

БУХГАЛТЕРСЬКИЙ ОБЛІК, АНАЛІЗ ТА АУДИТ

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AUDIT REPORT: THE EVOLUTION OF NORMS OF UKRAINIAN AND INTERNATIONAL LEGISLATION ©

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The article deals with the problems which have place in the auditor activities, one of which is the lack of clear and unambiguous terminology, which is the basis for understanding of the essence of audit, its goals and objectives. The assessment of the audit activities on the basis of the analysis of dynamics of the number of subjects of audit in Ukraine is carried out. The purpose and objectives of audit in accordance with International standards on auditing is revealed. The criteria that must conform the audit report in accordance with International standards of auditing are analyzed. Historical aspects of the final document development of the audit of financial statements in Ukrainian and international legislation are researched. The views of scientists regarding the conflict of norms of the International standards of Audit and the Law of Ukraine “About auditor activity” are analyzed.

It is proved that the difference in the names of the same document “audit opinion” according to the Law of Ukraine “About Audit Activity” and “audit report” according to the International Standards of Audit is the lack of relevance in their translation. The ways of bringing legislation of auditing in Ukraine to the requirements of international law are suggested. The adoption of a new law “About audit of financial statements and audit” which takes into account the requirements of Directive 2014/56 / EC should promote it.

Keywords: independent audit, auditor activity, auditor opinion, audit opinion, audit report, International Standards of Audit.

Fig. 2. Tabl. 1. Lit. 15.

Problem Statement. The main aim of Audit is to express an independent audit opinion, implemented in the final document of audit, concerning accounting and financial reporting of the enterprise. According to the International standards of quality control, auditing and other related services it is called “audit report”.

However as the native practice shows Ukrainian audit terminology uses the term “audit report” since the audit formation in Ukraine. Primarily it is related to the definition set out in article 7 law of Ukraine “About audit activity”: “Audit report is a document drawn up according to audit standards which provides assurance to users according to financial reporting and other information to conceptual fundamentals which were used while drawing it up” [1].

Such difference between names of the same document (as practice shows) makes it difficult and ambiguous interpretation, first of all, in the process of audit during generalization and documentation of audit results, in scientific studies and also in the educational process

while teaching subjects “Audit”, “Audit Organization and Methods” and related subjects. It arouses scientific interest and courses the need for the study of theoretical aspects of audit report formation in conditions of European integration processes in Ukraine

Analyses of the Previous Research and Publications. The problem of Audit development in Ukraine was studied in the works of a number of leading economists such as: L. Hutsalenko, [2], N. Zdyrko, O. Shevchuk [3], O. Petryk [4], L. Knyzhnyk [5] and others. The works of national scientists such as I. Pozhrytska [6, 7], O. Pasko [8], D. Dolbnieva [9], N. Shalimova [10], who studied problems of essentiality, structure and interpretation of the final audit document, were dedicated to the problem aspects of generalized audit document.

Nevertheless, despite significant scientific achievements of researchers in the area, problems of theoretical and practical aspects of the final audit document drawing up remain unsettled, especially in terms of recent amendments to the International Standards of Audit and draft of the Law of Ukraine “About audit activity”, the aim of which is adaptation of Ukrainian standards to international audit.

Defining the Aim of the Research. The aim of the article is to investigate the evolution of standards in Ukrainian and international legislation (considering Ukraine uses international audit standards – hereinafter IAS) as to the process of drawing up and name of the generalized audit document and also to suggest ways of solving the possible problems concerning interpretation of the abovementioned document for the purpose of avoiding its ambiguous interpretation and adapting them to the requirements of international law.

The essence of the article. Unstable economic situation in Ukraine needs solution of the chain of problems which take place in the professional activity of auditors, accounting firms and make successful audit development impossible. One of the problems is the scarcity of methodological instructions in Audit control, which causes shortages of information and since – auditor’s low competence [2].

Shevchuk O.D. and Zdyrko N.H. are convinced that the first main and fundamental problem in Audit is absence of strict and definite terminology which is the basis for the understanding of Audit essence, its place, tasks and role in the system of economic control [3].

