

MATERIALS
OF THE XI INTERNATIONAL SCIENTIFIC
AND PRACTICAL CONFERENCE

«CONDUCT OF MODERN
SCIENCE - 2015»

November 30 - December 7, 2015

Volume 3
Economic science

Sheffield
SCIENCE AND EDUCATION LTD
2015

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OFFICE 1, VELOCITY TOWER, 10 ST. MARY'S GATE, SHEFFIELD, S
YORKSHIRE, ENGLAND, S1 4LR

**Materials of the XI International scientific and practical
conference, «Conduct of modern science», - 2015.**

Volume 3. Economic science. Sheffield. Science and education
LTD - 112 ctp.

Editor: Michael Wilson

Manager: William Jones

Technical worker: Daniel Brown

Materials of the XI International scientific and practical conference,
«Conduct of modern science», November 30 - December 7, 2015
on Economic science.

For students, research workers.

ISBN 978-966-8736-05-6

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ACCOUNTING AND AUDIT

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QUESTIONS OF ADAPTATION OF NATIONAL AUDIT ACTIVITY LEGISLATION TO EU REQUIREMENTS

Abstract The article is devoted to consideration of problems of national legislation on auditing to the requirements of the European Union.

Keywords audit, organization of audit activity, control over audit activity.

1. Introduction In connection with the development of the economy and election of a course for associate membership of our country in the European Union arises the need to obtain the recognition of different business and bringing them in line to EU legislation. Audit activity is not an exception. Basic requirements for the organization of audit activity in the European Union have been set out in Directive 2006/43/EC of the European Parliament. A Member State that requires to statutory audit may set stricter requirements if the Directive does not contain the other provisions.

The auditors should follow the highest ethical standards. This means that they have to apply the requirements of professional ethics governing, at least, their functions concerning public interests, their integrity and objectivity, and their professional competence and due circumspect.

The function of Auditors concerning the public interest means that the quality of the auditor assigned broader variety of people and institutions. High quality audits ensure orderliness functioning of markets, integrity and efficiency of financial statements.

2. Formulation of the problem The purpose of the article – to explore problematic issues related to adaptation of national legislation on auditing to EU requirements.

3. Results In 2008, it was concluded by the World Bank experts that the national audit system does not meet the requirements of the Directive. As a result, the European Commission expressed the Ukraine and other countries of the requirements for harmonization of national legislation with the Directive, in particular, it refers to the introduction of public oversight of the audit profession.

In modern conditions the world experience shows that management auditing activities great role is played professional audit organizations. In most countries, the European Union is created a one professional organization that the exercises control over the audit activity and membership in an organization is required.

In Ukraine, one of the most of numerous professional organizations is a national professional public organization «Union of auditors of Ukraine». However, control over audit activity in Ukraine entrusted to Audit Chamber of Ukraine. In accordance with the EU Directive on control in audit activities are three approaches, namely:

- the creation of a single body of public supervision. At present such an idea is proposed by the Ministry of Finance of Ukraine;
- professional organizations perform all the functions and are accountable to the public oversight;
- a combination of both approaches.

The vision of reform in auditing manifested itself in the Ministry of Finance. So far, however, they developed a draft law «On Auditing», it is not registered in Parliament, but only discussed at Methodological Council of Accounting at the Ministry of Finance. However, in light of the current alignment of the vertical power it has already gained a great interest. It has first indicated requirement of irreproachable reputation of auditors as a prerequisite for admission to the profession. Methodological council intends to delegate certain functions of professional organizations (the proposed criteria correspond to only 1 of the 17 existing professional organizations) should ensure that public oversight. But still greater role assigned to government regulation in the sphere of audit.

As one of the public oversight organs of proposed to leave ACU of 20 people, but the membership criteria altered:

- 3/5 ACU (12 people, 8 of them public officials and 4 members of the financial market) appoint finance minister personally);
- 1/5 ACU members (4 persons) congress delegates auditors;
- 1/5 ACU members (4 persons) delegated by professional organizations.

The terms of office (5 years) is defined only for delegates auditors and professional organizations. For ACU members appointed by the Minister the term of office is indefinite. Certification Authority to designate the Commission on auditor certification, which is the functional unit of APU. It will be formed of 5 members appointed by the Ministry of Finance (2 of them – representatives of science) and 5 people – representatives of professional organizations. Powers of ACU are planned to be significantly reduced, leaving only approving of the conduct of training programs for auditors, maintaining the Register of auditors and consideration of complaints.

