

T. A. Vasilieva¹I. O. Makarenko¹¹ Sumy State University, Sumy, Ukraine

CONVERGENCE OF EUROPEAN AND UKRAINIAN ACCOUNTING SYSTEM: CHALLENGES AND PROSPECTS

Abstract

Objective: to identify the challenges and prospects during the convergence of accounting system in Ukraine and the EU.

Methods: comparative analysis, content analysis of regulatory documents, synthesis and generalization.

Results: Key challenges and promising areas of national accounting system convergence to European due to adoption Association Agreement should be referred to introduction of non-financial reporting for Ukrainian large companies and PIEs; preparing management report, the corporate governance statement and report on payments to the government (country — by — country reporting), significant change in the public audit supervision, auditing services quality control and statutory audit of PIEs, issues of audit opinion on the non-financial and diversified information and division of the audit and non-audit services.

Scientific novelty: for the first time on the basis of the presented methods, the article studies the main challenges and prospects in EU — Ukraine accounting convergence.

Practical significance: the main provisions and conclusions of the article can be used in development of national accounting system regulation.

Keywords: Accounting system, Convergence, Statutory audit, Non-financial reporting, Public interest entities.

INTRODUCTION

Convergent processes in the accounting systems of Ukraine and the EU is an objective trend. Its importance is grounded on the need to perform regulatory requirements under the EU-Ukraine Association Agreement, providing additional non-financial information disclosures with access to the European markets, convergence with the Strategy «Europe 2020», Sustainability Strategy «Ukraine –2020», which reflects the UN Sustainable Development Goals (Goal 12.6) and decision of 21 session of the UN conference on climate change — SOP21 2015. There are two main accounting and audit regulation in this regard: Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups and Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated financial statements and Regulation (EU) no. 537/2014 of the European Parliament and of

the Council of 16 April 2014 concerning specific requirements relating to statutory audits of public interest entities (PIEs). These Directives aim to restore confidence to business and the financial markets due to increasing the quality and competitiveness of audit services and providing additional disclosure on social and environmental aspects of sustainability.

With EU-Ukraine Association Agreement with the of 27 June 2014. Ukraine took a responsibility to implement European law into national practice. In particular, this applies to changes in the accounting, reporting and auditing. Besides implementation of corporate governance principles of the OECD and paragraph «b» of Article 387 of Chapter 13 Company Law, Corporate Governance, Accounting and Audit Article, direct impact on the transition to the non-financial reporting in Ukraine has Article 293 Trade favouring sustainable development of the Agreement.

Directive 2014/95/EU have to be transposed into national legislation of member countries on 1 January 2017 or during 2017 Thus, the first reports, published as required by Directive 2014/95/EU is expected in

2018 for 2017–2018 fiscal year. Despite the fact that Directive 2014/95/EU had already adopted after the signing of the Association Agreement, but given that Article, it has a particular importance for Ukrainian companies non-financial reporting. Implementation of Directive 2014/56/EU and Regulation (EU) no. 537/2014 in the national accounting system have also be taken into account as for their transposition member countries was given 2 years. So, key challenges and promising areas of national accounting system convergence to European can be described as follows:

First — introduction of non-financial reporting for large companies and PIEs; preparing management report, the corporate governance statement and report on payments to the government (country — by — country reporting).

The second — significant change in the public audit supervision, auditing services quality control and statutory audit of PIEs could lead to a narrowing of competition in Ukraine, the audit opinion on the non-financial and diversified information and division of the audit and non-audit services.

Thus article aims to study the challenges and prospects during the convergence of accounting Ukraine and the EU on the use of comparative analysis, content analysis of regulatory documents, synthesis and generalization.

LITERATURE REVIEW

Current issues of implementation of the accounting Directives 2014/95/EU and 2013/34/EU at the EU level highlighted in the works Szabó and Sørensen (2015) [22], Szabó and Sørensen (2016) [23].