According to the Law of Ukraine “About auditor activities” Audit Chamber of Ukraine (hereinafter – ACU) annually receives from audit firms and individual auditors included in the Register of audit firms and auditors, reports on their work provides, analyze them and submit summarized information about audit activity in Ukraine to the Cabinet of Ministers of Ukraine.

On 01.01.2016, 1008 auditing firms and 99 auditors-entrepreneurs were registered in the Registry. In General in Ukraine on 01.01.2017 the number of audit firms and auditors entitled to conduct auditing activities, and accordingly are required to present in APA report form № 1-audit, amounted at 1008 [11].

Analysis of the results of auditor activities and the state of the market of auditor services shows that the audit market suffers from transformatio that occur in the country. So, in 2016 136 auditing entities were excluded from the Registry of audit firms and auditors and only 37 subjects of audit activities were included [11].

Information shown at Fig. 1 about the amount of subjects of auditor activity from 2012 to 2016 indicates a general tendency to its reduction (in comparison with 2012 – 60,3%), what indicates the outflow from the profession as a result of several factors, including the crisis in society and strengthening the requirements for the audit profession by regulators, and changes in tax legislation.

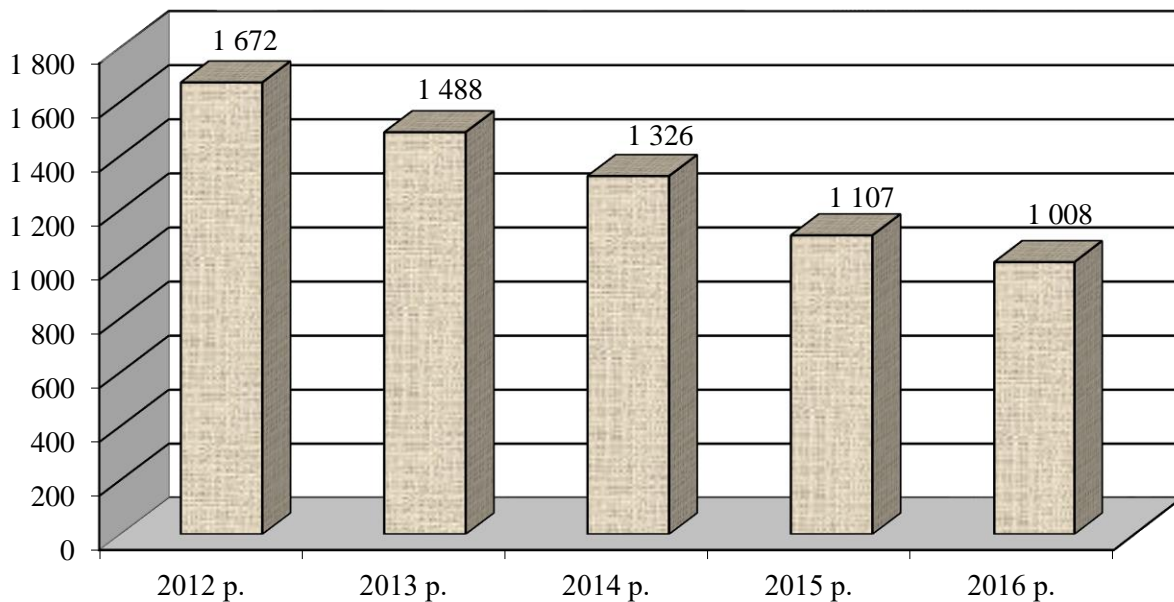


Fig. 1. The number of subjects of audit activity in Ukraine for 2012-2016

Source: [11]

Some problems concerning uncertainty in terminology also touched auditors final document due to the differences between national and international standards in the field of auditing. It can't but influences the practical activity of auditors and the practice of teaching in high school also shows: it creates obstacles to clear understanding of audit methodology by future scientists and practitioners.

According to the ISA 200 “The main aims of an independent auditor and auditing according to International Standards of Audit”, the aim of Audit is to increase the users’ level of trust to financial reporting. It may be reached by the expression of the auditor’s opinion whether the financial reports have been drawn up in accordance with all essential aspects of the conceptual basis of financial reporting [12].

