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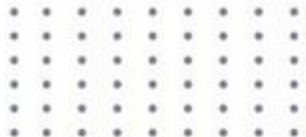
ОРГАН СУСПІЛЬНОГО НАГЛЯДУ
ЗА АУДИТОРСЬКОЮ ДІЯЛЬНІСТЮ

REPORT ON THE ACTIVITIES OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023



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❖ Audit activity is the independent professional work of auditors and audit entities providing audit services, with the key aspect being the audit of financial statements, that performs an essential function in confirming the reliability and impartiality of the information provided to users of financial statements. It significantly reduces the risks associated with management decision-making and enhances the confidence of investors, partners, and society in business entities.

❖ In Ukraine, since 2018, audit activities and their regulation have been conducted in accordance with the Law of Ukraine 'On the Audit of Financial Statements and Auditing Activities' (the 'Law'), which introduced the European model of public oversight of audit activities. This model aligns with the requirements of Directive 2006/43/EC of the European Parliament and the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, as well as Regulation (EU) No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

❖ The leading role in this model is played by the Audit Public Oversight Body (hereinafter referred to as the APOB), which is responsible for exercising public oversight of audits in Ukraine.

❖ The mission of the APOB is to ensure a high level of confidence among owners, investors, and other users in the information disclosed in financial

statements, providing a reliable basis for making effective decisions.

❖ The APOB oversees audit activities and is responsible for oversight the following:

- Registration of auditors and audit entities;
- Implementation of International Standards on Auditing;
- Control over the attestation and continuous training of auditors;
- Quality control of audit services provided by audit entities that perform statutory audits of financial statements or have declared their intention to do so;
- Disciplinary proceedings against auditors and audit entities performing statutory audits of financial statements;
- Imposition of penalties.

❖ The APOB is a legal entity under public law that is not profit-oriented and consists of the Audit Oversight Board (hereinafter referred to as the 'Oversight Board') and the Quality Assurance Inspection (hereinafter referred to as the 'Inspection').

❖ The Oversight Board is the supreme governing body of the APOB and consists of non-practitioners. According to the amendments to the Law in 2023, the Oversight Board comprises nine members: two representatives each from the Ministry of Finance of Ukraine and the National Bank of Ukraine, one representative from the National Securities and Stock Market Commission, and three non-practitioners. The Executive Director of the Inspection is an ex officio member of the Oversight Board.

❖ In 2023, the Oversight Board held 11 meetings.

❖ The powers of the Oversight Board include:

- Approval of draft regulations related to the regulation of audit activities and the Charter of the APOB;
- Approval of APOB acts, the APOB public report, the APOB budget, application forms submitted by auditors and audit entities to the Register of Auditors and Audit Entities, as well as the forms and procedures for submitting information on their activities to the APOB;
- Conducting disciplinary proceedings against auditors and audit entities;
- Overseeing the activities of the Inspection;
- Determining the procedure for delegating powers to the Audit Chamber of Ukraine (hereinafter referred to as the ACU) and professional organizations of auditors and accountants, and overseeing the exercise of such powers;
- Providing recommendations to public interest entities on ensuring the functioning of audit committees or designated bodies (units) entrusted with relevant functions;

- Overseeing the activities of the attestation committee;
- other matters specified by the Law.

❖ The role of the Inspection in the system of public oversight of audit activities includes:

- Conducting reviews to ensure the quality of audit services provided by audit entities;
- Conducting reviews of information indicating signs of professional misconduct by auditors and audit entities, and imposing penalties;
- Providing methodological support for professional qualifications;
- Ensuring the functioning of the Register of auditors and audit entities in accordance with legal requirements;
- Monitoring the continuous professional training of auditors, except for those whose training is delegated to the ACU and/or professional organizations of auditors and accountants;
- Ensuring international cooperation within the scope of the APOB's powers, as defined by the Law.

❖ During the reporting period, the APOB operated based on the Programme of Activities of the Audit Public Oversight Body for 2023 (Annex 1). Its work took into account the challenges arising from Russia's ongoing large-scale armed aggression against Ukraine, which began on 24 February 2022, as well as changes in the legal regulation of audit activities that came into effect on 1 January 2023 following amendments to the Law.

STANDARD-SETTING ACTIVITIES

❖ During the reporting period, the APOB's rulemaking activities were carried out to ensure the proper implementation of the amendments to the Law, which came into force on 1 January 2023, particularly in the following areas:

❖ **With regard to the regulatory and legal framework for audit activities**, the Oversight Board approved the following draft regulatory acts: The Procedure for Maintaining the Register of Auditors and Audit Entities; Amendments to the Procedure for Conducting Audit Quality Control Reviews; Amendments to the Procedure for Passing Examinations for the Attestation of Auditors; Amendments to the Procedure for Crediting Theoretical Knowledge; Amendments to the Procedure for Internships; Amendments to the Procedure for Continuous Professional Training of Auditors; Resolution of the Cabinet of Ministers of Ukraine “On Amendments to the Annex to the Regulation on Data Sets to be Disclosed in the Form of Open Data”.

