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V. P. Bondar,

*DSc in Economics, Professor,
SHEE "Kyiv National Economic University
named after Vadym Hetman",
Certified auditor,
E-mail: office@hnb.com.ua*

Problems of professional ethics standards of auditors in Ukraine

This study is dedicated to the many problems arising from incompliance by auditors of principles of professional ethics that cause problems not only in the reliability of the published findings, but also cause problems of global mistrust of users of financial statements to the audit profession. This generally creates obstacles to transparency mechanisms for disclosure and verification of information enterprises in Ukraine, not encouraging the formation of good investment climate. The study proved system of organizational support to create an environment to observe the principles of professional ethics in the performance of audit tasks based on measures of specifying and eliminating threats to the independence of the auditor. In this regard, was proposed the structure and substance of the relevant organizational and administrative documentation, which is part of the internal quality control system of audit services.

Key words: *audit, audit procedures, professional ethics, ethical principles, threats to independence.*

Professional ethics is a moral code that exists in almost every profession, a set of rules that ensure the moral nature of the relationship related to the profession, as well as a branch of science that studies the specifics of morality and norms of behavior in a variety of activities. Code of Ethics is required for ensuring the quality of services provided by the profession. It is also important to service users (customers), because sometimes they themselves can not assess the quality of services because of their complexity, and other factors. Professional ethics exists in the activities with permanent nature and moral-psychological elements in its character, that are formed over time. And auditing in this sense is not an exception.

The audit ethics practically establishes and reflects the high degree of moral regulation of many aspects of auditor's activity. Much of the ethical provisions embodied and reflected in the laws, regulations and code of ethics of auditor. The audit ethics as a system of special knowledge about morality of auditor examines the sphere of consciousness and behavior of auditors moral relations and patterns of their formation. Auditor professional maturity is characterized not only by obtained knowledge and skills but also by the appropriate level of personal morality, understanding of moral demands of their profession.

Transparency of information (financial, or integrated corporate reporting) which is disclosed to stakeholders and is relevant and useful, unquestionably, is a prerequisite for the existence and development of financial markets, creating a favorable investment climate, corruption prevention. However, this requires a corresponding development of the theory and practice of auditing, analysis of the country which creates in potential investors the understanding and in the future credibility to the conclusions of

the independent auditors.

However, as the practical experience of auditing show, there are significant problems of complying with ethical principles in the course of the audit. And if they are not as evident in the design of quality control audit services, the operation of the system there are numerous cases of non-compliance with the principles of professional ethics. In particular, according to the Register of audit firms and auditors of the Audit Chamber of Ukraine as of 07.12.2016. Of Ukraine audit activity there in 1032, of which only 453 (43.9%) passed the quality control monitoring system, a key element which, according to ISQC 1 "International Standard on Quality Control 1" is relevant to ethical principles. This indicates significant problems of observance of professional ethics and auditor that requires the establishment of proper control over such violations with a view to adapting relevant policies and procedures and ensure their applicability in the professional activities of auditors.

A deeper study requires theoretical and applied aspects of the problems existing today in Ukrainian not complying with professional ethics, leading to deterioration of the quality of audit services and reduce confidence in the domestic audit.

Theoretical issues and problems of implementation of the requirements of professional ethics of auditor was devoted to the researches of S. Bardash, L. Chizhevskiy, H. Davydov, A. Herasimov, L. Hutsalenko, M. Korinko, B. Longhorn, O. Peter, N. Proskurina, O. Redko, V. Riadska, V. Rudnytskyi, N. Shalimov, V. Zhuk and other domestic and foreign scientists and researchers. However, a deeper study requires theoretical and applied aspects of the problems existing today in Ukrainian non auditors professional ethics, leading to deterioration of the quality of audit services and reduce confidence in the domestic audit.

The study aims are to identify major problems in complying with the principles of professional ethics of auditors of Ukraine and their solutions.

