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QUALITY IS THE KEY IMPERATIVE OF MODERN AUDIT

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ЯКІСТЬ — КЛЮЧОВИЙ ІМПЕРАТИВ СУЧАСНОГО АУДИТУ

Quality means doing it right when no one is looking
Henry Ford

The article examines the essence of the category of the quality control system for audit services in Ukraine and external audits of audit firms, the meaning and impact of "quality" as a basic postulate, an axiom, in audit. Significant changes that can now be observed in the field of audit, namely the impact on the quality control of audit entities, regulation and monitoring by an independent body of public supervision of audit activities, improvement and increase of quality requirements as the main characteristic of the professionalism of the services provided. The author defines the purpose of quality control as an essential and main priority: the introduction of a system of external and internal quality control of audit services is the most urgent task of modern independent audit, trends in the development and improvement of the quality of services provided, and comprehensive ethics of interaction between the auditor and the client. The transformation of audit quality control in Ukraine for the period of 2022—2023, the dynamics of audits of public interest entities (PIEs) are investigated. The results of the quality control of the Public Oversight Body for Audit Activities (APOB), the main problems, new challenges, risks, and improvements faced by the audit community, the trend and dynamics of audits among audit entities are presented. The author analyzes the Transparency Report of one of the top 10 best audit companies in Ukraine, describing the quality management system and the statement of the management body, which is based on internal policies for quality control of services provided, methodology, monitoring, and staff development. The article provides materials on the legal and practical principles of regulating the quality control of audit services, the use of state and non-state (internal) levers to form and monitor activities that reduce risks and improve the quality of audit services.

Quality is not just a technical requirement, but a fundamental imperative of the audit, without which the profession loses its meaning. In today's world, where financial transparency and accountability are of paramount importance, only a quality audit can ensure the trust that all market participants expect.

У статті досліджено сутність категорії системи контролю якості аудиторських послуг в Україні та зовнішні перевірки діяльності аудиторських фірм, значення та вплив "якості", як основного постулата, аксіоми, в аудиті. Значні зміни, які зараз можна спостерігати у сфері аудиту, а саме вплив на контроль якості суб'єктів аудиторської діяльності, регулювання та моніторинг незалежним органом суспільного нагляду за аудиторською діяльністю, покращення та підвищення вимог до якості, як основної характеристики професіоналізму наданих послуг. Визначено мету контролю якості, як суттєвий та основний пріоритет: впровадження системи зовнішнього та внутрішнього контролю якості надання аудиторських послуг є найактуальнішим завданням сучасного незалежного аудиту, тенденції до розвитку та покращення якості наданих послуг, всебічна етика взаємодії між аудитором та замовником. Досліджено трансформацію контролю якості аудиту в Україні за період 2022-2023 років, динаміку перевірок підприємств суспільного інтересу (ПСІ). Представлені результати контролю якості Органу суспільного нагляду за аудиторською діяльність (ОСНАД), основні проблеми, нові виклики, ризики, та покращення, з якими стикається аудиторська спільнота, тенденція та динаміка проходження перевірки серед суб'єктів аудиторської діяльності. Проаналізовано Звіт про прозорість, одного з топ 10 найкращих аудиторських компаній України, на опис системи управління якістю та твердження органу управління, яке грунтується на внутрішніх політиках контролю якості наданих послуг, методології, моніторинг, підвищення кваліфікації працівників. У статті наведені матеріали із правових та практичних засад регулювання контролю якості аудиторських послуг, застосування державних та недержавних (внутрішніх) важелів формуванню та моніторингу діяльності, яка дозволяє зменшувати ризики та підвищувати якість наданих аудиторських послуг.

Якість — це не просто технічна вимога, а фундаментальний імператив аудиту, без якого професія втрачає свій сенс. У сучасному світі, де фінансова прозорість і відповідальність мають величезне значення, тільки якість аудит здатен забезпечити ту довіру, яку очікують усі учасники ринку.