❖ **To ensure the process of conducting quality control reviews of audit services and other reviews** in accordance with legislative changes, the following documents were approved: Recommendations for conducting quality control reviews of audit services and other reviews; The Procedure for Approving the Appointment of a Person to the Position of Inspector of the Committee for Quality Control of Audit Services of the Audit Chamber of

Ukraine or a Professional Organisation of Auditors and Accountants; The Procedure for Professional Development of Inspectors of the Quality Assurance Inspection and Committees for Quality Control of Audit Services of the Audit Chamber of Ukraine or a Professional Organisation of Auditors and Accountants.

❖ **Regarding auditor attestation and continuous professional training**, the following amendments were approved: The Temporary Procedure for Passing the Qualification Exam for the Attestation of Auditors; The Concept for Harmonizing the Processes of Auditor Attestation and Higher Education; The Procedure for Submission of Information on Continuous Professional Training by an Auditor; Forms for Submitting Information on Continuous Professional Training.

❖ **To implement the provisions of the Law regarding the delegation of powers and supervision over the exercise of delegated powers**, the following were approved: The Procedure for Convening and Holding the Congress of Auditors of Ukraine Remotely Using a Remote Electronic Voting System; The Procedure for Delegating Powers to the Audit Chamber of Ukraine and Professional Organisations of Auditors and Accountants; The Procedure for oversight the Exercise of Delegated Powers by the Audit Chamber of Ukraine and Professional Organisations of Auditors and Accountants; Forms for Reports on the Exercise of Delegated Powers.

STANDARD-SETTING ACTIVITIES

❖ **To ensure that auditors and audit entities comply with the requirements of Articles 23, 26, 29, and 38 of the Law**, the following were approved: the List of Professional Organisations whose certificates (diplomas) demonstrate a high level of knowledge of International Financial Reporting Standards; the Procedure for Determining the Total Amount of Net Income and the Average Amount of Remuneration of an Audit Entity; the Procedure for Submission of Information by audit entities on Services Rendered to the Audit Public Oversight Body, and the Form for Submission of Reporting Information by Audit Entities on Services Rendered. Additionally, to ensure that auditors and audit entities comply with the Law's requirements regarding the timely submission of information to the Register of Auditors and Audit Entities, as well as reporting information on continuous professional education, the Inspection approved the Procedure for issuing orders to eliminate violations of the Law by auditors or audit entities.

❖ **Regarding the regulatory support of the APOB's activities for public oversight of audit activities**, the following were approved: Draft amendments to the Charter of the state institution 'Audit Public Oversight Body'; The Programme of Activities of the Audit Public Oversight Body for 2023; The Programme of Activities of the Audit Public Oversight Body for

2024; Amendments to the Regulation on the Audit Oversight Board of the Audit Public Oversight Body; Amendments to the Regulation on the Quality Assurance Inspection of the Audit Public Oversight Body; amendments to the Procedure for Reviewing Draft Programme of Activities and Estimate of the Audit Public Oversight Body, and other related documents.

❖ During the reporting period, work began on the regulatory framework for professional standardisation. In this regard, the APOB, in collaboration with the Ministry of Finance of Ukraine, established the Industry Council for the Development of Professional Standards in Accounting and Auditing and formed its staff. By decision of the Audit Oversight Board, working groups were established to develop draft professional standards for the roles of "Auditor", "Audit Assistant", "Audit Quality Control Inspector", "Chief Accountant of a Public Interest Entity", and "Key Partner (Engagement Partner)".

QUALITY CONTROL OF AUDIT SERVICES

❖ During the past two military years for Ukraine, audits to control the quality of audit services covered 33 audit entities, including 17 audit entities in 2023. At the same time:

- 15 audit entities took advantage of the opportunity provided by the Law of Ukraine 'On Amendments to the Law of Ukraine "On the Audit of Financial Statements and Auditing Activities" to Ensure Audit Activities During the Period of Martial Law and Post-War Economic Recovery' and chose not to consent to the audit of the quality of audit services (including 5 audit entities in 2023);
 - 4 audit entities lost the right to conduct statutory audits of financial statements for public interest entities due to the removal of their registration information from the relevant section of the Register of Auditors and Audit Entities (including 2 audit entities in 2023);
 - an act confirming the impossibility of conducting an audit was drawn up for 1 audit entity in 2023.
- ❖ The share of audit entities included in the audit schedule for 2023 and covered by control measures, as a percentage of the total cost of statutory audits of financial statements reported to the APOB for the period from 1 January 2022 to 30 June 2023, was 33.5% (UAH 660.9 million). Meanwhile,

the share of these audit entities in the total number of completed statutory audit engagements for financial statements during the same period was 18.4% (1,726 units).

- ❖ Compared to 2022, the average duration of a location-based audit remained largely unchanged, totaling 13 business days (2022: 12 business days).
- ❖ At the same time, the number of audit engagements selected for review remained unchanged, averaging 3 engagements (2022: 3 engagements).
- ❖ 60 engagements for the statutory audit of financial statements were reviewed, with audit reports signed by 55 key audit partners (2022: 51 engagements and 45 key audit partners).
- ❖ The Inspection selected tasks for inspection using a risk-based approach.
- ❖ A summary of the results of the audit services quality control review, broken down by areas of significant deficiencies identified, is shown in Fig. 1.