Abovementioned ISA 200 also determines general objectives of the auditor:

a) to get assured that financial reporting in general do not contain essential misstatement as a result of fraud or error, which enables an auditor to express his opinion of the financial reporting drawn up in all essential aspects according to the conceptual basis of financial reporting;

b) to report on the financial statements and provide information as it is required by ISA, according to the results obtained by the auditor [12].

ISA 700 in “Formulation of opinion and reporting on financial statements” determines such objectives of the auditor:

a) to form opinion about the financial statements according to the conclusions of estimation based on the audit arguments received;

b) to express the opinion clearly in a written report that also describes the basis for the opinion [17].

That is, on the basis of International Standards of Audit, the main and ultimate aim of the auditor is preparing of a generalized document – an audit report. ISA 700 “Formulation of opinion and reporting on financial statements” also accentuates that the

expression of opinion on the financial statements based on the audit findings is the responsibility of the auditor. D13 ISA 700 also accentuates that a written report is a report published in paper and electronic media.

Addendum to ISA 700 “Formulation of opinion and reporting on financial statements”, which is called “Examples of audit reports on financial statements” uses the title of a generalized audit document “Independent auditor's Report” [12].

In accordance with the International standards of control of quality, audit, review, other assurance and related services, criteria which must comply with the audit report are the following: documentary form, publicity, independence of an auditor’s opinion (Fig. 2).

It can be concluded that the International standards of quality control, auditing, review, other assurance, and related services operate two names of the final audit document: “the audit report” and “independent auditor’s report”, which are considered to be identical.

Additional final documentation included audit report which was much wider document in content compared to the auditor’s report. Let’s examine the history of the title of the generalizing document of audit in Ukraine with the aim of highlighting the main milestones of its development.

According to the National Audit standards in Ukraine and the Code of Professional Ethics of Auditors of Ukraine, the auditor’s report is an obligatory component of final documentation and audit results are drawn up in the form of audit report, which must include clear understanding of the auditor of the audited financial statements [13].

