

## CURRENT ISSUES REGARDING MANDATORY AUDITING UNDER QUARANTINE RESTRICTIONS

## АКТУАЛЬНІ ПИТАННЯ ЩОДО ПРОВЕДЕННЯ ОBOB'ЯЗКОВОГО АУДИТУ В УМОВАХ КАРАНТИННИХ ОБМЕЖЕНЬ

*Under quarantine conditions, there are many issues related to the life support of the country. Entrepreneurs and business owners had to ensure that work was properly organized. Even today there are many developments in accordance with current legislation and international experience in the pandemic, but not enough attention is paid to mandatory audit in Ukraine (its organization by both business owners and auditors). Under quarantine restrictions, there are many questions about the organization of business owners and employees, it is necessary to follow the rules dictated by the pandemic. Therefore, the problem arose of how to minimize risks during the audit and maximize the organization of the auditors and enterprises. In the study the author made an attempt to disclose theoretical issues and give practical recommendations for mandatory audit in quarantine.*

**Key words:** audit, statutory audit, system, quarantine restrictions, financial statements, pandemic conditions, audit report.

*Світова пандемія коронавірусної хвороби (COVID-19) та запровадження Кабінетом Міністрів України карантинних та обмежувальних заходів, спрямованих на протидію її подальшому поширенню в Україні, зумовили виникнення додаткових ризиків діяльності суб'єктів господарювання, що має враховуватися при аудиті їх фінансової звітності. В умовах карантинних обмежень виникає багато питань стосовно забезпечення життєдіяльності країни, всі сфери повинні були перейти на новий, досі невідомий стиль роботи. Підприємці та власники бізнесу повинні були забезпечити правильну організацію роботи, найманий персонал повинен дотримуватись правил продиктованих пандемією. Наразі не при-*

*зупинено період карантинних обмежень, які спричинили розбалансованість економічної системи держави взагалі, та окремих елементів фінансового сектору економіки, а саме доцільності та прозорості складання звітності та проведення аудиту. Вже сьогодні існує багато напрацювань згідно з діючим законодавством та міжнародним досвідом роботи у період пандемії, проте не достатньо уваги приділено питанням обов'язкового аудиту в Україні, а саме його організації як зі сторони власників підприємств та і зі сторони аудиторів. В сучасних умовах карантинних обмежень виникає багато питань стосовно організації роботи власників бізнесу та найманих працівників, необхідно дотримуватись правил продиктованих пандемією. Особливо актуальним постало питання проведення виїзних заходів, а саме проведення незалежного аудиту. Проведення цього виду перевірки було під великим питанням. Визначення чи дотримуються підприємства діючого законодавства та нормативних актів стосовно податкових відрахувань та чи правильно ведеться бухгалтерський облік та фінансова звітність на підприємстві не може чекати закінчення пандемії. Тому виникла проблема, як мінімізувати ризики при проведенні аудиту та максимізувати організацію роботи аудиторів та підприємств. У дослідженні автором зроблено спробу розкрити теоретичні питання та надати практичні рекомендації при проведенні обов'язкового аудиту в умовах карантинних обмежень.*

**Ключові слова:** аудит, обов'язковий аудит, система, карантинні обмеження, фінансова звітність, умови пандемії, аудиторський звіт.

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*В условиях карантина возникает много вопросов по обеспечению жизнедеятельности страны. Предприниматели и владельцы бизнеса должны были обеспечить правильную организацию работы. Уже сегодня существует много наработок в соответствии с действующим законодательством и международным опытом работы в период пандемии, однако недостаточно внимания уделено вопросам обязательного аудита в Украине: его организации как с стороны владельцев предприятий и со стороны аудиторів. В условиях карантинных ограничений возникает много вопросов по организации работы собственников бизнеса и наемных работников, необходимо соблюдать правила, продиктованные пандемией. Потому возникла проблема, как минимизировать риски при проведении аудита и максимизировать организацию работы аудиторів и предприятий. В исследовании автором сделана попытка раскрыть теоретические вопросы и предоставить практические рекомендации при проведении обязательного аудита в условиях карантина.*

**Ключевые слова:** аудит, обязательный аудит, система, карантинные ограничения, финансовая отчетность, условия пандемии, аудиторский отчет.