Key words: audit, quality control, audit services, internal control, external control, quality management system, A Public oversight body for audit activities.

Ключові слова: аудит, контроль якості, аудиторські послуги, внутрішній контроль, зовнішній контроль, система управління якістю, Орган суспільного нагляду за аудиторською діяльністю.

GENERAL STATEMENT OF THE PROBLEM AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC OR PRACTICAL TASKS

The development of modern audit is accelerating under the influence of a system of standards, methodological frameworks, legislative framework, scientific theories and research, etc. At the same time, activities to control and monitor the quality of audit services are increasing: effective application of the chosen methodology, full and accurate disclosure of information, audit independence and skepticism.

One of the most important criteria of audit activity and control over it is quality. Within the framework of the defined topic, the following is investigated and disclosed: the transparency report of one of the top 10 largest audit companies in Ukraine (Grant Thornton Legal LLC) is analyzed to cover the description of the quality management system; the activities of the public supervision body (APOB) to control the quality of audit services provided by audit entities are analyzed.

ANALYSIS OF THE LATEST RESEARCH AND PUBLICATIONS

In the scientific work of both domestic and foreign experts shows that many works are devoted to the issues of quality and quality control of audit services, namely: Kuzub O.A., Proskurina N.M., Redko O.Y., Eremenko D.V., Panteleev V.P., Drach V.I., Kozak V.E., Sysoieva I.M., etc. [1—8]. Each scholar defines the concept of quality and quality control of audit services in a different way. However, a detailed generalization of audit regulation, audit quality control and public oversight bodies has not been carried out. [8]

FORMULATION OF THE OBJECTIVES OF THE ARTICLE (TASK STATEMENT)

It consists in generalization of research, theoretical, organizational and methodological approaches to quality as the main postulate of audit activity. Problems of the process of controlling and monitoring the quality of audit services based on the transparency report of the top 10 largest audit companies in Ukraine and official reports from the Public Oversight Body for Audit Activities (APOB).

SUMMARY OF THE MAIN RESEARCH MATERIAL

For the purposes of the study, it is necessary to disclose the basic concepts used in the quality control process. According to International Standards on Quality Management (ISQM) 1, Quality Management for Firms Engaged to

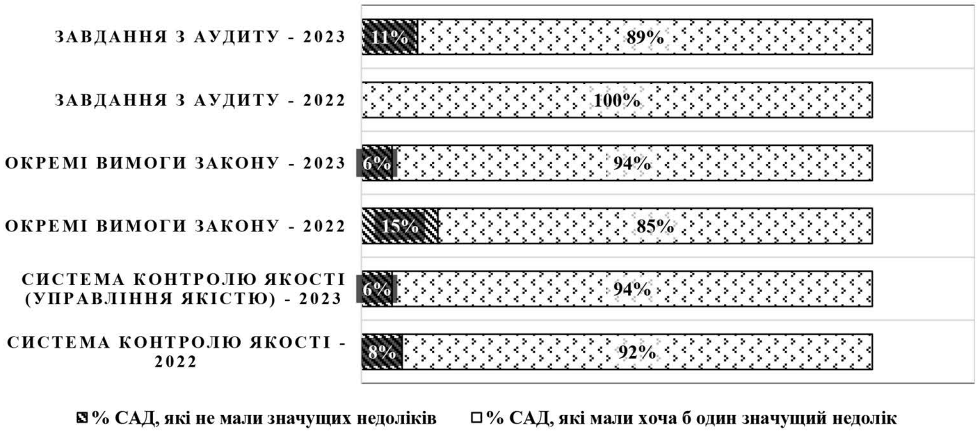

Fig. 1. Distribution of audit entities by types of significant deficiencies identified in 2022—2023

Source: Website of the Public Oversight Body for Audit Activities [12].

Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services, the concept of "quality management system" is a system that a firm implements and uses to provide reasonable assurance that its firm and personnel fulfill their responsibilities and perform tasks in accordance with professional standards, in accordance with regulatory and legal requirements for the provision of audit services. [9]

Such an example is the Transparency Report of Grant Thornton Legal LLC, which states that the quality management system of this audit entity consists of internal policies and procedures developed to monitor the quality control of audit services and is based on the elements defined by ISQM 1, namely:

— the company's risk assessment process;
— management and leadership;
— relevant ethical requirements;
— acceptance and continuation of client relationships and specific tasks;
— task performance;
— resources;
— information and communication;
— monitoring and correction process.

Consumers of audit services seek to receive consistently high quality professional services, which is key to continuously monitoring and improving audit quality control management. Many factors affect quality, and everyone's main responsibility and guarantee is to comply with professional standards and provide services at a high level. The Audit Oversight Commission (Audit Chamber of Ukraine and APOB) provides timely answers to questions on quality and risk management of audit activities and develops measures to improve them [10].

In December 2022, the Company successfully passed the audit of the quality control system for audit services conducted by APOB.

In March 2024, the Company successfully passed the GTIL audit of the implementation of the quality management system in accordance with ISQM 1. [11]

The leading role in the quality management system is assigned to the Public Oversight Body for Audit Activities, which aims to exercise comprehensive control and monitoring of the quality of audit services provided by audit entities in Ukraine. The mission of the APOB is to ensure a high level of confidence of owners, investors and other users of financial statements in the full and qualitative disclosure of information. APOB provides oversight of audit activities and is responsible for overseeing the:

— registration of auditors and audit entities (AEs);
— implementation of international auditing standards;
— control over the certification of auditors and continuous training of auditors;
— quality control of audit services provided by the Audit and Audit Services Company, which perform the statutory audit of financial statements, or which have announced their intention to perform the statutory audit of financial statements;
— disciplinary actions against auditors and (AEs) that perform statutory audits of financial statements;
— application of penalties.

APOB is a legal entity under public law that does not aim to make a profit and consists of the Audit Oversight Board and the Quality Assurance Inspectorate. [12]

Over the last two military years for Ukraine, the audit of the APOB on the quality control of audit services covered 33 (AEs), including 17 (AEs) in 2023, namely (Fig. 1—2):

— 15 AEs (including 5 AEs in 2023) did not agree to conduct an audit to control the quality of

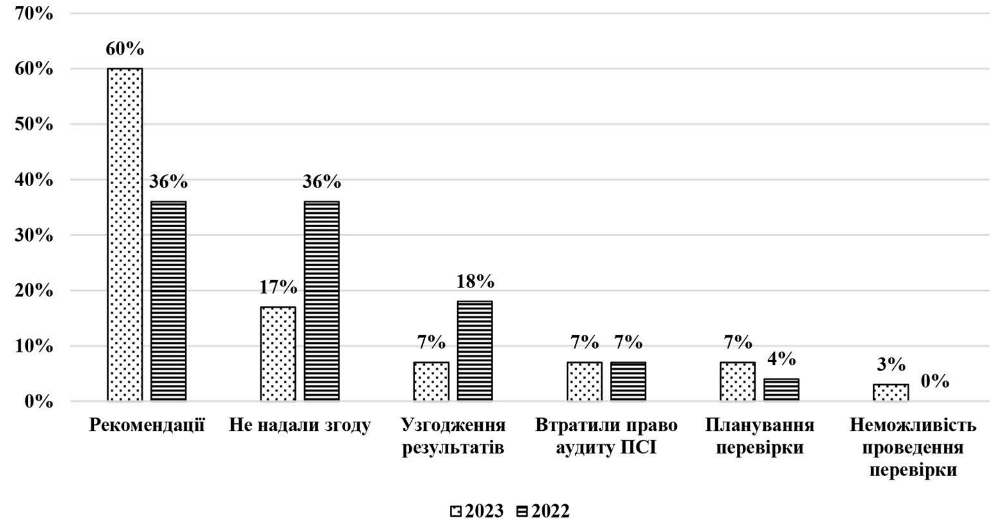

Fig. 2. The results of the audit of audit entities by the APOB

Source: Website of the Public Oversight Body for Audit Activities [12].

audit services in accordance with the Law of Ukraine "On Amendments to the Law of Ukraine 'On the Audit of Financial Statements and Auditing Activities' to ensure audit activities for the period of martial law and post-war economic recovery";

— 4 AEs (including 2 AEs in 2023) lost the right to conduct mandatory audits of financial statements of public interest entities;

— 1 The AEs in 2023 issued a report on the impossibility of conducting an inspection.