QUALITY CONTROL OF AUDIT SERVICES

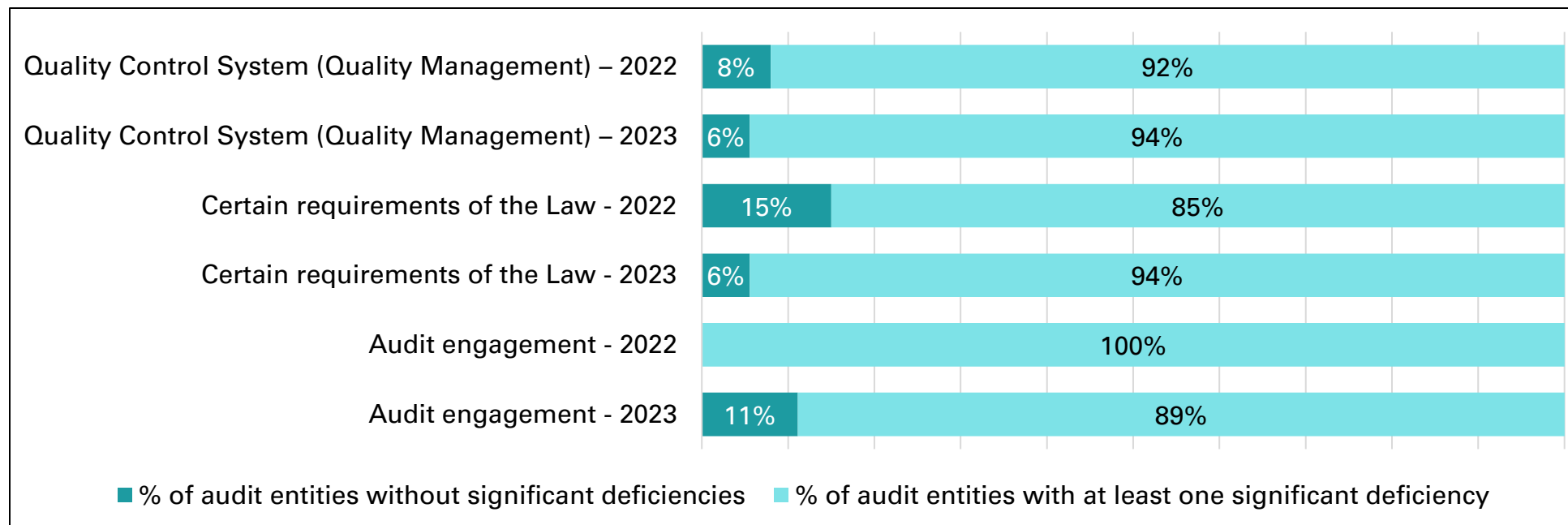


Figure 1. Distribution of audited entities by areas of significant deficiencies identified in 2022-2023.

❖ Detailed information on the results of the quality assurance system for 2023 is provided in Annex 2.

CONDUCTING DISCIPLINARY PROCEEDINGS

- ❖ During the reporting period, the Inspection, on behalf of the Oversight Board, verified the information specified in complaints regarding the actions of audit entities authorized to conduct statutory audits of financial statements for public interest entities.
- ❖ During 2023, by the decision of the Oversight Board:
 - one audit entity was held professionally responsible;
 - disciplinary proceedings against two audit entities were suspended;
 - One auditor's registration in the Register was canceled under part twelve of Article 22 of the Law;
 - the registration of five audit entities in the Register was canceled under paragraph 1 of part thirteen of Article 22 of the Law. This provision establishes that legal entities are not subject to registration in the Register, and such registration is subject to cancellation if: such audit entities have as founders (participants, shareholders) citizens of a country that is carrying out armed aggression against Ukraine, and/or if the ultimate beneficial owners (controllers) of these entities are citizens of a country that is carrying out armed aggression against Ukraine, and/or if they are business entities registered in the territory

of a country that is carrying out armed aggression against Ukraine, and/or if they are persons listed in public registers of auditors and/or members of professional organizations of auditors and/or accountants of a country that is carrying out armed aggression against Ukraine, and/or in which a country that is carrying out armed aggression against Ukraine directly or indirectly owns a share in the authorized capital.

REGISTER OF AUDITORS AND AUDIT ENTITIES

- ❖ In accordance with the requirements of the Law, starting from 1 January 2023, the holder and administrator of the Registry is the APOB, which ensures its establishment, operation, maintenance, and administration.
- ❖ Pursuant to the provisions of Section II, 'Final Provisions,' of the Law of Ukraine 'On Amendments to Certain Laws of Ukraine on Improving the Legal Framework for Conducting Audit Activities in Ukraine' No. 2597-IX, dated 20 September 2022, the following was ensured:
 - in January 2023, the acceptance of an electronic copy of the Register and files for each auditor and audit entity from the ACU was completed, conducted by the ACU in accordance with the requirements of part ten of Article 22 of the Law;
 - digitisation of the files of 2,760 auditors and their entry into the auditors' electronic office;
 - ensuring the uninterrupted registration of auditors and audit entities in the Register in accordance with the requirements of the Law.
- ❖ The Inspection ensured the development of software and the launch of the functioning of the Register as an information and communication system. As of 1 November 2023, it has been published on the official APOB website, with unlimited availability and unrestricted access (general access) through the official APOB website. Since 01 November 2023, 23,701 requests to the Register have been made.
- ❖ The Registry was created in accordance with legislation on public electronic registers to connect the Registry to public electronic registers and the system of electronic interaction of electronic resources to facilitate the exchange of information with other public registers.
- ❖ The Register is synchronized with the functioning of the auditor's and audit entity's electronic cabinet. Information (including updates) is entered into and removed from the Register through the electronic cabinet of auditors and audit entities, and/or during the transition period, via the electronic document management service ASKOD Online. During the reporting period, the Inspection processed 3,160 applications from auditors and audit entities.
- ❖ After the Register is published on the APOB official website, users of the register information can submit requests for extracts from the Register by completing the authorization procedure when forming a request.
- ❖ The Inspection conducted explanatory work with auditors and representatives of audit entities to ensure their compliance with the Law regarding the completeness, accuracy, and timeliness of information submitted to the Register. This was done by posting informational messages on the official APOB website, as well as through correspondence and direct phone communication.