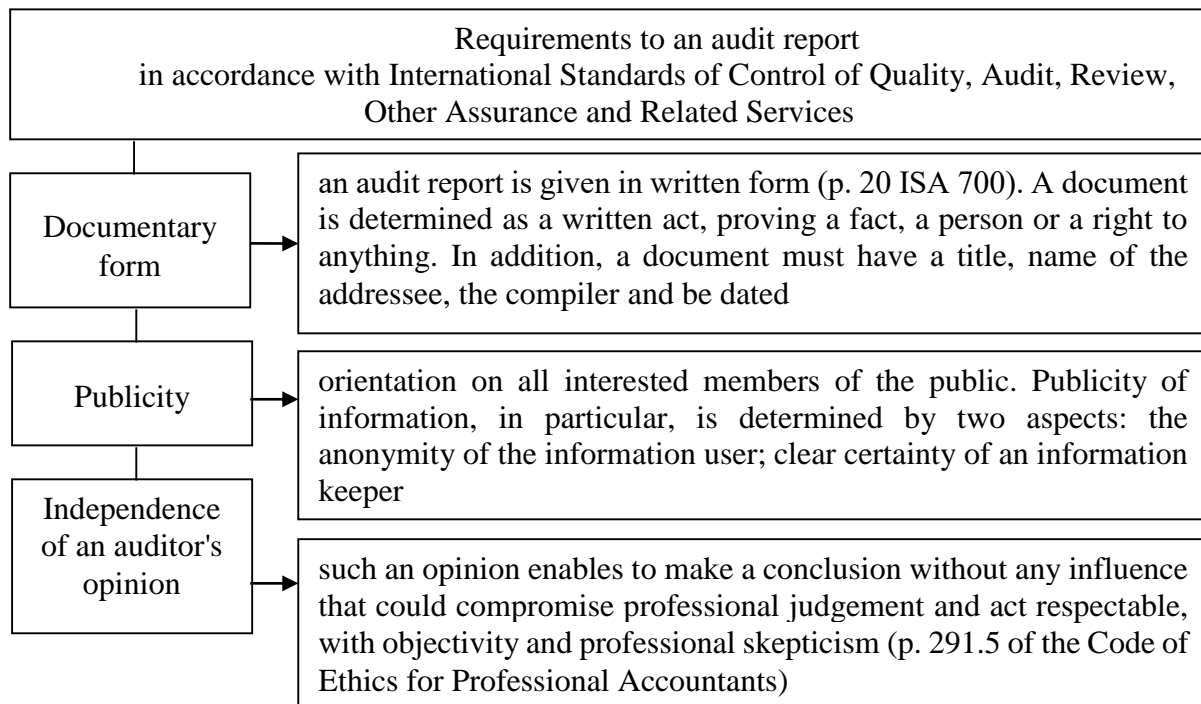


Fig.2. The criteria, to which the audit report in accordance with International standards of Audit must comply

Source: compiled by the author based on [4]

International Audit Standards were adopted in Ukraine as National Audit Standards in 2003 (ACU resolution of 18.04.2003, N 122/2). During their introduction ACU translated into Ukrainian such publications of Audit Standards of International Federation of accountants, issued in: 2001, 2004, 2005, 2006, 2010, 2012, 2013.

In 2015, ACU in agreement with IFA translated a new edition of the International Standards of control of quality, audit, review, other assurance, and related services edited in 2014, which, according to the decision of ACU of 29.12.2015, № 304/1, adopted for mandatory use upon performing tasks from February 1, 2016 as the national Audit Standards. In addition, the decision of ACU of 27.02.2014, № 290/7 adopted a Code of ethics for professional accountants of International Federation of accountants edited in 2012 for mandatory application by auditors of Ukraine from may 1, 2014 [11].

International Audit Standards have undergone changes, the following changes were made in the names and structure of the audit report (table. 1) [6].

Domestic legislation, in particular the Law of Ukraine “About auditor activity” still interprets today the generalized document on the audit of financial statements as the “audit report”. As the analysis of well-known economists evidences scientific research concerning the difference between the names of the same document is being still carried out.

Table 1

The name of the final document about the audit of financial statements

| The national audit standards | International Standards of Auditing and regulations in the international practice of audit (edition 2003) | (видання 2007 р.) International Standards onf audit, assurance and ethics (edition 2007) | International standards of control of quality, audit, review, other assurance, and related services (edition 2010, 2012, 2013, 2014) |
|-------------------------------------|--|---|---|
| Audit opinion | Audit opinion | Independent auditor's opinion | Independent auditor's report, audit report |

Source: the contents of the fourth column is supplemented by the author on the basis [6]

So, Pozharytska I., exploring the titles of the chapters of the International standards of Audit of different years of edition dedicated to the final document of the auditor, considers that ISA 700 has experienced a constant refinement as to “audit opinion”, “the auditor's opinion on financial statements” to “independent auditor's opinion on the complete financial reports of a General purpose” and “formulation of opinion and reporting on financial statements” in 2010, came to the conclusion that this is the evidence of instability of interpretation and aspiration to convey as precisely as possible the title of the final document of the auditor for the needs of users, including foreign ones [6].

Pasko A. V. considers that, in due to the appearance of the Ukrainian translation of ISA 2010, there was a problem with the title of the final document of the auditor on audit results. Edition of ISA of 2006 translated the English term “Independent Auditor's Report” as the “Opinion of an Independent Auditor”. In the 2010 edition, modified in comparison with the early edition, a group of translators, translated the same English-language term as “Report of Independent Auditor”. As a result there was confusion related with the use of the terms. Besides, the translation of the title of the final document of the auditor is not the same as its name in the Law of Ukraine “About Audit Activity” [8].

The change of the title of the final document about audit – “Report of an independent auditor” (“audit report”), the number of scientists in their researches explain as the gap of translation from English into Ukrainian: in English the phrase “auditor report” and “auditor's opinion” are identical and mean “audit opinion” [6, 7, 9].