**Problem statement.** Under the current conditions of quarantine restrictions there are many questions concerning the organization of business owners and employees, it is necessary to comply with the rules dictated by the pandemic. The issue of offsite event, namely independent audits, has become particularly relevant. Conducting these types of audits is a big issue. Determining whether companies comply with applicable laws and regulations regarding tax deductions and whether the company's accounting and financial statements are properly maintained

cannot wait until the end of the pandemic. Therefore, the problem arose of how to minimize audit risks and maximize the organization of auditors and companies.

**Analysis of recent research and publications.** In the course of work on the disclosure of the research topic the recommendations on reporting for COVID-19 Accountancy Europe [1] were analyzed, the recommendations for auditors during the pandemic on the website of the Audit Chamber of Ukraine [2] were considered, the works of foreign and domestic scientists were reviewed (Al-Masoodi H.,

Al-Kawaz SM, Abbas AA, John Lorinc, Joseph Radigan, Bunget O., Puhachova M.V., Antonyuk O.R. and Pavlyuk V.V.).

**Selection of previously unresolved parts of a common problem.** The topic of the study is quite relevant due to the fact that the period of quarantine restrictions, which led to an imbalance of the economic system as a whole and individual element of the financial sector of the economy, namely the validity and transparency of reporting and auditing. Today there are many developments in accordance with current legislation and international experience in the pandemic, but not enough attention is paid to the issue of mandatory audit in Ukraine, namely its organization as business owners and auditors.

The international professional organization Accountancy Europe [1] provided recommendations for reporting and auditing during the COVID-19 outbreak. Accountancy Europe (formerly the Federation of European Accountants), which brings together 51 professional organizations of accountants, auditors and consultants.

Thus, accounting and auditing standards, despite the difficult times in which mankind finds itself, should be applied correctly. "Companies must comply with accounting and auditing standards and thus respond intelligently and practically to coronavirus issues," Accountancy Europe stated [1].

"Businesses adversely affected by COVID-19, such as small businesses or companies operating in the travel, leisure, and aviation industries, should pay attention to the possibility of continuing their operations. However, the balance sheet should reflect the financial condition of these companies at the end of the reporting period," emphasized the representatives of Accountancy Europe [1].

**The purpose of the article.** The main purpose of the study is to disclose theoretical issues and provide practical recommendations for mandatory audits under quarantine restrictions.

**Presentation of the main material.** Under quarantine restrictions, private managers, despite the stressful situation and difficult circumstances, should act accurately, consistently and transparently in accordance with applicable law.

The vacation season is over, the end of the year is approaching, and it is time to think about a mandatory audit for 2020. With the pandemic, CEOs are asked the same questions every time (Figure 1).

As can be seen from Figure 1, these issues are quite important for the managers of enterprises, as they relate to the presentation and disclosure of financial statements, as well as the entire process and procedure of the audit.

With the quarantine situation in the country, the question of the effect of COVID-19 on the inspection period is important.

Due to the epidemiological situation, on March 30, 2020. The Verkhovna Rada of Ukraine adopted the Law of Ukraine №540-IX "On Amendments to Certain Legislative Acts Aimed at Ensuring Additional Social and Economic Guarantees in Connection with the Spread of Coronavirus Disease (COVID-2019)", which amends Section V "Final provisions" of the Law of Ukraine "On Accounting and Financial Reporting" and extends the deadline for publishing financial statements, including consolidated financial statements, along with the auditor's report.

The audited financial statements must be disclosed within 90 calendar days from the day following the day the quarantine ends, but no later than December 31, 2020. In addition, for companies that are issuers of securities, within the period specified in Clause 7 of Section VII "Final Provisions" of the Law "On Securities and Stock Market", but no later than December 31, 2020.

Thus, there is one solution to this issue, and that is not to delay the signing of the contract for the audit, as the procedures for approving and planning the audit takes time.

