

THE INSTITUTIONAL APPROACH TO THE QUALITY OF ACTIVITY OF THE AUDIT ACTORS

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Vasyliuk M. M. The Institutional Approach to the Quality of Activity of the Audit Actors

In the article is discovered that one of the reasons for the lack of competitiveness of economic entities in Ukraine is a poor quality of status of the institutional environment. As a result of the author's own research, the necessity for definition and approaching to auditing as an audit institution has been substantiated. In this regard, the relationship of the process of establishing an audit institution with institutionalization of the concept of auditing quality is taken into consideration. According to the results of the analysis, carried out by the author, directions for ensuring the auditing quality through a modern system of institutional regulation of the auditing activity have been formulated. The article substantiates the conclusion that importance of the institutional relations for the auditing activity participants is that they are the primary mechanism for satisfaction and harmonizing diverse interests that depend on their objectives, experience, and the knowledge acquired.

Keywords: institutional approach, quality of audit, audit institution, conception of audit, ensuring the auditing quality, auditing, professional regulation, institutional environment.

Fig.: 1. **Tbl.:** 1. **Bibl.:** 16.

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Василюк М. М. Інституціональний підхід до якості діяльності суб'єктів аудиту

У статті з'ясовано, що однією з причин недостатньої конкурентоспроможності суб'єктів господарювання в Україні є невисока якість стану інституціонального середовища. За результатами авторського дослідження обґрунтовано необхідність визначення та підходу до аудиторської діяльності як до інституту аудиту. У зв'язку з цим розглядається взаємозв'язок процесу становлення інституту аудиту з інституціоналізацією поняття якості аудиту. За результатами проведеного аналізу автором сформульовані напрями забезпечення якості аудиту через сучасну систему інституційного регулювання аудиторської діяльності. Обґрунтовано висновок, що значення інституціональних відносин для учасників аудиторської діяльності полягає в тому, що вони виступають головним механізмом задоволення та узгодження різноманітних інтересів, що залежать від їх мети, досвіду та набутих знань.

Ключові слова: інституціональний підхід, якість аудиту, інститут аудиту, концепція аудиту, забезпечення якості аудиту, аудиторська діяльність, професійне регулювання, інституціональне середовище.

Рис.: 1. **Табл.:** 1. **Бібл.:** 16.

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Василюк М. М. Институциональный подход к качеству деятельности субъектов аудита

В статье выяснено, что одной из причин недостаточной конкурентоспособности субъектов хозяйствования в Украине является невысокое качество состояния институциональной среды. В результате авторского исследования обоснована необходимость определения и подхода к аудиторской деятельности как к институту аудита. В связи с этим рассматривается взаимосвязь процесса становления института аудита с институционализацией понятия качества аудита. По результатам проведенного анализа автором сформулированы направления обеспечения качества аудита через современную систему институционального регулирования аудиторской деятельности. Обоснован вывод, что значение институциональных отношений для участников аудиторской деятельности заключается в том, что они выступают главным механизмом удовлетворения и согласования разнообразных интересов, которые зависят от их цели, опыта и приобретенных знаний.

Ключевые слова: институциональный подход, качество аудита, институт аудита, концепция аудита, обеспечение качества аудита, аудиторская деятельность, профессиональное регулирование, институциональная среда.

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One of the main factors determining the level of market economy development, the competitive position of business entities and ensuring their economic security, as international experience demonstrates, is the institutional environment, which, provided its effective formation, acts as a stimulating factor for the development of entrepreneurship. Institutional environment, in particular that of audit, represents a set of legal, political, social, ethical, organizational, economic institutions, which have a direct impact on the quality of audit services. In the process of further improving the system of the legal and professional regulation of audit activities an increasing importance is given to the issues of the institutional approach to assessing the quality of the auditing entities' activity.

Organization of the system for ensuring quality of audit services and satisfying the needs of society also re-

quire improvement of quality control over the activity of audit companies and auditors, moreover, the definition of the status of audit as a link between the state and civil society, its institutional characteristics, systemic and subject content provides an opportunity to identify audit as a kind of economic and institutional model. Today one of the main reasons for the low competitiveness of businesses in Ukraine is a low quality of the condition of the institutional environment. The institutions, which are the basis of the institutional environment, impose certain restrictions on the behavior of individuals while expanding their opportunities, stabilize and accelerate economic activity.