The negative image of Ukraine as a potential recipient of foreign investment is related not only to the problems of corruption component of the national economy, but also to the transparency of financial reporting of domestic companies. In particular, the latter show a formal attitude to ensure the accuracy and completeness of the disclosure of financial and other relevant information, mainly because few understand the benefit of this disclosure for the company in terms of meeting the information needs of stakeholders. However, this situation is compounded by the fact that persons whose activities are designed to promote adequate disclosure of enterprise information and reduce uncertainty about its users, in the face of fierce competition in the audit seek to maximize their own economic and other benefits, putting it at risk of fundamental principles of professional ethics auditor.

Due to the fact that the audit is the type of professional activity that provides financial and economic stability and creates the basis for decision-making in unpredictable economic environment, we believe that solving the problems of non-compliance with the principles of professional ethics auditor becomes crucial socio-economic importance for the development of economic and investment potential of our country.

Code of Ethics for Professional Accountants (hereinafter – the Code of Ethics) identified five fundamental principles of professional ethics, including: 1) integrity; 2) objectivity; 3) professional competence and due care; 4) confidentiality; 5) professional behavior. [1, p. 1005]. Let us consider these principles. Thus, the principle of integrity, according to the Code of Ethics "... means the obligation of all professional accountants to be straightforward and honest in all professional and business relationships, honest conduct of business and truthfulness" [1, p. 1101].

We believe that in general the principle of integrity can be violated in matters of auditor interaction with the customer:

1) formation of false or incomplete information on significant audit issues that must be reported to management personnel or those who are endowed with the highest powers (in accordance with ISA 260 and ISA 265);

2) formation of false or unsubstantiated opinion of the auditor on the financial statements of the client (violation of ISA 700 and ISA 705 in the grounds of neglect or modified audit opinion neglect of criteria when determining the type of modification);

3) establish economically unreasonable prices for services of audit, based on the grounds of persecution of own economic benefit or pricing based on prices of auditors (during the actual work of assistant auditor).

The next principle – objectivity – assuming that the auditor should not compromise on their profes-

sional or business judgment in practice associated with complex threats to independence [1, p. 1112]. In particular, it relates to the self-interest threat (fear of losing profitable customers determine the risk of expressing opinion), threats to its own estimates (impossibility of objective assessment of the information in the preparation of which involved the auditor), the threat of pressure (threats or fear pressure that put the customer or a third party to generate opinion focused on subjects such requirements). However, uncompliance with the principle of objectivity may be ignoring threats at the time of their occurrence, including the formulation of the opinion (opening only some – only positive or only negative – of the parties, non neutral wording in the audit report). This is a consequence of the existing conflict of interest at the time of the client or when deciding to cooperate with it or, on the contrary, there is a threat of family and friendship.

According to the Code of Ethics, the principle of professional competence and due diligence obligations mean maintain professional knowledge and skill at the level required to provide the client or employer with competent professional service and providing professional services to act diligently in accordance with applicable technical and professional standards (section 130 [1, p. 1112]. However, as the practice of auditing, implementation of this principle occurs at all stages of the audit:

– when making the task of auditing, the staff competence is assessed for its implementation, and the appointment of the group of audit engagement must assess the potential members of the group to ensure compliance with their terms of professional competence and engagement specifics of the clients activity;

– partners, when planning the engagement audit team should optimally allocate members of the group for checking individual sections according to their level of professional competence;

– the performance of objectives, professional competence and due care is provided through documentation of all audits amendments to planning documents in connection with the identification of additional risks distortions of alternative treatments, and through oversight and review of audit task performance.

The principle of confidentiality, according to the Code of Ethics means the auditor should refrain from disclosing information obtained during the engagement and / or use for their own benefit or for the benefit of the parties [1, p. 1113]. Following this principle is ensured through strict implementation of information security of audit firm, including a number of elements, including the security of information systems, security, documentation and customers, restricting access to certain parts of the firm outsiders like.