The share of the audit entities included in the audit schedule in the total cost of providing services for the statutory audit of financial statements for the last period reported to the National Audit Office from January 1, 2022 to June 30, 2023 is 33.5% (UAH 660.9 million), while the share of such entities in the total number is 18.4% (1726 units).

At the same time, the number of selected audit engagements for quality control remained unchanged and amounted to 3 engagements. We reviewed 60 engagements for the statutory audit of financial statements, 55 of which were signed by key partners (2022: 51 engagements, 45 of which were signed by key partners) [12].

Public interest entity (PIE) means an enterprise issuing securities whose securities are admitted to trading on a regulated capital market or whose securities have been publicly offered, banks, insurers, non-state pension funds, other financial institutions (except for other financial institutions and non-state pension funds belonging to microenterprises and small enterprises) and enterprises that are classified as large enterprises in accordance with this Law [13].

On December 15, ISQM 1, Quality Management for Firms Engaged to Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services, came into effect, which significantly changed the approaches to the development and implementation of the control system, and now the quality management system. The introduction of the new standard in the context of prolonged martial law and the lack of Ukrainian-language sources was a serious challenge and led to certain shortcomings that the APOB Inspectorate drew the attention of audit entities to during the audits. However, most of the identified shortcomings remain recurrent from previous periods.

The most common deficiencies in the quality control of audit services identified during the audit among audit entities (Fig. 3—4):

— untimely archiving — the final formation of the audit file;

— shortcomings in the process of training and education of the company's employees;

— inadequate management response to identified shortcomings;

— improper application of requirements for rotation of key audit partners;

— no (or inadequate) engagement quality review policy and procedure that provides an objective assessment of the important judgments made by the engagement team and the conclusions they reached;

— failure to effectively monitor the personal independence of the firm's staff and partners;

— failure to identify audit deficiencies during monitoring activities and to respond appropriately to possible systemic deficiencies in the performance of tasks;

— inadequate design and documentation of monitoring activities, including the extent to which they provide reasonable assurance that the

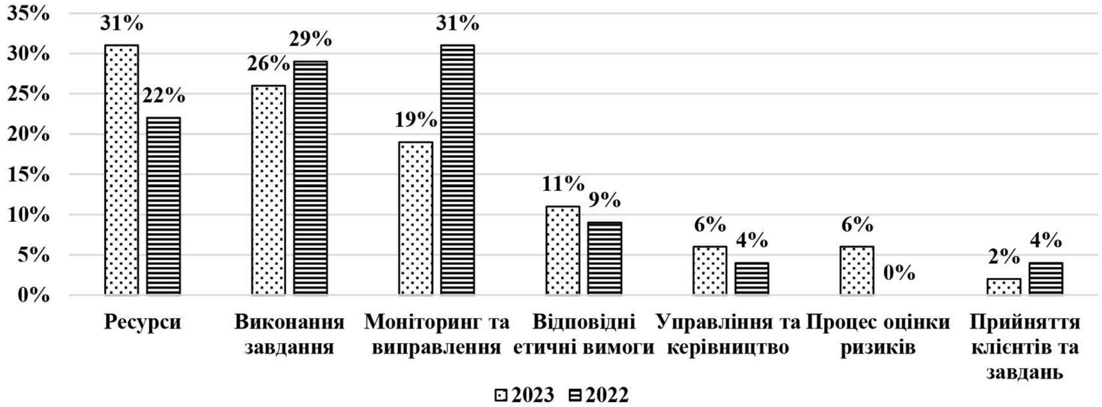

Fig. 3. Structure of deficiencies by components of the quality management system

Source: Website of the Public Oversight Body for Audit Activities [12].

objectives of the quality management system have been achieved;

— lack of appropriate audit methodology and guidance (e.g., testing of controls, audit sampling, audit of accounting estimates, assessment of risks of material misstatement, substantive analytical procedures, etc.).