From a theoretical point of view the issue of using the institutional approach to assess the quality of activity of auditing entities was not sufficiently studied, but it is growing in popularity due to the relevance of problems of

audit quality. An important contribution to the audit development was made by such well-known western scholars as E. Arens [1], J. Juran [3], R. Dodge [4], D. Carmicheal [7]; domestic scientists: P. Kalyta [6], A. Melnyk [11], N. Shalimova [16], O. Seleznov, A. Olhovykova, O. Gyk, T. Sharashidze, L. Yurkivska, O. Kulikov [12], O. Redko [14], and Russian researchers: A. Glychev [2], G. Krylova [9], S. Sukharev [15], and others. The results of studies in the theory of auditing form a solid basis for the development of practical methods for assessing the audit quality. In the works of A. Arens, F. Defliza, J. Lobbek [1] and other scientists the problem of content and functions of audit is considered. At the same time, scientific developments of the issue of institutional environment and its impact on the quality of audit services are fragmentary and associated typically with problems of reliability and efficiency of its control.

The *aim* of the article is to study and adequately reflect the current practice of the institutional approach to assessing the quality of activities of independent auditors and outline prospects for further development in the direction of quality improvement.

During the transition period in domestic auditing practice there was formed a structure of the institutional environment, which has not lead to improvement of the economic and social state in the country. It should be noted that a properly formed institutional environment provides stable rules of conduct for market entities, which results in a significant simplification of information and financial exchange between market players and the external environment. In the economic literature there are various definitions of institutional environment, namely:

- ✦ institutional environment is a set of fundamental social, political and economic regulations that restrict human behavior [15];
- ✦ institutional environment as a clearly ordered set of institutions that define frame conditions of the functioning and developing of economic entities [11].

Providing conditions of common life activities of economic entities is determined by the function of the institutional environment. Today we can distinguish two approaches to creating an audit regulatory framework:

- ✦ state legislative initiatives and state regulation;
- ✦ legislative initiatives of professional organizations and provision of regulation together with the state.

The first type of approach to audit regulation is characteristic for countries of continental Europe and Russia. The essence of the approach is that the state itself develops and approves legislative acts and norms regulating audit activity; performs registration of auditors and auditing companies, and control over their activities.

The next type of approach is followed by Britain, the US and some other countries, so it is called "the Anglo-American approach". The main feature of this approach is that the process of regulating activities is made at the initiative public organizations. In the national practice the regulation of audit activity is carried out in accordance with the Anglo-American approach.

Among institutional factors that affect the economic stability of domestic enterprises a significant place is occupied by the indicator of the audit quality and effectiveness of audit services. Requirements to quality at the international level are set by the standards, including ISO 9000 International Organization for Standardization [6]. Considering the impact of the institutional environment on the audit quality, firstly of all, it is necessary to define the concept of quality of audit and audit services. A number of experts [3, 4, 9] interpreted the concept of "quality" in the economic literature as the level of product compliance with the standards and specifications that allow to satisfy specific needs in costs, that is quality reflects the ability of the product to perform a specified function. So, quality of the audit practice should be understood as the maximum satisfaction of information needs of users by results of auditing work, services and accompanying activities under the requirements of the current legislation of Ukraine, ISA and the Code of Ethics for Auditors [5]. Our studies make it possible to assert that ensuring a high audit quality requires:

- ✦ a high level of education and professional experience of employees in the accounting sphere;
- ✦ compliance with relevant standards of the audit methodology;
- ✦ ethical professional conduct;
- ✦ creation of a credible disciplinary mechanism, which responds to complaints and problems;
- ✦ application of a systematic and effective approach to ensure quality auditing.

When analyzing the institutional environment, there should be mentioned the following its components that affect the audit quality, [11]:

- ✦ organization of auditing management in Ukraine;
- ✦ legal regulation of auditing that reflects the state of the legal framework in the country considered from the perspective of legislation development, its stability and efficiency in the regulation of economic relations in society;
- ✦ organization of internal auditing;
- ✦ professional audit support.

Regarding the influence of the institutional environment on audit quality, we have found that, taking into account national specificities, it is impossible to build a mixed model of audit institution in Ukraine today, because there are certain constraints, one of which is the impossibility to provide for mandatory membership in one professional organization, while there are more than 15 professional associations in the country. In our opinion, a private model can be applied as a transitional model for building audit institution in Ukraine. According to the proposed model, the Auditing Chamber of Ukraine is the body of public supervision (*Fig. 1*).