Last principles of professional ethics, which is called professional behavior is that during its activity the auditor should behave in such a way as not

to discredit their own profession or colleagues in the profession, and distribute information about their useful contacts with customers or authorities, cover on the auditor only accurate information that can be tested and used by potential clients only to a decision on possible cooperation with due regard to the experience of auditors in the art, professional competencies and others.

Note that compliance with these principles should be regulated and organized at different levels of quality control audit services. In particular, the results of their research can be divided into four levels: international, national, local, personal (Table 1).

Table 1

Levels of quality control of audit services

Level	The system of regulations	The contribution of documents in the organization of quality control in terms of ethical principles
International	Code of Ethics for Professional Accountants International Standard Quality Control 1, "Quality control for firms that perform audits and reviews of financial statements, and other tasks of Assurance and Related Services" ISA 220 "Quality Control For An Audit Of Financial Statements" [3]	Establish a system of fundamental ethical principles and threats to the independence and accountability of the company for its system of quality control for audits and reviews of financial statements, and other assurance and related services. Also regulated quality control procedures during the audit of financial statements
National	Concept of Quality Assurance System of Audit Services in Ukraine [2] provisions of national practice of audit services quality control 1 "Organization of audit firms and auditors, quality control system of audit services"	Concretized requirements of international quality control standards in the context of conceptual approaches of the Audit Chamber of Ukraine to the proper understanding of environmental quality audit services
Local	Internal documents (regulations, regulations, standards), specifying: 1) policies and procedures to ensure auditor independence of the audit firm; 2) requirements for the training of specialists; 3) measures liable to employees for failure (improper performance) of their duties; 4) areas where needed counseling staff; 5) adoption of a new job and / or continued cooperation with existing customers; 6) harmonization task; 7) planning task; 8) the process of documenting the use of expert auditor; 9) the procedures for supervision of the execution of the task; 10) requirements for quality control inspection tasks; 11) requirements for monitoring compliance with quality control	Documents of this system include specific institutional arrangements at all stages of an audit engagement that allows you to: 1) create a system of fixation failure threats principles of professional ethics, in particular, a system of data protection; 2) the auditor formalize steps to avoid infringement of the principle of professional competence and due diligence in: – adopting a new client or continue with existing collaboration; – planning an audit engagement; – carrying out the procedures provided for by international auditing standards; – identifying needs and possible use of the internal auditor, the expert auditor, receiving counseling; – formulating opinions on the financial statements of the customer based on audit evidence obtained and materiality and comprehensiveness of identified misstatements
Personal	Informal internal motivational levers that are necessary in the prevalence and importance of adherence to the principles of professional ethics on the interests and needs	The monitoring system implemented at their own ethical constraints, values, self-esteem and leverage critical when deciding on professional activity in general and the specific tasks

Despite the fact that elements of quality control system include relevant ethical requirements, however, believe that ethical principles implemented in all other elements, in particular as described in Table 2. It should be emphasized that the dark color in table 2 marked the development of internal regulations (rules, regulations, standards etc.) in relation to the fact that their development and implementation activities of the audit firm formalizes environment qua-

lity control, specifying the rights and duties the members of the task and the officials of the company and is the basis of prevention of threats to independence threats and failure to respect professional ethics.

Adherence to the fundamental principles of professional ethics can be achieved through the organization of audit firm adequate system of quality control audit services, in particular by developing in-house policies and procedures for quality control.

