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### Ukrainian Audit in the Context of Statistics

Statistical data on the situation and trends in the Ukrainian audit market are studied. The tendency of quantitative indicators of the audit market, including the number of auditors, the number of audit forms and private physical persons rendering audit services from 2011 to 2016 is shown. The data give evidence of the gradually declining audit community. The reasons behind this tendency are analyzed, and the deteriorating public attitude to this profession is underlined. The falling number of expected and reported inspections is observed. Data on the number of audit customers' complaints on audit firms are given by regulatory body and audit entities with the dominating number of complaints. The need to create the database of official statistics on the audit market in Ukraine is emphasized, which key component has to be the set of indicators as the basis for the system of statistical monitoring of the audit market in Ukraine.

**Key words:** *audit, audit market, audit entities, statistics, Audit Chamber of Ukraine.*

Ukraine is undergoing continual change in the domestic social, political and economic area. This cup has not passed from the Ukrainian professional audit. The audit has been changing together with the country and the state, which is confirmed by the data from the still only one regulator of audit activities, the Audit Chamber of Ukraine (ACU), presented at the

regular congress of auditors in 2017 [1]. According to these data, as of the beginning of 2017, 945 audit firms and 59 private auditors were recorded in the Ukrainian Register of Entities Engaged in Audit. The dynamics of audit entities in 2011–2016 is shown in Table 1 (according to data from [1]).

Table 1

Audit entities in Ukraine

Year	Auditors (persons)	Audit firms	Physical persons – private auditors
2011	3129	1342	520
2012	3139	1306	336
2013	2993	1251	237
2014	2787	1163	163
2015	2675	1107	99
2016	2646	1008	64

Table 1 demonstrates a clear downward tendency in the number of audit firms and private auditors in the period under study. In fact, the numbers of these entities fell year-by-year, with the total reduction by 1.33 and 8.13 times respectively. The explanations of this tendency, given by ACU, are confined to the two factors: withdrawal of Crimea, Donetsk and Luhansk region from the Ukraine's jurisdiction; legal prohibition (through amendments in the Taxation Code of Ukraine) of performing obligatory audit by private auditors. However, the data in Table 1 allow for the conclusions about inefficiency of regulatory activities in audit as a whole and the changing attitude of the society to this profession. Taking account of

the natural selection, enrollment and dismissal of professional staff in audit is nevertheless cannot be balanced, as the dismissal from this profession prevails over the enrollment in it. Unfortunately, massive debates on the corruptness of ACU (its commission on education in particular) in social networks have not been supported by documents, but the corruptness per se can be a serious factor discouraging new people from this profession. An advantage of work in a Ukrainian audit firm is the content of work and business schedule. On the one hand, it is said that it is easier to inspect something than to do something. On the other hand, absence of a fixed schedule is attractive for youth and capable women. But it tends to be overlooked that absence of a fixed schedule means not only the right to start work closer

to the midday and finish it in the afternoon, but the obligation to work after the end of a business day, in weekends or holidays. It is especially true for medium or small audit firms that cannot afford to enroll a specialist on regulatory and legislative framework or a specialist on information technologies.

The falling numbers of entities at the audit services market should be compared with the numbers of potential clients. According to the Ukrainian State Statistics Service, 1 121347 legal entities were registered in Ukraine as of 01.01.2016 [2]. But not all of them are consumers of audit services. The following ones can be positively included in the consumer list: 15 571 joint-stock companies, 12629 public institutions and 61 940 communal institutions. It means that theoretically one audit entity had 1112 potential consumers in 2016. If joint-stock companies are taken, then one audit firm will have 15 potential customers of this category on average per year. According to ACU, the professional audit services rendered in 2015 amounted to 1761.2 million UAH or average 1.7 million UAH per audit entity [1]. It may seem that this is a reasonably high figure, especially considering that the average number of auditors per firm is 2.5 persons or less. However, bearing in mind the rapidly growing rate of dollar and the inflation rate in Ukraine, the real volume of the audit services market fell by nearly twice.

It should be noted that concentration of the political activity in the capital makes the audit market move to Kiev: while in 2012 the market of Kiev and Kiev region accounted for 76.3% of the total market

of audit services, in 2014 its share grew up to 79.4%, and in 2015 – to 83.2%. It confirms that funds for audit were concentrated with customers residing in the capital, with customers in regions became much poorer. Therefore, inasmuch as the audit firms with a success measured by regional criteria began to compete with Kiev ones, losers of the Kiev audit moved to regions, using dumping.