Quality control is supposed to be put on Quality Control Committee, which will be an independent nonprofit organization. Statute and rules of the committee will be approved by the Finance Ministry, and it is planned to finance at the expense of mandatory contributions auditors. The Manage controlling Committee will be composed of 5 people. Three will be appointed by the Finance Ministry, one – ACU and one more – congress of auditors. The actual testing will implement controllers hired auditors.

In our view, the draft of the Methodological Council ignores the basic requirements of the EU Directive: it can be traced misunderstanding functionality of public

oversight authority and not resolved the question of independence financing of quality control and supervision of the profession of practicing auditors.

The bill number 5375 «On Amendments to the Law of Ukraine» On Auditing «, registered in the Verkhovna Rada of Ukraine 22.12.2009. Determined that the body that performs the functions of management is the Audit Chamber of Ukraine, and public oversight body established by the Cabinet of Ministers of Ukraine. Commission for public oversight of auditors conducting public professional oversight of the Audit Chamber, concerning auditors and audit firms that have the authority to conduct statutory audits or actually brought him without the credentials. The Commission for public oversight of auditors are not eligible to be members of the Audit Chamber of the past five years prior to the appointment. In particular, they have to work or have worked in areas such as financial reporting, the economy, science and legal proceedings. The Cabinet of Ministers of Ukraine appoints the members of the public oversight of auditors for four years, if there is necessity, the Cabinet of Ministers of Ukraine may withdraw prematurely member of the Board of public oversight for auditors. The Commission for public oversight of auditors shall elect the President of the Commission and his deputy. The Commission for public oversight of auditors independent of the Audit Chamber and do not receive instructions from her.

Commission for public oversight of auditors supervises whether properly perform their duties Audit Chamber. To this end, the Commission on public oversight of auditors may participate in meetings of the Audit Chamber, as well as take part in quality control audit. Before his meetings committee of public supervision over auditors may involve representatives of Audit Chamber auditors and third parties.

Commission for public oversight of auditors has the right to make recommendations to the Audit Chamber to be considered also develops and approves regulations of its activities and publishes an annual work program and activity report. But most practitioners tend to model the coexistence of public authority and professional organization, stressing that the creation state organs additional state increases the state's influence and jeopardizing the independence of the profession.

At the present stage of the audit in Ukraine, offering to create a public oversight body on the basis of the Audit Chamber of Ukraine shall:

- keeping the register of auditors and audit firms;
- monitoring of audit quality;
- control training auditors;
- organization of investigations and sanctions.

In his turn professional organizations are invited to submit credentials:

- methodical and methodological support auditing activities;
- carrying out certification procedures auditors;
- organization and control of the implementation of an effective quality control system members of such organizations;
- the protection of its members in the process of investigation and sanction Audit Chamber of Ukraine.

Thus, Ukraine has to go one of three ways of auditing activities to ensure EU requirements. It therefore should be brought into line with EU requirements and the education system auditors. According to the International Education Standards IFAC number 8 «competence requirements for audit professionals» «Competence – the ability to perform work according to a certain standard, under real conditions.» That is, the auditor competence defined – the level of knowledge and professional skills.

It should be noted that the International accounting standards number p.22 2 «Content vocational education accountants» emphasizes that the above list of items is the minimum necessary, and explore the depth and extent of coverage depends on the material needs of IFAC member organizations and the existing legislation. Furthermore, Article 6, 7 and 8 of the EU Directive providing for mandatory a theoretical knowledge in full (at the level of university education) or sufficient for certain subjects, to the extent of the audit. As can be seen, a comparative analysis of requirements IFAC and the EU shows that the general requirements for a whole range of disciplines coincide with some exceptions. However, according to Art. 9 of the EU Directive agency that regulates audit in the country, given the right recognition procedure exemption from the deposit of certain examinations in the presence of higher education diplomas. At the same time, under Article 11 of EU Directives recognized auditor may be a person that has higher education, but has sufficient experience (15 years in some cases 7 years) practical experience in finance, accounting or law provided assembly appropriate examinations.