At the level of individual member countries question its implementation are revealed in the works Filipova-Slancheva (2015) — Bulgaria, Skouloudis, Evangelinos, Kourmousis (2010) — Greece, Delbard (2008) — France, Vuontisjärvi (2006). — Finland, Fifka and Drabble (2012) — UK and Finland, Idowu, Towler, (2004) — Great Britain, Hąbek and Wolniak (2013) — Denmark, Sweden, UK, France, the Netherlands.

Rulemaking initiatives to strengthen EU requirements for statutory audit of PIEs accompanied by their in-depth study in academic circles. Directive 2014/56/EU and Regulation (EU) no. 537/2014 is the subject of numerous research papers. General implementation issues in the context of the audit activity and comparing regulatory requirements for audit PIEs were investigated in the works Humphrey et. al (2011) [13], Fulop, Pintea (2014) [11], Kiss, Fulop, Cordos (2015) [15], Kleinman, Lin, Palmon (2014) [16].

Some practical aspects of the implementation of Directive 2014/56/EU and Regulation (EU) no. 537/2014 concerning assurance quality of PIEs audit reports, the role of audit committees and the prohibition of non-audit services by the example of EU companies also has found reflection in the works Botez D. (2014) [1], Botez D. (2015) [2], Van der Elst (2014) [26], Causholli, Chambers, and Payne (2014) [4], Causholli, Chambers, and Payne (2015) [5], Ratzinger-Sakel and Schoenberger (2015), Campa, Donnelly (2016) [3].

Consequently, the European scientific community study of implementation of legislation in the field of accounting and auditing has a wide coverage. Some aspects of the convergence process at the EU-Ukraine Association Agreement and implementation Directive 2013/34/EU and Directive 2006/43/EC revealed in the works of Ukrainian scientists, in particular Golov (2014) [12], Zubilevich (2014) [27], Parkhomenko (2014) [17], Petryk (2014) [18]. However, these authors achievements are not actualized with the adoption of Directive 2014/95/EU.

EU regulatory documents in audit service market are the subject of research in the study of Dorosh N. (2015) [9], Red'ko O. (2015) [21], Shalimova (2016) [24] and Shulga (2015) [25]. But a new draft Law «On the audit of financial statements and audit activity» from 02.03.2017 [19] rise a new issue to be analyzed concerning compliance of national legislation in the field of auditing with EU practice.

RESEARCH FINDING

EU accounting system is multilevel and includes a Directive with different modes for transposition by member countries, Regulations and Decisions with no exemptions in the implementation of accounting, reporting and auditing. The road to convergence of national accounting system and accounting system of the EU is characterized by long and gradual harmonization of regulatory requirements. Now, some regulations need further review and convergence (Table 1), such as the rules of Law «On accounting and financial reporting» in the presentation of non-financial information.

Among these areas of regulation, the most problematic in our view are still the issues of full implementation of non-financial reporting, Country-By-Country Reporting, that at EU level regulated by Directive 2014/95/EU, Directive 2013/34/EU and audit regulation, including a statutory audit of PIEs (Directive 2014/56/EU, Regulation (EU) no. 537/2014).

Table 1. – Key documents in the area of accounting, reporting and auditing Ukraine and the EU