Shalimova N. assured that the reason of norms collision in the International Standards of Audit and Law of Ukraine “About Audit Activities” is very simple and lies not in the differences between the documents, but in the lack of sufficiency in translation. The situation is a vivid example of the need to ensure the correctness and consistency of terminology use in translation of documents [10].

Therefore, despite the conflict of norms of the International Standards of Audit and the Law “About Audit Activities”, and also according to the article 6 of the Law “About Audit Activities” audit standards are obligatory for auditors, audit firms and entities, for the purpose of equal application of certain dispositions of the Law “About Audit Activity” and International Standards of 2010 edition, Auditing Chamber of Ukraine recommends to draw up a document entitled “audit opinion (independent auditor’s report)” to auditing firms and auditors according to the audit of the financial statements as it was reported in the decision of the Audit Chamber of Ukraine dated 26.01.2012 № 245/13 [14].

So, starting from 2012, the Ukrainian auditors summarize the audit results in the form of a document entitled “audit opinion (independent auditor's report)”. This name combines two terms:

- the first part, “audit opinion” – norms of the Law of Ukraine “About Audit Activity”;
- the second part, the “independent auditor's report” – the norms of International Audit Standards, i.e. international standards.

We consider this to be inexpedient as Ukraine aspires to international cooperation, for this reason after signing the Agreement about an association between Ukraine and European Union in 2014, process of adaptation of legislation of Ukraine about auditor activity to the legislation of the EC was given special attention. Thus, norms of Law of Ukraine “About Auditor Activity”, including the title of the final document, we consider, must become maximally close to the International Standards of Audit.

It should be noted that certain changes which approach us to the European standards took place in Ukraine: the Forum of Auditors of Ukraine “Association from EU: calls and prospects of audit in Ukraine”, organized by public Accountant Chamber of Ukraine, was devoted to the search of the real ways of these difficult calls decision. Not only auditors, but also representatives of public authorities and a wide range of the public took an active part in its work. The main event of it was the presentation of changes in European Union legislation as to compulsory audit of annual and consolidated accounts (Directive 2014/56/EU) [5].

In support of the policy on the need to adjust national legislation on audit activities to the legislation of the European Union, during 2015 by the subjects of legislative initiative were proposed two draft laws on audit activity, namely: the draft law “About auditing activities”, registered in Verkhovna Rada of Ukraine 03.04.2015 № 2534 by the group of people's deputies of Ukraine (updated 06.10.2015) and the draft law “About audit of financial statements and audit”, published on the official website of the Ministry of Finance of Ukraine 17.08.2015 (updated 15.01.2016) [11].

The analysis of norms of the draft law “About auditing activities” suggests that its main purpose is to bring provisions of the Ukrainian legislation about audit activities in accordance with the requirements of European legislation. This also concerns the audit report, which complies with International auditing standards. Regarding the audit report, the draft law provides: article 11 “Audit report and other official documents”, which contains the following information:

1. The audit report is an official document certified by the signature and seal of the auditor (audit company), drawn up in accordance with International standards of Audit, the results of the audit of financial statements.

2. The audit report provides assurance to users by statements of independent auditor's opinion about reliability in all material aspects of the financial statements and consolidated financial statements and its accordance with the requirements of laws of Ukraine, regulations (standards) of accounting, international financial reporting standards or other rules [15].

Therefore, the Ukrainian legislation in the sphere of audit activity makes positive steps towards integration in the international financial space, since the audit is an important tool that can ensure the Ukrainian companies access to world markets because it builds the credibility to the audited financial statements from both domestic and foreign users.

Conclusions. Researches carried out in the area of the conflict in the name of the final document about the audit of financial statements set in International standards on Audit and the Law of Ukraine “About Audit Activity”, suggest that the reason for it lies not in the differences between the documents “audit opinion” and “audit report”, but in the absence of validity in their translation. To prevent similar problems in the future regarding compliance of the audit terminology it is necessary to ensure correctness, and what is most important, consistency in the use of terms in the translation of International auditing standards.

