STAREP
Accounting and Auditing Standards
Community of Practice (A&A CoP)

Public Oversight and Quality Assurance in
UKRAINE: Current Status
Background – Auditing Market Condition

Number of auditors:

2,734 natural persons (as of January 1, 2014)

Number of auditing firms and auditors (economic entities entered in the Registry of Auditing Firms and Auditors):

1,251 auditing firms and 237 auditors

Number of undertakings subject to statutory audit:

About 20,000 economic entities

Under Article 8 of Ukraine’s Law on Auditing, statutory audits shall be conducted:

1) to assure reliability and completeness of annual financial statements and consolidated financial statements of public joint-stock companies, bond issuers, professional securities market participants, financial institutions, and other economic entities statements of which are subject to official publication under Ukrainian legislation;

2) to check financial position of bank founders, undertakings with foreign participation, insurance and holding companies, joint investment institutions, trust companies, and other financial intermediaries;

3) for issuers of securities and derivatives and for obtaining a license for professional activities in the securities market.

Statutory audit is also conducted in other cases provided for by Ukrainian laws.
Legal Framework

- Law of Ukraine on Auditing of April 22, 1993 (as revised by Law of September 14, 2006)
- Laws of Ukraine on Banks and Banking, on Financial Services and State Regulation of Financial Services Markets, on State Regulation of Securities Markets in Ukraine;
- International Standards on Auditing were adopted as national ones in Ukraine effective January 1, 2004 (Decision No. 122/2 of April 18, 2003 of the Auditing Chamber of Ukraine)

Regulations of the Auditing Chamber of Ukraine it adopted within its remit:

- Regulation on Certification of Auditors
- Procedure for Certification of Bank Auditors
- Regulation on Continuous Professional Development of Auditors in Ukraine
- Procedure for Maintaining Registry of Auditing Firms and Auditors
- Regulation on External Checks of Quality Control System;
- Regulation on National Practices for Auditing Services Quality Control 1, Organizing Auditing Services Quality Control System by Auditing Firms and Auditors;
- Procedure for applying penalties to auditors (auditing firms) for improper fulfillment of their professional duties.

The Auditing Chamber of Ukraine drafted the above documents with due account taken of Directive 2006/43/EC on Statutory Audits.
AUDITING CHAMBER OF UKRAINE

As per the Law of Ukraine on Auditing, the Auditing Chamber of Ukraine was set up in 1993 as an independent body governing auditor activities.

The body is responsible for regulating the activities of all the audit practitioners.

Sources of funding for the Auditing Chamber of Ukraine:
1) natural persons certification fees; auditor certificate renewal; control testing following skills developments;
2) fees for entry into the Registry of Auditing Firms and Auditors and renewal of certificate of entry into the Registry.

Non-governmental organization, the Union of Auditors of Ukraine, was established in Ukraine in 1992 only persons holding an auditor certificate may be members of.
AUDITING CHAMBER OF UKRAINE

As per the legislation in force, the Auditing Chamber of Ukraine:

• certifies persons wishing to engage in auditing
• approves auditing standards
• approves auditor training programs and, in coordination with the National Bank of Ukraine, training programs for auditors engaged in bank audits
• maintains the Registry of Auditing Firms and Auditors
• controls the activities of auditing firms and auditors
• regulates auditor (auditing firms) relations.

Total membership of the Auditing Chamber of Ukraine is twenty persons, of which ten are the auditing community members delegated by the auditors convention of Ukraine and ten come from public bodies (Ministry of Finance of Ukraine, Ministry of Justice of Ukraine, Ministry of Economy of Ukraine, Court of Accounts, State Tax Service, etc.).
Functions of the Auditing Chamber of Ukraine as a Public Oversight Body

The Auditing Chamber of Ukraine controls compliance by auditors with relevant auditing standards and regulations. The Auditing Chamber of Ukraine imposes the following penalties on auditors for improper fulfillment of their professional duties (violation of standard requirements or professional ethics standards): warning, certificate suspension for up to one year, certificate cancellation, removal from the Registry of Auditing Firms and Auditors.

The Auditing Chamber of Ukraine receives from auditing firms and auditors on an annual basis statements of services they provided, analyses them, and submits summary of the state of auditing in Ukraine to the Cabinet of Ministers of Ukraine. The Auditing Chamber of Ukraine reports on its activities at the annual convention of the Union of Auditors of Ukraine and once every five years, at the All-Ukraine Convention of Auditors.
Quality Assurance System

At the Auditing Chamber of Ukraine, there is Quality Control and Professional Ethics Commission composed of the Auditing Chamber of Ukraine members which coordinates activities of the Auditing Services Quality Control Committee composed of staff members.

**Functions of the Auditing Services Quality Control Committee:** exercising powers as per the Law of Ukraine on Auditing to control compliance by the auditing firms and auditors of requirements of the Law, auditing standards, and auditor professional ethics standards and arranging auditing services quality control.

The Committee membership is approved by the Auditing Chamber of Ukraine and comprises seven Auditing Chamber of Ukraine members who are non-practicing auditors with more than five years of experience in auditing.

Authorized inspectors who are not staff members of the Auditing Chamber of Ukraine and have more than three years of experience in statutory audit are retained to conduct quality control inspections.

**Inspection plan is approved by the Auditing Chamber of Ukraine for a calendar year and is formulated:**

- based on the Registry of Auditing Firms and Auditors data with due account taken of the information obtained following the review of their statements of work for the previous year;
- out of auditing entities which failed to pass quality control inspection and have been allowed six to twelve months by the Auditing Chamber of Ukraine decision to address deficiencies in the quality control system;
- out of auditing entities included in the Inspection Plan in the previous year but not inspected for objective reasons, as well as those included in the Plan by the Auditing Chamber of Ukraine decision (on its own initiative) or at the request of the Commission, non-governmental organization, etc.