Field of regulation	EU	Ukraine
IFRS financial statement	Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (Regulation 1606/2002/EC)	Law «On Accounting and Financial Reporting of 16.07.1999 № 996-XIV Cabinet of Ministers Resolution «On approval of the financial statement presentation order» of 28.02.2000 № 419
	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Directive 2004/109/EC)	National Commission on Securities and Markets Decision «On approval of the disclosure of information by securities emittents» of 03.12.2013 № 2826
	Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (Regulation 1126/2008/EC)	National Accounting Regulations (Standard) 1 «General Requirements for Financial Reporting» of 02.07.2013 № 73 National Accounting Regulations (Standard) «Consolidated financial statements» of 27.06.2013 № 628 Other 33 Accounting Regulations (Standards)
Non-IFRS financial statement	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (Text with EEA relevance) (Directive 2013/34/EU)	Law «On Accounting and Financial Reporting of 16.07.1999 № 996-XIV National Accounting Regulations (Standard) 1 «General Requirements for Financial Reporting» of 02.07.2013 № 73 National Accounting Regulations (Standard) «Consolidated financial statements of 27.06.2013 № 628 Accounting Regulations (Standard) 25 «Financial report of small entities» від 25.02.2000 № 39
Non-financial reporting	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Directive 2014/95/EU)	There is no relevant documents
Public Country-By-Country Reporting/Corporate tax transparency	Commission Implementing Decision (EU) 2016/1910 of 28 October 2016 on the equivalence of the reporting requirements of certain third countries on payments to governments to the requirements of Chapter 10 of Directive 2013/34/EU of the European Parliament and of the Council (Decision 2016/1910/EU)	There is no relevant documents
Reporting by undertakings with listed securities	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Directive 2004/104/EC) — consolidated version including subsequent amendments	Law «On State Regulation of Securities of 30.10.1996 № 448/96-BP Law «On securities and stock market» of 23.02.2006 № 3480-IV National Commission on Securities and Markets Decision «On approval of the disclosure of information by securities emittents» of 03.12.2013 № 2826

Auditing	<p>Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated financial statements and Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 concerning specific requirements relating to statutory audits of public interest entities</p>	<p>Law «On auditing» of 22.04.1993 № 3125-XII (in to the force)</p> <p>Law «On auditing the financial statements and auditing activities» of 17.08.2015 (Draft of the Ministry of Finance Ukraine)</p> <p>Law «On Auditing» of 10.06.2015. (Draft Audit Chamber and the Union of Auditors of Ukraine)</p> <p>Law «On audit of financial statements and audit activity» of 02.03.2017 (Draft of Cabinet of Ministers of Ukraine)</p>
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In the first case, the detailed requirements in national legislation are not developed in the second — there is a huge variety of legislative initiatives that should be analyzed.

Requirements of Directive 2014/95/EU primarily have to be performed by large companies and groups and PIEs. Specifically Ukrainian holding company with offices in the EU are the subject to these requirements.

However, the promotion of sustainable development and non-financial information in Ukraine is not common. Thus, according to a report on the implementation of the Association Agenda and Association Agreement between Ukraine and the European Union in 2015 and 2016 respectively the Government Office for European Integration of the Cabinet of Ministers of Ukraine to address this issue already in which only planned to form an advisory group on sustainable development to develop recommendations for the implementation of the chapter 293 of Agreement and to carry out the formation of the list of representatives of Ukraine, participating in the Group of experts in trade and sustainable development. National strategy on corporate social responsibility at this time is not accepted, despite the numerous attempts of 2009 of the Council on the establishment of the strategy concept at the Presidential Administration, the draft Conception of the various stakeholders (2010–2013), the restoration work of Council in February 2016.

According to the framework and database of the Global Reporting Initiative only 28 largest Ukrainian companies and MNE with a presence in Ukraine for 2000–2016 years had issued only 47 non-financial reports. While as their 3747 European partners in this base had released 8238 reports.

Large companies and PIEs Directive 2014/95/EU impose to include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating

to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including: a brief description of the undertaking's business model, a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented, the outcome of those policies, the principal risks related to those matters and non-financial key performance indicators relevant to the particular business.

Directive 2014/95/EU advises to provide the non-financial reporting preparation with non-financial reporting standards and sustainability practices, in particular United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy, OECD Guidelines for Multinational Enterprises and requires from companies to publish the management report, corporate governance report and report on payments to governments.

Formats and volume information in these reports are given in Table. 2.

In Ukraine, a report on corporate governance have to be prepared by companies that have to publish their financial statements according to Decision of National Commission on Securities and Stock Market, but in fact, it is a formality, and other reports in the system account legislation generally are not represented.

As for the audit, it should be noted that the aim of the EU Directive 2014/56/EU and Regulation (EU) no. 537/2014 is increasing the competitiveness of the European market for audit services, their quality and restore confidence in the financial markets primarily by stimulating the development of second-tier audit firms, small and medium-sized audit firms. In Ukraine, the goal interpreted in a distorted manner and will reduce the segment of small and medium-sized audit networks.