In our opinion, the body of public supervision should be managed not by practicing individuals who have knowledge in the fields related to the mandatory audit. We propose that professional organizations would delegate the issues of certification of auditors and audit quality control that do not belong to the competence of the Professional Council for Supervision. However, the supervision of activities of professional organizations should be carried out by the Profes-

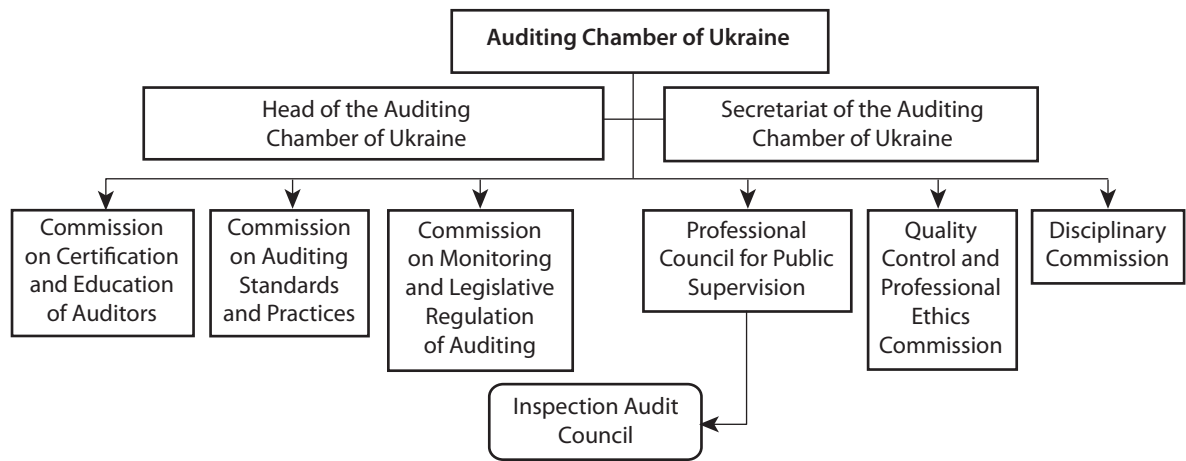


Fig. 1. The model of audit institution in Ukraine

Source: systematized on the basis of [10].

sional Council for Supervision of the Auditing Chamber of Ukraine [10]. Currently the domestic market of audit services is mostly dominated by small and medium-sized auditing companies. In addition, the experience shows that the problems on the organization and functioning of the internal control of auditing quality at small auditing companies include: organizational problems, problems of development of its methodological framework, etc. In this regard, it seems that for small audit companies the most optimal realization of the organization and functioning of the system for internal control of auditing quality in terms of costs and the final result will be documented guidelines on principles and procedures of auditing quality control, their analysis and evaluation. In accordance with the Law of Ukraine "On Auditing", the Audit Chamber of Ukraine has the authority to monitor the observance of professional standards and standards of professional ethics by auditing companies and auditors. In this direction, the Auditing Chamber of Ukraine uses a system for ensuring auditing quality, elements of which perform clearly defined functions of the organizational structure of the quality assurance system (Tbl. 1).

Auditor independence is ensured above all by strict compliance with the rules of professional conduct, based on the Code of Ethics adopted by the International Federation of Accountants. According to the EU requirements, to ensure the independence and quality of auditing, the rules of professional ethics should be complemented by the following provisions:

- ✦ auditor independence should be observed both during auditing and other services;
- ✦ the auditor must report all possible threats of loss of independence and take necessary measures to reduce the risk of loss.

Control of audit quality, in our opinion, should be socially oriented through the establishment of special commissions for quality control.