REGISTER OF AUDITORS AND AUDIT ENTITIES

❖ In connection with the discovery of facts that could indicate a violation of the Law's requirements regarding the completeness and timeliness of information submitted by auditors and audit entities to the Register, the Inspection sent letters to the audit entities demanding the urgent elimination of violations of the Law and providing explanations for the reasons behind the violations. Additionally, an order was issued to the auditor to rectify the violation of the Law.

❖ Based on the results of the applications received by the APOB from public organizations, in accordance with Article 52 of the Law, regarding their inclusion of information about them in the Register as professional

organizations of auditors and accountants, and following the verification of the submitted information by the Inspection, the following professional organizations of auditors and accountants were entered into the Register:

- All-Ukrainian professional public organization 'Union of Auditors of Ukraine';
- NGO 'Federation of Professional Accountants and Auditors of Ukraine';
- Public Organization 'Professional Organisation of Auditors, Accountants, and Teachers of the OCD'.

OVERSIGHT OF DELEGATED POWERS

❖ The Law provides for the possibility of delegating certain powers to the ACU and professional organizations of auditors and accountants to ensure public oversight of audit activities.

❖ The ACU, provided that its organizational structure prevents any real or potential conflict of interest or interference from its governing bodies in the exercise of delegated powers—such interference that could affect the objectivity or impartiality of decisions or to take action or refrain from taking action in the exercise of these powers — shall be delegated the following powers:

- control over the quality of audit services provided by audit entities performing statutory audits of financial statements, excluding audits of public interest entities' financial statements, and conducting other reviews provided for by the Law;
 - conducting disciplinary proceedings against audit entities performing statutory audits of financial statements, excluding those that audit the financial statements of public interest entities, and against auditors, except in cases specified by the Law.
- ❖ Additionally, the ACU and/or professional organizations of auditors and accountants, provided that their organizational structure prevents the emergence of any real or potential conflict of interest or interference from

their governing bodies in the exercise of delegated powers, and that they meet the established requirements, may be delegated the following powers:

- control over the quality of audit services provided by audit entities that have announced their intention to conduct mandatory audits of financial statements, as well as conducting other reviews specified by the Law;
 - control over the continuous professional training of auditors.
- ❖ Based on the results of considering the ACU's request to be recognized as meeting the conditions for exercising delegated powers, and to delegate the authority to control the quality of audit services for audit entities that have announced their intention to conduct statutory audits of financial statements and other reviews provided for by the Law, the Oversight Board, upon the proposal of the Inspection, decided to delegate to the ACU the authority to control the quality of audit services provided by audit firms that have announced their intention to conduct mandatory audits of financial statements, as well as other reviews specified by the Law.
- ❖ Oversight of the exercise of delegated powers by the ACU is carried out by the APOB, primarily through the involvement of members of the Audit Oversight Board in the work of the ACU's governing bodies.

OVERSIGHT OF DELEGATED POWERS

❖ As part of the supervision of the exercise of delegated powers, the members of the Oversight Board participated as observers in the work of the supreme governing body of the ACU – the Congress of Auditors of Ukraine – which took place on 24 June 2023, in accordance with the requirements of the Procedure for convening and holding the Congress of Auditors of Ukraine remotely using an electronic voting system. Additionally, throughout 2023, the members of the Oversight Board attended 11 meetings of the ACU Council. As part of overseeing the exercise of delegated powers APOB:

- received reports from the ACU regarding the exercise of delegated powers;
- provided recommendations on the actions to be taken by the ACU to ensure the proper performance of its delegated powers;
- has approved the schedule for the ACU's quality control and other reviews in 2024;
- approves the draft ACU Budget for 2023 and 2024 in relation to the delegated powers;
- reviewed the reports on the results of implementing the APU Budget for 2022 and the first half of the APU Budget for 2023.

ATTESTATIONS OF AUDITORS

- ❖ In 2023, significant changes were made to the Law regulating auditor attestation and their continuous professional training.
- ❖ In order to implement these changes, the Procedures for passing examinations during auditor attestation, Procedures for continuous professional training of auditors, Procedures for crediting theoretical knowledge, Procedures for internships, and the Regulation on the Attestation Commission were improved.
- ❖ At the same time, in 2023, a liberalized procedure for auditor attestation was implemented during the period of martial law. Under this procedure, 181 candidates took the qualification exams, but only 56 candidates passed successfully, accounting for nearly 31% of the total examinees.
- ❖ In 2023, for the first time, a theoretical exam "International Financial Reporting Standards" was successfully organized, with 21 participants. Nine candidates passed the exam, representing nearly 43% of the total participants. This experience has facilitated the planning of a series of theoretical exams for 2024.
- ❖ To further align the national auditor attestation system with international standards, the process of mutual recognition of the procedures and syllabus for all nine theoretical exams, which are part of the Association of Chartered Certified Accountants (ACCA) qualification and auditor attestation in Ukraine has been completed.
- ❖ To expedite the entry of young professionals into the audit profession, the Concept of Harmonisation of processes of auditor attestation and

obtaining higher education was developed and approved.