Table 2

**Ways of the objectives of monitoring compliance with the principles of professional ethics
in the elements of quality control audit services (formed with the requirements ISQC 1)**

Elements of quality control system Principles	Management's Responsibility for the quality of the firm		Human resources			Adoption and continuing relationships with clients and specific objectives		Performing tasks		Monitoring
	Development of internal documents	Delegation of authority and receiving assurances	When hiring	Getting the appointment assurances on job	Outside of process of tasks	Evaluation of threats to independence	Evaluation of available resources for testing	Supervision during tasks	Overview of completed tasks	
Honesty	+	+(1)		+(4)	+(1)	+(5)		+(4)	+(4)	+(4)
Objectivity	+	+(1)		+(4)		+(5)		+(4)	+(4)	+(4)
Professional competence and due care	+	+(1)	+(2)	+(2)	+(1)	+(5)	+	+(3)	+(3)	+(3)
Confidentiality	+	+(1)	+(1)	+(2)	+(1)	+(5)				+
Professional behavior	+	+(1)	+(1)			+(5)				+

Note:

(1) would bring personal responsibility for compliance with current legislation on auditing and professional standards and the Code of Ethics for auditors of the company receiving them appropriate assurances allows management to essentially transfer the responsibility for quality control audit services from the local level (on the level of the management of the audit firm as such) and personal level (explanation of the need to observe the principles of professional ethics, and responsibility for their violation is the basis of formation of moral value orientations auditor during the performance of an audit engagement);

(2) is checked by obtaining assurances regarding the understanding of the content of professional standards and their requirements for completeness and thoroughness of the audit procedures, confidentiality requirements;

(3) is checked by testing completeness, thoroughness and effectiveness of audit procedures;

(4) control the observance of principles based on the verification of the completeness and compliance highlighted distortions in formulating the auditor (pursuant to the requirements of ISA 700, 705 and 706) and report important issues of management personnel and those who are endowed with the highest authority (to meet the requirements of ISA 260 and 265);

(5) Testing of threats to independence can detect the threat of non-compliance with principles of professional ethics.

Based on his own experience of auditing and based on the requirements of professional standards of auditing (ISA) consider it appropriate to propose the following structure internal documents (structure and content sections Policies and procedures are presented in Table 3).

Table 3

The recommended structure of internal documents regulating policies and procedures to ensure the independence of auditors auditing firm (in terms of compliance with the principles of professional ethics)

№	Section title	The content of the section	Comment
1	Defining threats to independence and reduce their procedures	Explains signs of threats and a list of procedures to reduce the main groups of threats: the threat of self-interest threat to its own estimates, the threat of security threats to personal relationships, threats of pressure	Description of cases and examples of threats to independence allows them to clearly identify at the time of the threat and determine the category to select the types of precautions
2	Organization of monitoring threats to independence	Describe the mechanism for monitoring the threats to independence, including the procedure for establishing the person responsible for monitoring threats to independence, their fixation on the facts of occurrence, identify ways to eliminate and prevent future	Monitoring threats to independence (as the firm's independence and personal independence of its employees) should include previous, current and subsequent control over compliance with principles of professional ethics
3	Pricing system	The general principles of pricing the services of auditing firms (in the context of creating an environment to prevent a threat of self-interest of the company as a whole): description of the factors that affect the amount of the order, the possible reduction of prices for services, establishing limits of price increases for services	Additionally, should develop and implement internal standard pricing for the services of an audit firm to ensure objectivity of the auditor in formulating the auditor's report on the results of the audit task
4	The system of delegation of authority and internal consultation	Defines the general procedure of establishing senior auditor within the objectives of the audit and describes the procedure for consultation of difficult and controversial issues focused on ensuring the competence of the procedures in the audit (appropriate to determine the procedures and procedure documentation addresses members of the task counseling, advising, attract needed foreign specialist)	Additional samples should develop document circulation auditors for advice, consulting, outsourcing specialist, or if you can not get advice - sample documents reports of the impossibility of further auditing procedures
5	Personnel policy	Determine the general procedure for hiring employees to the state audit firm criteria for the transfer of an employee to a higher position in an audit firm as well as the procedure for establishing and determining the amount of remuneration or personal fees that focused on: 1) ensure the competency of the replacement of their vacant positions; 2) promote the needs of staff in recognition of professional achievement; and, consequently; 3) prevention of threats to individual self-interest of individual employees	At the firm level it is advisable to adopt the policy of hiring staff (qualifications for professionals in the hiring) and requirements for training of specialists. The wording of the requirements for candidates for vacancies should be carried out on the basis of the monitoring personnel to facilitate the recruitment of staff with the necessary qualifications and specialization.
6	Ensuring the professional competence of staff	In addition, for the detection of complex and risky areas of auditing procedures by individual auditors and application of the requirements of professional standards	Additional samples should develop instruments to assess the quality of the staff, typical applications and graphics professional development through in-house training and external training schedule with guidance on thematic areas for individual employees
7	Mechanisms of customer	Section contains description of the study of the qualifications of the employee in his decision, assessment of competence of staff appointed to the task, periodic evaluation of the employee in the performance objectives for the year and outline the forms and means of training of personnel	In this context, at the level of the firm is advisable to adopt should develop and implement sample documents to assess potential customers, including Integrity customers sample documents for periodic evaluation of existing customers