Table 2. – Main issues on Management report, Corporate governance statement and Report on payments to government

Titile	Management report	Corporate governance statement	Report on payments to government
Category of companies	Medium and large companies and PIEs Small companies have and exemption when they disclose information on the purchase of shares of its own emission	PIEs	Large companies, PIEs working in the extractive industry or logging in dealing with indigenous forests
Essence of the report	The report gives an accurate overview of the development, operation and condition of the company and a description of the main risks and uncertainties it faces. Includes both financial and, where appropriate, non-financial key performance indicators relating to a particular type of activity, including information of environmental and social issues. Report on corporate governance should be included in the management report		The report must contain data on the types of payments comparable with payments disclosed enterprises participating in the Extractive Industries Transparency Initiative (EITI). and the Action Plan of the European Union «Enforcement, governance and trade in forest sector» (EU FLEGT) and Regulation (EU) No 995/2010. Report should be disclose for payments above 100 000 euro
Disclosure	Probable development prospects of the company; Activities in the field of research and development; Information on purchase of own shares according to the article; The presence of branches of the company; Data on the use of financial instruments and policy of the company to manage its financial risk	Link to the Corporate Governance Code, which is guided by a company or its rejection requirements for each item; Description of the main features of the control and risk management in connection with the process of preparation of the financial statements; Information about acquisitions; Description of functioning of shareholders' meetings and their main powers, and a description of shareholders' rights and how to implement them; The composition and functioning of the administrative, management and supervisory bodies and their committees	The total amount of payments to each government; The total amount for each payment The total amount for each payment made for each such project, and the total amount of payments for each such project

We believe that the market clearing of small audit companies who often do not have their own website, show low standards of performance and violation of professional ethics is a necessary step in the reform of auditing in the direction to the high standards of audit quality in the EU Directive. However, its full implementation estimated to lead to market consolidation of audit services and narrowing their supply-side from of the 100 largest companies.

Despite that draft Law «On auditing the financial statements and audit activity» from 08.17.2015 by

Ministry of Finance of Ukraine, the draft Law «On audit activity» from 10.06.2015 by Audit Chamber and the Union of Auditors of Ukraine and the government's new draft Law «On financial reporting and auditing auditing» of 02.03.2017 taking into account all the basic requirements of EU 2014/56/EU and Regulation (EU) no. 537/2014 on the the statutory audit appointment and change of partner with the task, forming the system of public oversight, rotation of audit firms conducting joint audits, installation of additional qualification re-

quirements for auditors and audit reports, it should be noted about certain distortion that may encourage competition in the market of audit services.

In particular, these drafts are highly criticized by the auditor of the community, the basic law on auditing is not accepted, while a separate Decision by Cabinet of Minister of Ukraine has today contained partial audit requirements for PIEs.

For example, Decision of Cabinet of Ministers of Ukraine of 04.06.2015 № 390 «On some issues of the financial statements audit of public sector economy» approved the criteria by which involved auditing firm to audit the financial statements or consolidated financial statements of some large public sector companies.

Approval of this decision was intended to improve the quality and transparency of financial flows and assets of state-owned companies, which for the purposes of the audit is divided into 2 groups:

1) the company's assets which according to the financial statements for the last financial year exceeds 2 bln. UAH or the amount of net income for the last financial year exceeds 1.5 billion. UAH (group 1 companies);

2) the company's assets which according to the financial statements for the last financial year exceeds 250 mln. UAH (Group 2 companies).

Depending on one of these groups, audit companies that are involved in the audit must meet certain criteria (inclusion in the register of audit firms and auditors' experience in providing audit services in the relevant industry, number of employees who are directly involved in providing audit services and having qualification certificate of fitness to practice auditing activities and other professional certificates of liability insurance of auditors). Majority of Ukrainian audit firms doesn't meet these criterions, as opposed to a major international networks which receiving preferential treatment for audits of the largest companies in indirect ways.