- ❖ At the same time, educational activities related to the attestation of auditors were carried out. In particular, several roundtables were organized and held with the participation of leading scientists, practitioners, international and domestic experts, and the public. Additionally, open lectures were conducted for students.
- ❖ To effectively regulate the qualification requirements in the profession, measures were taken to ensure professional standardization. In particular, the Industry Council for the Development of Professional Standards in Accounting and Auditing was established, and the development of professional standards for 'Auditor,' 'Audit Assistant,' 'Audit Quality Control Inspector,' and 'Key Partner (Engagement Partner)' was facilitated.
- ❖ To implement the updated system of control over continuous professional training for auditors, the reporting process was automated. This includes the submission of reports on completed continuous professional training through the electronic cabinet, allowing automatic entry into the Register, as well as the submission of information about training events by organizers of continuous professional training for automatic inclusion in the auditors' reporting data. Under the new approach, in 2023, auditors submitted 1,828 reports, while organizers of continuous professional education events submitted 50 reports.

ATTESTATIONS OF AUDITORS

❖ In 2023, organizational, logistical, and methodological support was provided for 15 meetings of the Attestation Commission, which addressed issues related to organizing examinations and approving their results, international cooperation, improving the regulatory framework, and ensuring continuous professional training of auditors.

❖ Up-to-date information on auditor attestation and their continuous professional training is regularly published on the official website of the Audit Public Oversight Body.

INTERNATIONAL COOPERATION

- ❖ Since 2019, APOB has been a full member of the International Forum of Independent Audit Regulators (IFIAR). Over the past four years, it has gained valuable experience in public oversight of audit activities and has adopted best European and international practices in the oversight of audit activities.
- ❖ Also, in 2023, APOB acquired observer status with the Committee of European Auditing Oversight Bodies (CEAOB). This status grants participation in CEOB plenary meetings. Representatives of APOB attended as observers at the CEOB plenary meetings held in Brussels (Belgium) on 29-30 June and 23-24 November 2023.
- ❖ In order to continuously exchange experience and implement best practices in the national audit sector, the APOB regularly participates in events organized by the Committee of European Audit Oversight Bodies (CEAOB), the International Forum of Independent Audit Regulators (IFIAR), the Centre for Financial Reporting Reform (CFRR), and collaborates with the EU-funded project 'Implementation of EU Practices on Accounting, Financial Reporting, and Audit in Ukraine' (EU-FAAR).
- ❖ During the reporting period, bilateral relations were established with the Director-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA).
- ❖ In order to further attract the attention of IFIAR member regulators of the

audit profession and increase the awareness and skills of quality control inspectors regarding sanctions, their impact on audit activities, and conducting reviews, APOB, together with IFIAR, organized a webinar on 12 July 2023. The event was attended by over 100 inspectors from IFIAR and CEOB member organizations.

- ❖ The development of a public oversight system for audit activities, along with the continuous improvement of legislation and its application, ensures the systematic implementation of audit reform in line with European standards. The European Commission has positively assessed Ukraine's progress in implementing reform in the field of auditing, as noted in its annual Enlargement Report 'Ukraine 2023,' published on 8 November 2023. The report also includes recommendations for beginning negotiations on Ukraine's membership in the European Union (EU).

INFORMATION AND COMMUNICATION ACTIVITIES

- ❖ To ensure cooperation between the National Bank of Ukraine, the National Securities and Stock Market Commission, and the APOB, in accordance with the requirements of the second paragraph of part twelve of Article 15 of the Law, a Memorandum of Cooperation between the National Bank of Ukraine, the National Securities and Stock Market Commission, and the APOB was concluded on 16 October 2023.
- ❖ During the reporting period, the APOB organized and co-organized several thematic discussions with representatives of educational institutions and audit entities on the draft Concept for Harmonizing the Processes of Auditor Attestation and Obtaining Higher Education. One such event was the round table discussion titled 'Harmonization of the Processes of Auditor Attestation and Obtaining Higher Education,' held on 18 April 2023 at the State University of Trade and Economics.
- ❖ On 17 May 2023, the round table titled 'International Dimension of Attestation of Auditors' was organised and held jointly with ACCA to review the process of establishing auditor attestation in Ukraine, examine the specifics of its international recognition, and outline further directions for the development of the audit profession.
- ❖ On 15 November 2023, the Attestation Commission, in collaboration with the Association of Chartered Certified Accountants, held a roundtable

discussion titled 'Improving the System of Attestation of Auditors and Their Continuous Professional Training.' The event focused on the latest legislative innovations and explored key issues related to auditor attestation and continuous professional training.