Another tendency is the growing numbers of audit firms with the turnover of more than 10 million UAH. While in 2011 they were only 8, in 2015 they grew up to 13. Their services covered 53.9% and 64.8% of the total Ukrainian market in the respective years. A logical question occurs, if the audit services market really exists in a country where 13 audit firms of 1008 cover nearly 65% of the total market. If it does, where are the rest of 995 audit firms and private auditors? We believe that such differentiation of audit entities has extremely negative effects for the expansion of the audit services market in Ukraine. The shrinking one was also the share of audit firms with the annual turnover of 100 000 UAH to 1 million UAH: while in 2011 it made 25%, in 2015 – as low as 10%. It can be safely assumed that most part of the Ukrainian audit entities became much poorer over the period of the study

Another curious point should be mentioned. It used to be believed in the professional circles of Ukrainian audit that the obligatory audit was a guarantee of financial welfare. Data in Table 2 [1] confirms the typically Ukrainian attitude of audit firms to the obligatory audit of financial reporting. Note that in 2014 the only firms eligible for performing

Table 2

The Number of Contracts on Obligatory Audit of Financial Reporting

Groups of audit firms by number of contracts on obligatory audit	2011	2012	2013	2014	2015
5 to 10	196	191	159	86	71
10 to 20	167	152	127	83	88
20 to 50	102	115	98	83	78
50 to 100	7	21	22	34	25
100 to 200	–	2	3	3	6
More than 200	1	1	1	1	2
Total number of firms	473	482	410	290	270

obligatory audit were ones that had passed the audit quality control of ACU.

In 2011, 35% of the total number of audit firms in Ukraine were engaged in the obligatory audit; in 2012 their share was 37%; 2013 – 33%; in 2014 – 25%; in 2015 – 24%. It means that the obligatory audit of financial reporting was a matter of importance for only one of the three audit firms. The rest two thirds preferred to render related audit services or audit not involving the guarantee of confidence. The phenomenon of two audit firms (medium ones according to ACU data) is remarkable,

which contrived to check the reporting of more than 200 report makers during one year, spending not longer than two days on each. Quite the same are other audit firms that checked financial reporting of 100 to 200 report makers per year. Data in Table 3 [1] confirm that the number of audit firms whose quality of audit of obligatory public reporting raises reasonable doubts has a clear upward tendency. This situation did increase the number of complaints from audit customers, especially the ones addressed to regulatory bodies: National Bank of Ukraine, National Commission on Regulation of the Financial Services

Table 3

The Number of Complains on Audit Firm, by Regulatory Body

Year	NBU	NCSSM	NCRFSM	Business entities
2012	–	4	–	23
2013	–	1	–	17
2014	1	15	–	20
2015	5	26	15	20
2016	9	3	15	22

Notes: NBU – National Bank of Ukraine; NCSSM – National Commission on Securities and Stock Market; NCRFSM – National Commission on Regulation of the Financial Services Markets.

Markets, and National Commission on Securities and Stock Market.

It should be noted that the occurrence of a complaint on an auditor and the results of his/her work might be provoked by many factors in Ukraine. The first and foremost one is internal competition, with a complaint being a way to cut a firm off a specific customer or a region as a whole. Another one is attempts of government bodies to regulate the audit market, quite often without objective reasons. Finally, it is audit customers, but most part of them are businesses going against the rules when making reports or ones being brought to trial procedures between the founders.

It is obvious that the complaints are too small in numbers compared with financial reports that are checked and confirmed by auditors, but these cases do exist. The approach of National Commission on Regulation of the Financial Services Markets needs special mention. Before the requirement was issued that only the firms that had passed the quality control were permitted to perform financial reporting audit, this Commission had never complained on

auditors. But once this requirement was legalized, the Commission suddenly raised concern about the quality of results of the obligatory audit: as can be seen from Table 3, the concern was equally high for the two consecutive years. This underscores personal interest and bias of selected members of this Commission.

The key Ukrainian regulator of audit, Audit Chamber of Ukraine, responded on clients' complains in proper way. From 2012 till 2016, 8 audit entities were withdrawn from the ACU Register (meaning that they lost the right for professional work); auditor certificates of 10 auditors were annulled; auditor certificates of 59 auditors were suspended; 53 auditors were issued a warning. The total of 161 complaints on a auditor or an audit firm were submitted in the above mentioned period, of which 130 were in a way accepted.

Statistics of measures taken by ACU to control the quality of work of auditors and audit firms should be examined in the above context (Table 4 [1]). It should be noted that nowhere has the problem of audit quality been given a clear solution yet. If the quality is seen from the perspective of the satisfied consumer's

Table 4

Results of Inspections of Auditors' Quality, made Audit Chamber of Ukraine

Indicator	2012	2013	2014	2015	2016	Total
Planned inspections	333	332	267	184	229	1335
Finished inspections	223	203	125	56	106	723
Quality control finished	125	108	84	43	80	440
Quality control in process	111	95	48	13	19	286

need, then a Ukrainian auditor does always satisfy these needs.