For the purpose of economic integration of Ukraine to the European community, it is necessary to bring the legislation about audit activities in Ukraine in accordance with the requirements of the EU Directives. This should be facilitated by the adoption of a new draft law “About audit of financial statements and audit activity”, which takes into account the requirements of the Directive 2014/56/EU.

Prospects for further research we see in the study of structural changes of the audit report and types of audit opinions in accordance with the editions of the International standards of Audit.

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АНОТАЦІЯ АУДИТОРСЬКИЙ ЗВІТ: ЕВОЛЮЦІЯ НОРМ УКРАЇНСЬКОГО ТА МІЖНАРОДНОГО ЗАКОНОДАВСТВА

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У статті розглянуто проблеми, що мають місце в аудиторській діяльності України, однією з яких є відсутність чіткого та однозначного термінологічного апарату, який є базою для розуміння сутності аудиту, його мети та завдань. Здійснено оцінку стану аудиторської діяльності на основі проведеного аналізу динаміки кількості суб'єктів аудиту в Україні. Розкрито мету та цілі аудиту відповідно до Міжнародних стандартів аудиту. Проаналізовано критерії, яким має відповідати аудиторський звіт відповідно до Міжнародних стандартів аудиту. Досліджено історичні аспекти розвитку підсумкового документа про аудит фінансової звітності в українському та міжнародному законодавствах. Проаналізовані погляди вчених щодо колізії норм Міжнародних стандартів аудиту та Закону України “Про аудиторську діяльність”.

Обґрунтовано, що відмінність у назві одного і того ж документа “аудиторський висновок” відповідно до Закону України “Про аудиторську діяльність” та “аудиторський звіт” відповідно до Міжнародних стандартів аудиту полягає у відсутності обґрунтованих відмінностей при перекладі. Запропоновано шляхи приведення законодавства про аудиторську діяльність України до вимог норм міжнародного права, чому має сприяти прийняття нового законопроекту “Про аудит фінансової звітності та аудиторську діяльність”, у якому враховані вимоги Директиви 2014/56/ЄС.

Ключові слова: незалежний аудит, аудиторська діяльність, аудиторська думка, аудиторський висновок, аудиторський звіт, Міжнародні стандарти аудиту.

Рис. 2. Табл. 1. Літ. 15.

АННОТАЦИЯ АУДИТОРСКИЙ ОТЧЕТ: ЭВОЛЮЦИЯ НОРМ УКРАИНСКОГО И МЕЖДУНАРОДНОГО ЗАКОНОДАТЕЛЬСТВА

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В статье рассмотрены проблемы, имеющие место в аудиторской деятельности Украины, одной из которых является отсутствие четкого и однозначного терминологического аппарата, который является базой для понимания сущности аудита, его цели и задач. Осуществлена оценка состояния аудиторской деятельности на основе проведенного анализа динамики количества субъектов аудита в Украине. Раскрыты цели аудита в соответствии с Международными стандартами аудита. Проанализированы критерии, которым должен соответствовать аудиторский отчет в соответствии с Международными стандартами аудита. Исследованы исторические аспекты развития итогового документа об аудите финансовой отчетности в украинском и международном законодательстве. Проанализированы взгляды ученых относительно коллизии норм Международных стандартов аудита и Закона Украины “Об аудиторской деятельности”.

Обосновано, что отличие в названии одного и того же документа “аудиторское заключение” в соответствии с Законом Украины “Об аудиторской деятельности” и “аудиторский отчет” в соответствии с Международными стандартами аудита заключается в отсутствии обоснованных различий в их переводе. Предложены пути приведения законодательства об аудиторской деятельности Украины к требованиям норм международного права, чему должно способствовать принятие нового законопроекта “Об аудите финансовой отчетности и аудиторской деятельности”, в котором учтены требования Директивы 2014/56 / ЕС.

Ключевые слова: независимый аудит, аудиторская деятельность, аудиторское мнение, аудиторское заключение, аудиторский отчет, отчет независимого аудитора, Международные стандарты аудита.

Рис. 2. Табл. 1. Лит. 15.

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