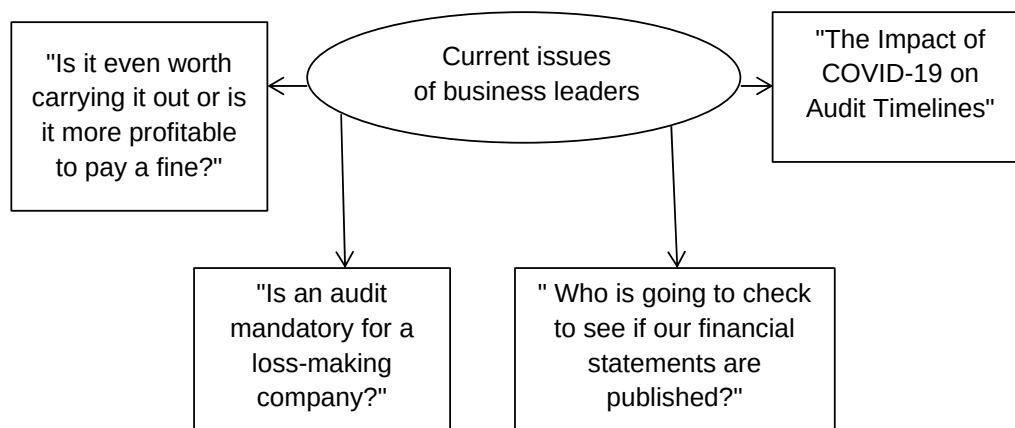


Fig. 1 Current issues for business leaders in relation to the mandatory audit

Source: author's elaboration

Take care of this in advance to prepare financial statements based on the recommendations of qualified auditors who will audit in the interests of your company, because the financial result determined in the financial statements affect the object of taxation of income tax in accordance with the Tax Code of Ukraine.

Laws adopted in Ukraine in 2020 address current issues related to mandatory audits.

In accordance with the Law of Ukraine of 16.07.99 № 996-XIV "On Accounting and Financial Reporting in Ukraine" (hereinafter – the Law on Accounting), as amended on the date of publication, the following categories of companies must publish annual financial statements and annual consolidated financial statements along with the audit report:

Enterprises of public interest (except for large enterprises which are not issuers of securities), public joint stock companies, natural monopolies in the national market and economic entities operating in the extractive industries (not later than April 30 of the year following the reporting period);

Large enterprises that are not issuers of securities and medium-sized enterprises (not later than June 1 of the year following the reporting period);

Other financial institutions related to micro- and small enterprises (not later than June 1 of the year following the reporting period).

To determine which category a company falls into, you must analyze the criteria set forth in the Law on Accounting and meet at least two of those listed in one category as of the date of the annual financial statements.

To determine compliance with the criteria set in euro, the official exchange rate of hryvnia (UAH) to foreign currencies (average for the period), calculated on the basis of the National Bank exchange rates set for euro during the year, is used [2].

If an enterprise in one of the above categories fails to meet the above criteria in terms of annual financial statements for two consecutive years, it falls into the relevant category of enterprises.

That is, in order to change the category, the company must meet the new criteria for two consecutive years.

The most important question concerning the audit of financial statements concerns a loss-making enterprise.

Specifically, is there an obligation to audit the financial statements?

The disclosure requirements for annual financial statements and annual consolidated financial statements along with the auditor's report are established for certain categories of businesses [2].

Thus, the claimed losses do not affect the obligation to conduct an audit and do not relieve the company from the consequences in case of violation of the relevant requirements of the Law on Accounting.

The next question to consider is about fines. Many entrepreneurs are wondering, "Is it worth it to withhold it at all or is it more profitable to pay the fine?"

Article 163-16 of the Code of Ukraine on Administrative Offences provides for penalties for late publication of the audited financial statements in the amount:

From 1000 to 2000 untaxed minimum incomes, i.e. from 17000 to 34000 UAH for the first offense;

From 2000 to 3000 untaxed minimum incomes, i.e. from 34000 to 51000 UAH for a repeated violation;

Payment of the fine does not relieve the company from the obligation to conduct an audit.

Thus, it can be concluded, even if the head of the enterprise decides not to conduct an audit, and pay a fine, the payment of a fine does not exempt him from the audit.

Is the auditor's report a component of the tax reporting?

Adopted on 16.01.2020, the Law of Ukraine № 466-IX "On amendments to the Tax Code of Ukraine regarding improvement of tax administration, elimination of technical and logical inconsistencies in tax legislation" amends paragraph 46.2 of Art. № 46 TCU, which gives the value of tax on mandatory audit.

Thus, until the end of 2020, income tax payers who are required by the Law on Accounting to conduct an audit, along with the tax return must submit to the State Tax Service annual financial statements with the auditor's report.

Note that the financial statements are an appendix to the income tax return and are an integral part of it.

Therefore, an income tax return without an auditor's report can be considered by the fiscal authorities as "improperly compiled" or not "submitted" at all.