8	Confidentiality	Include a description of information security audit firm in the context of the confidentiality of information received from the client, and creating organizational and legal conditions for determining individual responsibility for access to information to prevent its disclosure	To ensure protective measures specifying additional information should develop and implement internal standards and regulations: 1) the storage and use at the company, in particular as regards the definition of confidential information; 2) the place of its location; 3) the manner of access to places of confidential information and the organization of the relevant documents; 4) informing customers of the store introduced a system of confidential information; 5) liability for disclosure of confidential information; 6) resolution of conflicts on the disclosure of confidential information
9	The organization of audit services and customer relations	Determine the procedure in deciding to adopt a new customer and / or extension of existing cooperation when planning audit procedures in response to assessed risks, but also determined the procedure for establishing those responsible	Here you can set the general principles and requirements for a new client and / or extension of existing cooperation and to further develop internal regulations containing the order of criteria assess the possibility of customer acceptance or continuation of cooperation
10	Organization consulting	Set the procedure of getting the employees of internal and external consultations on important issues of verification and procedure documentation relevant procedures	Settlement and opportunities of obtaining advice allows for the principle of professional competence and to prevent incompetent actions of the auditor relating to the lack of skills or experience that revealed in the course of an audit engagement

Application of this provision will serve as the basis of formation of the procedural regulations when working with a client audit firm, will create the foundation to develop and specify the provisions of other internal standards and regulations governing the operations of the auditor in the performance of audit objectives.

Conclusions and recommendations for further research. The study of the theoretical and practical aspects of compliance with the principles of professional ethics of auditors in Ukraine allowed to reach the following conclusions.

1. Problems failure auditors principles of professional ethics in general cause problems mistrust users of financial statements to the audit profession and published audit reports in particular is not conducive to creating an attractive investment image of our state and local entities on foreign markets. This is also a mismatch Ukraine financial statements, including audited financial statements to international standards in all material respects, its opacity and more.

2. The national audit practice, there are many threats to the failure to respect professional ethics, which can effectively prevent the development and implementation of quality control systems of audit services in accordance with international standards of quality control. The study describes the main directions of violations of the principles of professional ethics and auditor identified ways to ensure the implementation of the main elements of the quality system auditing services.

3. Given the importance of building a system of quality control audit services, found that ethical prin-

ciples auditor should be regulated and organized at all levels to ensure quality control audit services, which are the results of their research, four (international, national, local, personal) and describes the contribution of relevant documents in the organization of quality control in terms of ethical principles.

4. Defined as that compliance with the fundamental principles of professional ethics can be achieved through the organization to audit firm adequate system of quality control audit services, in particular by developing in-house policies and procedures for quality control. In connection with this proposed structure of internal documents and its substantive content on certain sections. Its application will create a basis for the formation of the procedural regulations of the client specifying the audit firm and the provisions of other internal standards and regulations for the operations of the auditor in the performance audit objectives.