In particular, the control of audit quality is understood as a set of methods and procedures used to determine the compliance of audit companies and auditors with established quality criteria. Accordingly, the purpose of audit quality control is considered as ensuring compliance of audit companies

and auditors with the established quality criteria [1]. The system of audit quality control in Ukraine is formed by the Auditing Chamber of Ukraine and includes: regular reporting of audit activity approved by the Auditing Chamber of Ukraine; monitoring the quality of audit services, additional procedures to ensure quality control and disciplinary measures on the control results; informing the public about the system of audit quality control in Ukraine [3]. However, the current system of audit quality control is only in the process of establishing and does not preclude its further transformation toward greater economic responsibilities of auditors. In order to ensure an effective control of the professional services provided by the auditor the following steps should be taken:

- ✦ carrying out requirement planning of audit staff;
- ✦ choosing the responsible person for appointment of staff for provision of audit services;
- ✦ approving the audit schedules and appointment of staff.

Note that the present system of normative-legal audit regulation in Ukraine is emerging as the process of determining the rights and duties concerning audit activities, defining the role and functions of public organizations. The value of institutional relations for participants of audit activities is that they are the main mechanism of harmonizing the diverse interests depending on their goals, existing experience and accumulated knowledge, always on a legal basis. This process is based on the fact that every participant of institutional relations in coordination with other interests based on their resources, knowledge and experience, as a result enters into contracts on audit services. It should also be noted that institutional relations play a key role in the life of any community of people, and their lack has a negative impact on the economy as a whole.

CONCLUSIONS

The critical analysis of the results of the conducted studies gives grounds for the following conclusions. Given the demands of today's requirements, the audit institute in Ukraine successfully completed the phase of formal formation, however, it needs serious reforming in accordance with modern international requirements and provisions of general

The organizational structure of the system for ensuring audit quality [13]

Elements of the structure	Functions
The Auditing Chamber of Ukraine	<ul style="list-style-type: none"> – Monitoring the quality assurance system; – considering and making decisions (on the proposal of an authorized Commission of the Auditing Chamber of Ukraine) on the results of external inspections of systems of control over the quality of auditing companies and auditors; – taking appropriate measures to achieve the compliance of the quality assurance system with the requirements of the Law of Ukraine “On Auditing”, auditing standards, norms of professional ethics
Commission of ACU for Quality Control and Professional Ethics	<ul style="list-style-type: none"> – Carrying out the control and coordination of the work of the Committee on Audit Quality Assurance; – promoting introduction and observance by auditors of norms of professional ethics; – monitoring the quality of audit and related services; – investigating complaints, appeals on the facts set out in them as to observance by auditing entities of legal requirements, norms and standards of auditing and professional ethics
Committee on Audit Quality Control	<ul style="list-style-type: none"> – Providing the planning and organization of conducting external inspections of systems of control over the quality of auditing companies and auditors; – checking and monitoring the results of external inspections of quality control systems, analysis of violations by auditing companies and auditors of professional requirements regarding the quality of auditing and other additional procedures on quality assurance; – summarizing the results of inspections and issuing general recommendations to prevent further violations
Authorized controllers	Independent individuals who have concluded civil-law contracts with the Committee on Quality Control on the implementation of external inspections of systems of control over the quality of auditing companies and auditors in accordance with the Regulation on external inspections of the quality control system
Authorized Quality Control Organizations	Recognized by the Auditing Chamber of Ukraine public associations and professional organizations who have signed with the Committee on Quality Control the agreement on the implementation of external inspections of systems of control over the quality of auditing companies and auditors in accordance with the Regulation on external inspections of the quality control system
Disciplinary Commission	<ul style="list-style-type: none"> – Considering materials of disciplinary proceedings based on the results of external inspections of systems of control over the quality of auditing companies and auditors and facts of evasion from external inspections, the results of complaints and appeals to the Audit Chamber of Ukraine; – preparing for the Audit Chamber of Ukraine respective draft decisions on the application of penalties for auditors (auditors); – monitoring of violations by auditors (auditing companies) of the requirements of the current legislation of Ukraine, audit standards, norms of professional ethics and decisions of the Auditing Chamber of Ukraine; – summarizing the practice of the Auditing Chamber of Ukraine of imposing penalties on auditors (auditing companies) for the improper performance of their professional duties; – informing about the requirements for the quality of auditing, as well as the results of the work of Commission the professional community and the public

developments of the EU. The analyzed in the study experience of building the audit institution in some countries proves that the selection of a particular model of building the audit institution was influenced by the historical features of the development of the audit profession and experience gained. We believe that the strategy for the development of audit in Ukraine requires a combination of state control structures, including an independent audit, into an integral national control system that would cover the above-mentioned critical aspects of the operation of economic systems. ■

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