It should also be noted that, according to the updated § 39.4.6 and § 39.4 Article 39 of the TCU, companies that prepare transfer pricing documentation for submission to regulatory authorities must supplement it with a copy of the auditor's report on the taxpayer's accounting (financial) statements for the reporting period (periods) for which the transfer pricing documentation is filed (if its availability is required by the taxpayer).

As part of the research topic, it is appropriate to consider the specifics of auditors' work during a pandemic.

The coronavirus pandemic and related quarantine measures have affected internal audit services around the world, and Ukraine is no exception.

The management of the internal audit function urgently needs:

- 1) to return all auditors from business trips;
- 2) to determine which part of the team can work from home and which auditors should be able to work from the office;

3) to make sure that all internal auditors have laptops with the access and settings necessary for remote work (for example, due to the need for banking secrecy, banks usually have rather strict limitations on the ability to work with customer data outside the office);

4) to develop a plan for regular communications between team members in a remote work environment;

5) to review the audit plan to see which audits are easier to conduct remotely, which risks have become more relevant in the new environment, which departments have increased quarantine workloads, and so on.

Extraordinary circumstances require extraordinary leadership. In a pandemic, internal audit leaders need to not only provide the necessary assistance to business owners and managers, but also take all necessary steps to ensure their teams are working effectively [7].

The specifics of auditors' work during a pandemic are presented in Table 1.

Thus, it can be concluded that the work under quarantine has its own characteristics, which relate to both the correct and safe organization of the work process, and the definition of priorities and solutions to audit procedures in a new environment.

The organization of remote work of internal auditors has a number of significant obstacles.

First, auditors cannot conduct physical examinations and inspections under quarantine conditions.

Secondly, working from home, they may not have access to the organization's critical systems and databases, making it impossible to conduct much of the planned testing and analysis.

Third, managers in various areas may be overwhelmed with critical issues related to the functioning of the organization in the new environment and may not be able to participate in meetings related to internal auditing.

In such circumstances, the work of internal auditors during the quarantine period is often limited to filling out working papers on the audits that have been started, preparing for the next audits, which includes drawing up an audit program, studying the regulatory framework, and so on.

Finally, auditors may engage in other work not directly related to the audit, such as conducting risk assessments, updating internal regulations governing internal audit activities, conducting internal quality assessments of internal audit functions, distance learning, etc.

**Conclusions and suggestions.** Thus, it is possible to conclude that the organization of remote work of internal auditors has a number of significant obstacles, both for the auditors themselves, and for companies. So, under quarantine, auditors cannot conduct any physical examinations and inspections, entrepreneurs did not work at all, or declared bankruptcy, or worked part-time/remotely. In addition, working from home, auditors may not have access to the organization's critical systems and databases, making it impossible to perform much of the planned testing and analysis. In addition, managers in various areas may be overwhelmed by critical issues related to the functioning of the organization in the new environment and may not be able to participate in meetings related to internal audit. All of this makes further research on this topic relevant.

Table 1

**Peculiarities of auditors' work during a pandemic**

Peculiarity	Characteristic
Organization of remote work of the main part of the staff	All key accesses and settings must be considered, obstacles auditors may encounter when working from home, and the need for regular communication between team members.
Identification of priorities in the new environment	It may be necessary to revise the audit plan to focus on audit work not directly related to the audit, such as risk assessments.
Adaptation of audit procedures	It is necessary to analyze whether the usual audit procedures can be adapted to the new environment, for example, by examining CCTV footage instead of physically visiting certain facilities or conducting remote control testing by analyzing the information available in the system.
Organization of teamwork	It is possible to continue to work on team building and socialization despite the physical distance between employees. For example, virtual spaces can be set up where colleagues can communicate freely with each other and share personal experiences to continue to feel part of the same team. It is noted that despite the peculiarities of the situation, internal audit leaders should not forget their leadership role and the responsibilities associated with it. It is important to remember that internal auditors are highly trained professionals who perform best when given the opportunity to find their own solutions to a problem, rather than simply telling them what to do. Therefore, the team should be actively involved in discussing necessary changes to the internal audit function, revising the audit plan, and updating audit procedures.
Safe environment	Also, the head of internal audit should not forget the importance of creating a safe and comfortable environment for all team members, especially in a stressful situation. This requires sharing with the team the information available on the measures planned by senior management in response to the crisis, discussing changes in internal audit work, and not overburdening employees during this already stressful period.

Source: summarized and supplemented 3, 4, 9, 12.

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