Thus, international requirements for the auditor's professional competence in general based on the following principles:

1. Existence of a person aspiring to theoretical knowledge recognized by the authority that governs audit in the country.
2. The level of knowledge of certain subjects must meet the level of higher education.
3. The level of knowledge of other compulsory subjects should be determined by the governing body of the audit in the country.
4. The governing audit in the country, is entitled to exemption from the rental of certain theoretical exams.
5. The person claiming the right to engage audit may not have basic higher education, but have sufficient experience and pass exams.

In light of the international requirements above the adaptation and adjustment process of preparation of auditors in Ukraine becomes an urgent issue. The aim of this process should be to raise the level of professional competence of auditors is not lower than in the EU. Implementation of this same goal can be achieved only if the organization in Ukraine educational process and assess the level of knowledge in the accordance with the procedures, requirements and standards that are accepted in the international and especially European practice.

Let us consider the requirements put forward legislation to Ukraine auditors. Thus, according to Art. 10 Law of Ukraine About auditor activity «The right to obtain a certificate with individuals who have higher economic or legal education, the document on

which competition is recognized as Ukraine, the necessary knowledge on audit, finance, economics and business law experience at least three years contract for auditor positions, accountant, lawyer, financier, economist, Assistant (assistant) auditor».

That is, the law provides only for the auditor higher education and does not allow in this case no of reservations regarding seniority. This provision is not contrary to European requirements, since Article 11 of the EU Directive entitles the regulatory audit body on its own decision regarding the permission to conduct audit entities that do not have higher education. The law legalizes the need for knowledge on audit, finance, economics and business law, and the corresponding provisions of International Education Standards IFAC and EU Directives. That is, if the main formal features regarding list of disciplines and skill level of development of the current Ukrainian legislation is generally consistent with international standards, the next step is to study the process of preparation of economists and lawyers in higher schools and further qualification exam in Audit Chamber of Ukraine to adapt their knowledge to the international requirements in the context of the audit profession. As the existing training and knowledge assessment auditors in Ukraine, in our view, it does not fully meet the above international requirements, is why is the subject of constant criticism from the international financial institutions, working in our country and, most importantly, does not provide sufficient quality auditing services, making national audit not competitive with international audit firms on the market. The current practice of assessment of professional knowledge auditors in Ukraine provides delivery of a single comprehensive exam, which consists of two stages. It should be noted that although the exam subjects formed on the basis of accounting, auditing, law, etc., and contains relevant questions, tests and problems, but the fact there is only one professional exam and fairly short period of preparation for its delivery even on formal grounds cannot be considered to comply with the necessary requirements.

Based on the foregoing can conclude that the auditor training in Ukraine at the level of international standards Audit Chamber of Ukraine:

1. To be is defined curriculum indicating the list of legal subjects and number of hours of training each of them (not less than university level).

2. Among this list should contain the list of subjects that are not exempt from exams. It may be, for example, «Financial Accounting I and II», «Tax Law», «Management Accounting», «Audit», «International Financial Reporting Standards», «International auditing standards», «Commercial Law» «Professional ethics auditor.»

3. To be defined list of subjects, which may be exemptions from examinations based on the number of hours the final form of knowledge control in obtaining university graduate economic or legal education. Should be noted such a machinery and exemption from certain exams is common British professional organization ACCA. Moreover, this practice applies not only to graduates of British universities, but also foreign, including Ukrainian.

4. The conclusions Development of audit activity at present stopped at the dilemma on subsequent reform of governance structure and audit activities bringing into compliance with requirements of the European Union.

The issue on if audit activity will be regulated by the state (the Ministry of Finance or the Cabinet of Ministers) or professional organizations (Audit Chamber of Ukraine, public oversight body, professional organization performing other regulatory functions).

Given the fact that Ukraine did not get an extended transition period to bring the structure in line with the EU Directive it is necessary to:

- create a public oversight body;
- to provide external quality control for all statutory audits;
- develop the system of investigations and sanctions;
- develop a specific action plan for adapting national legislation to the EU;
- to declare publicly the European Commission and Ukraine's readiness to fulfill the requirements of the EU;
- request the European Commission to extend the transition period for Ukraine;
- begin the enforcement of the plans of action.

Also EU requirements will affect the education system and complicate the procedure of the examination for obtaining the certificate of the auditor of Ukraine.

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