- ❖ On 24 November 2023, a webinar was conducted to discuss changes in the procedure for organising and carrying out audit services quality control reviews.
- ❖ On 21 December 2023, a webinar was conducted to address current issues related to the application of International Standards on Auditing, identified during quality control reviews in 2023.
- ❖ Based on an analysis of the annual information provided by audit entities regarding their services and data from the Register, the Report on the State of Audit Activity in Ukraine for the period from 1 January 2022 to 30 June 2023 was prepared and published on the official APOB website.
- ❖ The activities of the Committee on Best Practices in the Organisation of the Quality Control System for Audit Services were supported as an advisory body to the APOB. The Committee focuses on improving policies and procedures and implementing best practices of the internal organisation of audit entities authorized to conduct statutory audits of financial statements for public interest entities.

- ❖ As of 31 December 2023, the Inspection employed 19 staff members. In 2023, audit services quality control reviews and the support of disciplinary proceedings were carried out by the Quality Control Department, which consisted of 5 inspectors. No external experts were involved in the reviews..
- ❖ In accordance with the Procedure for the advanced training of inspectors of the Quality Assurance Inspection of the Audit Public Oversight Body, the Audit Services Quality Control Committee of the Audit Chamber of Ukraine, or the Audit Services Quality Control Committee of a professional organisation of auditors and accountants, a system of continuous professional training for inspectors was introduced in 2023. In addition, a joint professional development training event was held for the inspectors of the Inspection and the Audit Services Quality Control Committee of the Audit Chamber of Ukraine on the topic: 'Practical Issues of Conducting Reviews to Control the Quality of Audit Services in the Context of Recent Changes in Legislation, International Standards on Auditing, and International Financial Reporting Standards'.
- ❖ In addition, to ensure compliance with legislation on public information in the form of open data, the Inspection's employees participated in the event 'Open Data Intensive for Information Managers'.
- ❖ To ensure the implementation of legislation on corruption prevention, the Corruption Risk Assessment Commission conducted an internal assessment of corruption risks in the APOB's activities in 2023. The report on the results of this assessment was reviewed at both a meeting of the Corruption Risk Assessment Commission and a meeting of the Oversight

Board.

- ❖ In addition, the Inspection staff received training and participated in a one-day seminar on 'Practical Aspects of Preventing Corruption in the Activities of Employees of the Quality Assurance Inspection of the Audit Public Oversight Body: Financial Control, Conflict of Interest, and Other Anti-Corruption Requirements and Restrictions.'
- ❖ Document flow in the Inspection is managed through the use of the ASKOD electronic document management system, ASKOD Online service, the electronic office for auditors and audited entities, the electronic court, as well as electronic correspondence and postal communication.
- ❖ In 2023, the APOB received: 4 public information requests, 33 documents of the judiciary authorities (related to a statement of claim), 6 letters from litigants, 75 requests from ministries and agencies, 6 requests from international organizations (additionally, systematic communication with international organizations is carried out through email correspondence), and 1,083 requests from legal entities and individuals.
- ❖ The Inspection reviewed the requests, processed them, and provided a total of 1,406 responses, including the provision of requested information, correspondence regarding the quality control of audit services, and issues related to the registration information in the Register.

RESOURCES OF THE QUALITY ASSURANCE INSPECTION

❖ The inquiries addressed questions regarding the requirements and procedures for applying certain provisions of the Law, compliance with International Standards on Auditing (ISAs), quality control of audit services, information in the Register, etc..

❖ In 2023, the APOB budget was fully executed, with revenues totaling UAH

32,341 thousand (excluding the opening balance), compared to the planned UAH 23,793 thousand (excluding the opening balance). Expenditures amounted to UAH 28,305 thousand (excluding deferred expenses), compared to the planned UAH 33,707 thousand (excluding deferred expenses). Detailed information on the budget execution is provided in Annex 3.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring transparency and promoting the publicity of the activities conducted by the Audit Public Oversight Body			
1.	Preparation, approval, and publication of the annual report on the activities of the Audit Public Oversight Body (APOB) for 2022, including the results of the quality assurance system. The report covers reviews conducted, recommendations provided, verification of their implementation, measures taken, penalties imposed on auditors and audit entities, the implementation of the annual programme, key indicators of the APOB budget execution, and resources involved in the performance of functions.	Second quarter of 2023	The APOB Activity Report for 2022 was prepared and published on the official APOB website..
2.	Preparation, approval, and publication of the APOB's Activity Program for 2024.	Fourth quarter of 2023	The Activity Program of the Audit Public Oversight Body (APOB) for 2024 has been prepared and submitted for consideration by the Audit Oversight Board (hereinafter referred to as the Oversight Board). The Activity Program of the APOB for 2023 was approved by the Oversight Board.
3.	Preparation and approval of the APOB budget for 2024.	Fourth	The draft APOB budget for 2024 has been prepared and submitted for review by the Oversight
4.	Formation, approval, and publication of the quality control reviews schedule for audit services for 2024.	Fourth quarter of 2023	The schedule for quality control reviews of audit services and other reviews for 2024 was approved by the order dated November 22, 2023, No. 58-KYa and published on the official APOB website.
5.	Formation, approval, and publication of the schedule for other reviews (excluding quality control reviews of audit services) for 2024.	Fourth quarter of 2023	

