19>
- Lyubenko, A. (2015). Standartization of state financial control on the basis of system approach. *Economics Issue*, 94(1), 52-60.
- Popa, L.C., & Păun, N.L.A. (2018). Evolution of internal audit activity based on informational technologies in Romanian public entities. *Proceedings of the 31st International Business Information Management*

Association Conference, IBIMA 2018: Innovation Management and Education Excellence through Vision 2020.

- Shendryhorenko, M., & Shevchenko, L. (2018). Urgent issues of organization of audit activity in Ukraine and directions for their solutions. *Baltic Journal of Economic Studies*, 4(1), 345-349.
- Torres, L., Yetano, A., & Pina, V. (2019). Are performance audits useful? A comparison of EU practices. *Administration and Society*, 51(3), 431-462.
- Van-Liempd, D., Quick, R., & Warming-Rasmussen, B. (2019). Auditor-provided nonaudit services: Post-EU-regulation evidence from Denmark. *International Journal of Auditing*, 23(1), 1-19.
- Van-Linden, C., & Hardies, K. (2018). Entrance requirements to the audit profession within the EU and audit quality. *International Journal of Auditing*, 22(3), 1-24.
- Yulia, S., Svitlana, S., & Volodymyr, A. (2018). Compliance auditing in public administration: Ukrainian perspectives. *Baltic Journal of Economic Studies*, 4(5), 320-331.
- Zdyrko, N. (2016). Problem aspects of the internal state audit development. *Economic Annals-XXI*, 161(9-10), 85-90.