Another important aspect concerning convergence of audit in Ukraine and the EU is compatible separation of audit and non-audit services. Overall, the Draft Law «On the audit of financial statements and audit activity» from 03.02.2017 contains an exhaustive list of services that meet the regulatory requirements of the EU. However, significant attention of regulators in the context of joint implementation of the 56th and 95th Directives and subsequent separation of audit and non-audit services need to assure non-financial reporting.

Despite the fact that Art. 75 Law of Ukraine «On Joint Stock Companies» prohibited combine independent audit activities with the provision of consulting services, a detailed list of services according to European standards was only in the latest draft of Law on auditing.

This current version of the Law «On Auditing» and draft amendments focus mainly on issues of audit of financial statements. Only the Draft of 02.03.2017 contains separate provisions on the audit of management report. At the same time this Draft avoids the problems of assurance for non-financial reporting on sustainable development in accordance with ISAE 3000 «Assurance engagements that are not audit or review of historical financial information».

In the light of non-audit services practice development and implementation of regulations Directive 2014/95/EU of non-financial information assurance the key principles and methodological approaches to audit final corporate information, covering environmental and social aspects of the company, the issue of employment, human capital development, provision implementation of human rights, preservation of natural capital, the fight against corruption, implementation of risk management strategies and interaction with the business environment, the information needs of key stakeholder groups should be develop in Ukraine. A significant addition in this list should be making for the relevant non-audit services in the Decision of Auditor Chamber of Ukraine of 22.12.2011, No. 244/14 and design methodology for their provision.

CONCLUSIONS

Summarizing the abovementioned, it should be noted that in terms of the spread of the ideology of sustainable development and Sustainable Development Goals (including 12.6), taking strategies «Europe 2020» and Strategy for Sustainable Development «Ukraine –2020», Association Agreement with the EU, many sustainability initiatives, Directives and Regulations EU process of accounting system convergence in Ukraine and the EU require significant efforts to harmonize domestic legislation. The biggest challenges in the convergence are the implementation methodology of compilation and presentation of non-financial reporting and audit quality assurance, including statutory audit for PIEs.

Implementing regulations Directive 2014/95/EU requires amendments to the Law «On accounting and financial reporting» in terms of consolidation requirements for presentation and disclosure by companies of

different types of non-financial reporting (management report, corporate governance statement, country-by-country reporting), the formation of an appropriate methodology of registration, evaluation, disclosure reporting indicators for the dimensions of sustainable development. Another challenge for companies question the development of the National Strategy for Corporate Social Responsibility and its provision of an internal strategies, policies, systems, non-financial reporting and sustainable development.

It should also emphasize the need to complete the reform of auditing to ensure the appropriate requirements

of the European Directive 2014/56/EU and Regulation (EU) no. 537/2014 for audit services quality, provided by Ukrainian companies. We believe that the promotion of high standards of audit services quality requires not only a competitive environment in the market, ensuring rotation of audit firms, but also the rise a potential of national accounting firms, limiting the presence of large networks, ensuring the diversification and differentiation of audit and non-audit services with increased attention to such type of assurance engagements as assurance of non-financial reporting.

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Information about the authors

Tatiana A. Vasylieva, Doctor of Economics, Professor, Director of Educational and Research institute of Finance, Economy and Management named Oleg Balatskiy Sumy State University
Address: M. Lushpy prospect 52/23, Sumy 40034 tel.: +38066 318 99 16
E-mail: tavasilyeva@ukr.net
ORCID: <http://orcid.org/0000-0001-7889-3521>

Inna O. Makarenko, Candidate of Economics, Associate Professor Chair of accounting and tax, Educational and Research Institute of Business Technology «UABD» Sumy State University
Address: M. Lushpy prospect 52/23, Sumy 40034 tel.: +38066 9356016
E-mail: i.o.makarenko.rmv@gmail.com
ORCID: <http://orcid.org/0000-0001-7326-5374>