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Implementation of measures aimed at supporting audit activities during the period of martial law and throughout the post-war economic recovery			
6.	Monitoring the risks to the public oversight system and audit activities caused by the military aggression against Ukraine and responding promptly to minimize the negative consequences.	During the period of martial law	<p>The risks to the public oversight system and audit activities, caused by the military aggression against Ukraine, are continuously monitored by analyzing the situation in the audit services market, examining the business activities of auditors and audit entities, and reviewing information from open sources, ect.</p> <p>Based on the analysis results and the submission from the Quality Assurance Inspection (hereinafter referred to as the Inspection), the Oversight Board decided to cancel the registration of five audit entities in the Register of Auditors and Audit Entities, in accordance with paragraph 1 of part thirteen of Article 22 of the Law of Ukraine 'On the Audit of Financial Statements and Auditing' (hereinafter referred to as the Law). Additionally, based on the submission from the Audit Chamber of Ukraine, the Oversight Board decided to cancel the registration of one auditor in the Register of Auditors and Audit Entities, pursuant to part twelve of Article 22 of the Law.</p>
7.	Developing proposals for public authorities to promote the extensive involvement of independent auditors in post-war economic recovery efforts.	During the year	Proposals were prepared and submitted to the Ministry of Finance of Ukraine regarding the conditions for the provision of audit services by audit entities. These proposals focused on statutory audits of financial statements and/or other mandatory tasks to verify the use of funds (or property) provided by international financial organisations, foreign states, and foreign donors and/or compliance with the terms under which such funds (or property) are provided to legal entities that directly or indirectly hold, receive, and use funds provided by international financial organisations, foreign states, or foreign donors, as well as to legal entities that manufacture products, perform works, or provide services using such funds.
8.	Conducting events to highlight current issues in the practice of audit activities during martial law.	During the period of martial law	No events were held during the reporting period to address issues related to conducting audit activities during martial law.