Should a written application received by the Auditing Chamber of Ukraine be registered as a complaint regarding an auditing entity, it shall be referred to the Auditing Services Quality Control Committee for inspection. A complaint is usually inspected by two inspectors through desk or field inspection.

Following the inspection findings, the Quality Control Committee submits the complaint inspection findings in the form of a report to the Quality Control and Professional Ethics Commission of the Auditing Chamber of Ukraine. The Quality Control and Professional Ethics Commission makes protocol decisions to submit files for the Disciplinary Commission of the Auditing Chamber of Ukraine to initiate disciplinary proceedings regarding *mala fide* fulfillment by auditors (auditing firms) of their professional duties.
Quality Assurance System

Quality control system of an auditing entity can be inspected in two ways, namely: through desk or field inspection.

**Inspector working group:**
- examines an auditing entity’s documents as per Auditing Services Quality Control System Inspection Program;
- fills out checklists to assess quality control system compliance with the Code of Ethics for Professional Accountants.

The Inspection Program covers a firm’s policies and procedures with respect to six elements of the quality control system.

**Inspector working group assesses the extent of:**
- designed quality control system compliance with requirements of the Regulation on the National Practices for Auditing Services and Auditing Standards Quality Control;
- an auditing entity compliance with the auditing standards, legal and regulatory requirements as they provide auditing services;
- complete and sound documentation of auditing entity quality control policies and procedures;
- amount and quality of spent resources matching expected remuneration;
- actual implementation of quality control policies and procedures by an auditing entity.

Regardless of size of an auditing firm’s organizational structure, duration of quality control system inspection does not exceed ten business days. Inspection of a large auditing company may be two to ten days long.

**Inspectors focus on the following as they conduct inspections:**
- presence of sufficient and acceptable audit evidence which makes it possible to formulate sound conclusions an audit opinion builds on;
- assessment of risks of material misstatements at the statement level;
- adequacy of resources and time to conduct an audit;
- compliance with ethical requirements as clients are received and engagements are fulfilled;
- form and substance of audit engagement report.
Quality Assurance System

Engagements to be inspected are selected by the working group head based on professional judgment. When engagements are selected, preference is given to statutory audit engagements. As audit engagements are selected, the following factors increasing the audit practice risks are taken into account:

- engagements in the sectors involving the need to engage specialists familiar with the sector specificities (complex areas);
- large and complex engagements or those involving high audit risk;
- engagements of high public interest;
- engagements carried out for the first time;
- engagements in the areas not inspected and not analysed previously;
- engagements following the completion of which a qualified audit opinion is issued.

The following resources are necessary to inspect auditing entity quality control systems: competent human resources; financial resources; information resources, and infrastructure.

Inspection findings are posted on the web-site of the Auditing Chamber of Ukraine: [http://www.apu.com.ua/](http://www.apu.com.ua/) and are publicly available. Clients and specialized bodies can see the information to choose an auditing firm as a partner.

*The most significant deficiencies in the activities of auditing entities identified during auditing services quality control system inspections:*

- Lack of procedures to assess staff skills and professional competence;
- Insufficient measures taken to identify and assess events after the reporting date;
- Poor quality of audit working papers, including audit files preparation and safekeeping;
- Lack or insufficiency of audit procedures regarding applicability of going concern assumption to an audited entity;
- Non-compliance with ISAs requirements to audit opinion structure;
- Non-compliance with ISAs of opinion of reliability of an audited entity’s accounting (financial) statements;
- Two expressions of opinion (qualified and non-qualified) forms in one audit opinion;
- Absence of fact or inadequate evidence of consideration of threats to independence and measures to prevent such threats.

Should an auditing entity fail to address the deficiencies in the quality control system within the timeframe set by the Auditing Chamber of Ukraine, the inspection file for such an entity is submitted to the Disciplinary Commission of the Auditing Chamber of Ukraine to impose penalties.

- Disciplinary penalties include:
  - warning;
  - removal from the Registry of Auditing Firms and Auditors.

For instance:

- penalty in the form of a warning has been imposed on X auditing firm director for violation of requirements to setting up auditing services quality control system (ISQA 1, ISA 220)
- I auditing firm has been removed from the Registry for impeding quality control by the Auditing Chamber of Ukraine.
Relations between the Auditing Chamber of Ukraine and Other Financial Sector Regulators

The following state bodies regulate auditing in Ukraine:

• Ministry of Finance of Ukraine (as per Law of Ukraine on Preventing and Countering Legalisation (Laundering) of Proceeds of Crime)
• National Bank of Ukraine (as per Law of Ukraine on Banks and Banking)
• National Securities and Stock Market Commission (as per Law of Ukraine on State Regulation of Securities Market in Ukraine)
• National commission for financial services markets regulation (as per Law of Ukraine on Financial Services and State Regulation of Financial Services Markets).

The Auditing Chamber of Ukraine coordinates with the state bodies training programs for auditors engaged in activities in the respective market and requirements to audit reports following audits of entities in the markets.
Conclusions

Priority challenge is to separate the functions of the Auditing Chamber of Ukraine as a competent body for admission to the profession and as a public oversight body.

The fact there are many (about thirty) non-governmental organizations which describe themselves as professional auditor bodies plays a negative role in the development of the profession.

Quality assurance challenges:
• there is no auditing entity quality control external monitoring system;
• auditing practices lag behind new audit quality requirements;
• practical training in the auditing entity quality control is inadequate;
• approach to in-house quality control system by auditing entities is formalistic; there is inadequate understanding of human capacity development.