I would like to add an important point that audit entities have different interpretations of the requirements for the provision of audit services, relevant standards, have different internal policies and quality control monitoring systems. They have a different "vision", which is formed on the basis of common experience, awareness, methods and practices of providing audit services, for this reason, discussions may take place between firms and APOB to reach a common consensus on a particular issue/audit task [12].

CONCLUSIONS AND PROSPECTS FOR FURTHER RESEARCH IN THIS AREA

Thus, we have studied "quality" as the main imperative, the postulate of audit in the modern sense. The quality control of the provision of audit services from the Transparency Report of Grant Thornton Legal LLC (top 10 audit companies in Ukraine) was analyzed for relevance, expediency, full disclosure and progressiveness, monitoring of quality control at the enterprise at different levels of the hierarchy. The application of standards, regulatory and internal methodology in the control of the quality of audit services at a high, professional, international level. In comparison to this, the activities of the Public Oversight Body for Audit Activities — APOB — were analyzed. The report "On the activities of the Public Oversight Body for Audit Activities for 2023" focused on the inspections conducted in 2022-2023, the results of these reviews, analytical studies compared to the previous period, common shortcomings in the quality control of audit services and their solutions.

The main drawbacks of the quality of audit services include: different interpretation of standards, methodologies, policies, which is primarily influenced by the auditor's experience and professionalism due to the lack of generalized regulation of audit quality control between the audit entity and the public oversight body; low level of Ukrainian-language information sources; low monitoring of the quality control system at the enterprise (a significant share of deficiencies in the quality control of audit services remain repeated from year to year).

Having analyzed this information, I would like to note that the development of the quality of audit

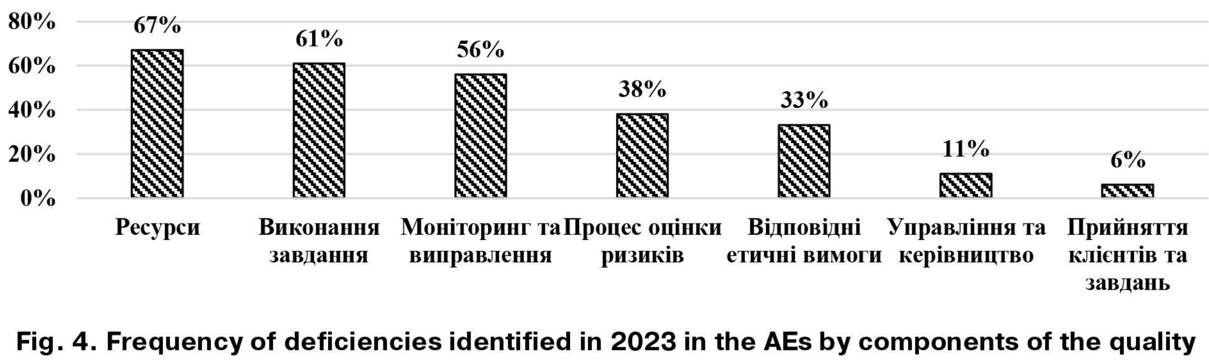

Fig. 4. Frequency of deficiencies identified in 2023 in the AEs by components of the quality management system

Source: Website of the Public Oversight Body for Audit Activities [12] services is not standing still, and every year external and internal users of financial statements become even more demanding to the audit reports received, and firms, in turn, are more picky about auditors and internal policies for monitoring the quality of audit services. Auditing continues to develop, and quality will continue to be the basis for a professionally high level of services.

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