Interest in the definition of the main components of professional ethics of auditors never ceases. Of particular relevance is the problem of the definition of terminology of main components of professional ethics of auditors. The analysis of foreign and domestic sources will summarize and identify: the current terminology of basic elements (components) of professional ethics of auditors such as: concept; principles; fundamental principles; fundamental requirements, etc.; the general principles of professional ethics of auditors such as independence; objectivity; competence; honesty; confidentiality; professional behavior; professional standards and technical standards; proper (reasonable diligence).

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В. П. Бондар,

доктор економічних наук, професор,

ДВНЗ "Київський національний економічний університет імені Вадима Гетьмана",

Проблеми застосування норм професійної етики у діяльності аудиторів України

Професійна етика – моральний кодекс, який існує майже у кожній професії. Це сукупність правил поведінки, що забезпечує моральний характер взаємовідносин, пов'язаних із професійною діяльністю, а також галузь науки, яка вивчає специфіку моралі та норм поведінки в різноманітних видах діяльності. Кодекс професійної етики необхідний для забезпечення впевненості в якості послуг, що надаються представником професії. Це також важливо, для користувачів послуг, адже інколи вони і самі не можуть оцінити якість послуг через їх складність та інші фактори. Професійна етика існує в діяльності, що має постійний характер та елементи морально-психологічного плану, які складаються протягом часу. І аудиторська діяльність в цьому сенсі не є винятком.

Аудиторська етика практично закріплює і відображає високий ступінь регламентації багатьох сторін моральної діяльності аудиторів. Значна частина етичних положень відображена та закріплена в законах, нормативах та кодексі професійної етики аудитора. Як система спеціальних знань про мораль аудитора етика вивчає сферу його свідомості та поведінки, моральних відносин і закономірностей їх формування. Професійна зрілість аудитора характеризується не тільки знаннями, вміннями і навичками, але й відповідним рівнем моральності особистості, опануванням моральних вимог своєї професії.

Дослідження присвячено численним проблемам, що виникають у зв'язку з недотриманням аудиторами принципів професійної етики, зумовлюючи не тільки сумніви щодо достовірності оприлюднених висновків, а й глобальну недовіру користувачів фінансової звітності до аудиторської професії. Це в цілому створює перешкоди для забезпечення прозорості механізмів розкриття та верифікації інформації підприємствами в Україні, що не сприяє формуванню належного інвестиційного клімату.

За результатами дослідження обґрунтовано систему організаційної підтримки створення середовища дотримання принципів професійної етики в ході виконання завдань аудиту на основі конкретизації заходів виявлення й усунення загроз незалежності аудитора. У зв'язку з цим запропоновано структуру та змістовне наповнення відповідної організаційно-розпорядчої документації, яка є частиною внутрішньої системи контролю якості аудиторських послуг.

Ключові слова: *аудит, аудиторські процедури, професійна етика, етичні принципи, загрози незалежності.*

В. П. Бондарь,

доктор экономических наук, профессор,

ГВУЗ "Киевский национальный экономический университет имени Вадима Гетьмана"

Проблемы применения норм профессиональной этики в деятельности аудиторов Украины

Исследование посвящено многочисленным проблемам, возникающим в связи с несоблюдением аудиторами принципов профессиональной этики, что вызывает не только сомнения в достоверности обнародованных выводов, но и глобальное недоверие пользователей финансовой отчетности к аудиторской

профессии. Это в целом создает препятствия для обеспечения прозрачности механизмов раскрытия и верификации информации предприятиями в Украине, что не способствует формированию надлежащего инвестиционного климата.

По результатам исследования обоснована система организационной поддержки создания среды соблюдения принципов профессиональной этики в ходе выполнения задач аудита на основе конкретизации мероприятий по выявлению и устранению угроз независимости аудитора. В связи с этим предложена структура и содержательное наполнение соответствующей организационно-распорядительной документации, которая является частью внутренней системы контроля качества аудиторских услуг.

Ключевые слова: *аудит, аудиторские процедуры, профессиональная этика, этические принципы, угрозы независимости.*

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