The practice of planning, when nearly half of the inspections are performed with the unfailing regularity, is puzzling. Data of Table 4 show the downward tendency in the number of audit firms not passing the quality inspection. However, the number of firms passing control was falling as well. The above data is difficult to analyze due to several reasons:

1. The quality of audit is not clearly specified. From the gnoseological point of view, specification of the auditor's work is similar to specification of the work of a judge, a medical doctor, a fortune-teller or an astrologist.

2. When the insiders' information on a corruption or inadequate qualification of inspectors is born in mind, then the audit firms that have (or have not) passed the control may include the ones with the irrelevant inspection results.

3. When an auditor at work relies on his/her own professional judgment, the inspection of this judgment quality will tend to focus on whether or not the audit standards and norms of professional ethics are met rather than on the quality of an auditor's product, which is a professional opinion about reporting.

Summing up the problem of audit quality, the current Ukrainian regulation, such as the Resolution

of the Cabinet of Ministers of Ukraine No 390, fixes a set of quantitative criteria for the staff of audit firms, whom audit of the reports of entities of public interest shall be entrusted [3]. However, the thesis that the more auditors are enrolled in an audit firm, the higher is the quality of their work, is not substantiated at all. Unfortunately, after the year of 2011 ACU refused to record statistics on prices of auditor services and differentiate audit customers by region, industry of business (type of economic activity) and category of business entity.

Therefore, nobody can judge with a certainty whether or not the audit market in Ukraine is really developing and in where it is moving. This situation underscores the need for building up the database of official statistics of the audit market in Ukraine. A subject for future studies can be building up of the information base for constructing a set of indicators to be used for statistical monitoring of the audit market in Ukraine.

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### Український аудит у контексті статистики

Розглянуто статистичні дані щодо ситуації і розвитку ринку аудиту в Україні. Акцентовано увагу на динаміці кількості суб'єктів професійної аудиторської діяльності, оцінці якості роботи аудиторів. За період 2011–2016 рр. подано динаміку кількісних показників ринку, серед яких: число аудиторів; число аудиторських фірм та фізичних осіб – підприємців, які працюють у цій сфері. Дані свідчать про поступове скорочення аудиторської спільноти, причому за останнім зазначеним показником – більш ніж у вісім разів. Проаналізовано причини цього явища, при цьому відмічено погіршення в цілому ставлення суспільства до професії аудитора.

Результати перевірок Аудиторською палатою України якості роботи суб'єктів аудиту свідчать про зниження до 2015 року включно основних показників, а саме, кількості планованих і фактично проведених перевірок. Тільки в 2016 році дані показують деяке поживлення діяльності суб'єктів аудиту. Звернуто увагу, що зменшення кількості аудиторських фірм, які не пройшли перевірку якості роботи, супроводжується одночасним зменшенням числа фірм, які пройшли такий контроль. При цьому зазначено, що зростає число фірм, щодо яких можна достатньо обґрунтовано засумніватися в якості результатів їх перевірки обов'язкової публічної звітності. Наведено інформацію щодо кількості скарг замовників аудиту на аудиторські фірми з виділенням групи регуляторів (Національний банк України, Національна комісія, яка здійснює державне регулювання у сфері ринків фінансових послуг, і Національна комісія з цінних паперів та фондового ринку) і суб'єктів господарювання, число скарг від яких домінує. Акцентовано на позиції Нацкомфінпослуг щодо якості результатів обов'язкового аудиту.

Вказано на необхідність формування бази офіційної державної статистики ринку аудиту в Україні, ключовим елементом якої має бути комплекс показників як основа системи статистичного моніторингу аудиторського ринку держави.

**Ключові слова:** *аудит, ринок аудиту, суб'єкти аудиторської діяльності, статистика, Аудиторська палата України.*

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### **Украинский аудит в контексте статистики**

Рассмотрены статистические данные о ситуации и развитии рынка аудита в Украине. За период 2011–2016 гг. подана динамика количественных показателей рынка, среди которых число аудиторов, число аудиторских фирм и физических лиц – предпринимателей, работающих в этой сфере. Данные свидетельствуют о постепенном сокращении аудиторского сообщества. Проанализированы причины этого явления, отмечено ухудшение в целом отношения общества к данной профессии. Имеет место уменьшение количества планируемых и фактически проведенных проверок. Приведена информация по количеству жалоб заказчиков аудита на аудиторские фирмы с выделением группы регуляторов и субъектов хозяйствования, число жалоб от которых доминирует.

Указано на необходимость формирования базы официальной государственной статистики рынка аудита в Украине, ключевым элементом которой является комплекс показателей как основа системы статистического мониторинга аудиторского рынка в нашей стране.

**Ключевые слова:** аудит, рынок аудита, субъекты аудиторской деятельности, статистика, Аудиторская палата Украины.

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