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
9.	Development and submission of proposals to state authorities for shaping and implementing state policy in the field of audit activities, including:		In 2023, the Oversight Board approved the following draft regulatory acts based on the submission of the Inspection:
9.1.	drafting proposals for the enhancement of regulatory acts concerning the regulation of audit activities, quality control of audit services, registration of auditors and audit entities, and the attestation of auditors;	Constantly	<ul style="list-style-type: none"> • The Procedure for Maintaining the Register of Auditors and Audit Entities; • A Resolution of the Cabinet of Ministers of Ukraine, titled 'On Amendments to the Annex to the Regulation on Data Sets to be Disclosed in the Form of Open Data'; • Revisions to the Procedure for Conducting Quality Control Reviews of Audit Services; • Revisions to the Procedure for Examinations as Part of Auditor Attestation; • Revisions to the Procedure for Continuous Professional Development of Auditors; • Revisions to the Procedure for Crediting Theoretical Knowledge; • Revisions to the Procedure for Completing Internships; • Revisions to the Regulation on the Attestation Commission.
9.2.	engagement in the review and evaluation of draft legislation and regulations pertaining to audit activities.	Constantly	<p>An examination of draft laws and subordinate regulatory legal acts on audit activities was conducted, including:</p> <p>The Draft Law of Ukraine, titled 'On Amendments to Certain Laws of Ukraine on Reporting in the Framework of Attracting International Financial Assistance';</p> <p>The Draft Resolution of the Cabinet of Ministers of Ukraine, titled 'On Approval of the Procedure for the Functioning of the Financial Reporting Collection Centre';</p> <p>The Draft Resolution of the Cabinet of Ministers of Ukraine, titled 'Some Issues of Payment of Contributions by Audit Entities to the Audit Public Oversight Body';</p> <p>The Draft Resolution of the Cabinet of Ministers of Ukraine, titled 'On Amendments to the Resolutions of the Cabinet of Ministers of Ukraine dated 21 October 2015 No. 835 and 30 November 2016 No. 867', developed in accordance with the Law of Ukraine 'On Access to Public Information';</p> <p>The Draft Order of the Cabinet of Ministers of Ukraine, titled 'On Approval of the Action Plan Aimed at Preventing and/or Mitigating the Negative Consequences of Risks Identified by the Third Round of the National Risk Assessment in the Field of Preventing and Counteracting the Legalisation (Laundering) of Proceeds of Crime, Terrorist Financing, and Financing the Proliferation of Weapons of Mass Destruction for the Period Until 2026';</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
9.2.			<p>The draft Order of the Cabinet of Ministers of Ukraine titled "On Connecting Public Electronic Registers to the System of Electronic Interaction of Electronic Resources and Including Public Electronic Registers in the Register of Public Electronic Registers";</p> <p>Draft Orders of the Ministry of Finance of Ukraine titled "On Amendments to the Procedure for Forming an Open List of Independent Auditors within the Joint Operational Programmes for Border Cooperation of the European Neighbourhood Instrument 2014-2020", and "On Amendments to the Order of the Ministry of Finance of Ukraine No. 398 dated 06 July 2020";</p> <p>Draft decisions of the National Securities and Stock Market Commission titled "On Submission of Information to the National Securities and Stock Market Commission by an Audit Entity Providing Services for the Statutory Audit of Financial Statements or Other Mandatory Tasks to an Enterprise of Public Interest Supervised by the National Securities and Stock Market Commission", and "On Amendments to Certain Regulatory Acts of the State Securities and Stock Market Commission (Regarding Investment Funds)";</p> <p>Draft Resolutions of the Board of the National Bank of Ukraine titled "On Approval of the Regulation on the Procedure and Conditions for Concluding an Agreement on Insurance of the Audit Entity's Liability to Third Parties" and "On Invalidation of Certain Regulatory Acts".</p>
10.	Developing and approving documents related to the regulation of audit activities within the APOB's powers, in line with the implementation of the Law.	Constantly	<p>To implement the provisions of the Law, the Inspection developed, and the Oversight Board approved the following draft documents:</p> <p>Amendments to the Regulation on the Audit Oversight Board of the Audit Public Oversight Body;</p> <p>Amendments to the Regulation on the Quality Assurance Inspection of the Audit Public Oversight Body;</p> <p>Amendments to the Procedure for Reviewing Draft Programmes of Activities and Budgets of the Audit Public Oversight Body;</p> <p>Procedure for Determining the Total Amount of Net Income and the Average Remuneration of an Audit Entity;</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
10.			<p>The procedure for the advanced training of inspectors of the Quality Assurance Inspection of the Audit Public Oversight Body, the Audit Services Quality Control Committee of the Audit Chamber of Ukraine, or the Audit Services Quality Control Committee of a professional organisation of auditors and accountants;</p> <p>The procedure for approving the appointment of a person to the position of an inspector within the Audit Services Quality Control Committee of the Audit Chamber of Ukraine or a professional organisation of auditors and accountants;</p> <p>The procedure and forms for the submission of information by auditors regarding the completion of continuous professional training;</p> <p>The procedure for the delegation of powers to the Audit Chamber of Ukraine and professional organisations of auditors and accountants;</p> <p>The procedure for convening and holding the Congress of Auditors of Ukraine remotely using a remote electronic voting system;</p> <p>The concept of harmonising the processes of attestation of auditors and obtaining higher education;</p> <p>The form of notification of an educational event by a legal entity that meets the requirements established by the Attestation Commission or a professional organisation of auditors and accountants included in the list of individuals to conduct educational events;</p> <p>The form of notification for conducting educational events by an audit firm with its own recognised programmes, under professional organisations that are members of the International Federation of Accountants and included in the list of individuals for educational events;</p> <p>The decision of the Oversight Board to establish working groups for the development of draft professional standards, including 'Auditor', 'Auditor's Assistant', 'Audit Quality Control Inspector', 'Chief Accountant of a Public Interest Entity', and 'Key Partner (Engagement Partner)'. The list of professional organisations whose certificates (or diplomas) indicate a high level of relevant knowledge of international financial reporting standards;</p> <p>The procedure for oversight the exercise of delegated powers by the Audit Chamber of Ukraine and professional organisations of auditors and accountants;</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
10.			<p>Forms of the Report on the Exercise of Delegated Powers (Interim) and the Report on the Exercise of Delegated Powers (Annual);</p> <p>Forms for submitting information on educational events conducted by entities included in the list of those authorised to conduct such events: legal entities that meet the requirements set by the Attestation Commission, professional organisations of auditors and accountants, and audit firms that may conduct educational events under their own programmes recognised by professional organisations that are members of the International Federation of Accountants;</p> <p>Procedure for submitting information on the services provided by audit entities to the Audit Public Oversight Body;</p> <p>Recommendations for conducting quality control reviews of audit services and other reviews;</p> <p>Amendments to the Temporary Procedure for Passing the Qualification Exam for the Attestation of Auditors.</p> <p>The following decisions were approved by the Oversight Board:</p> <p>Draft amendments to the Charter of the State Institution 'Audit Public Oversight Body';</p> <p>Draft amendments to the Regulation on Bonuses for Employees of the Quality Assurance Inspection of the State Institution 'Audit Public Oversight Body';</p> <p>Draft amendments to the Procedure for evaluating the effectiveness of the performance of duties by employees of the Quality Assurance Inspection of the Audit Public Oversight Body;</p> <p>Regulation on the Industry Council for the Development of Professional Standards in Accounting and Auditing;</p> <p>Composition of the Industry Council for the Development of Professional Standards in Accounting and Auditing;</p> <p>Memorandum of Understanding between the National Bank of Ukraine, the National Securities and Stock Market Commission, and the Audit Public Oversight Body.</p> <p>In line with the implementation of the Law, the Inspection developed and approved the Procedure for Issuing Orders Regarding the Need to Eliminate Violations of the Law by an Auditor or Audit Entity.</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
11.	Ensuring the quality of audit services, which includes:		The schedule for quality control reviews in 2023 (in the new version) envisaged reviews of 25 audit entities, of which:
11.1.	conducting audits to control the quality of audit services provided by audit entities authorised to audit the financial statements of public interest entities;	Throughout the year, in accordance with the approved schedule	13 underwent reviews with mandatory recommendations to be implemented; 5 had their consent for the quality control audit of audit services withdrawn; 2 are in the process of finalising the results; 2 received a notification letter regarding the commencement of the inspection and the inspection planning has started;
11.2.	tracking the implementation of mandatory recommendations provided to audit entities based on the results of quality control audits of audit services, and assessing the outcomes of their implementation;	Throughout the year	2 lost the right to conduct mandatory audits of financial statements for public interest entities; 1 report was issued stating the impossibility of conducting the inspection. The implementation of mandatory recommendations was monitored for 19 audit entities.
11.3.	conducting (organising), if possible, two events to disseminate best practices in the organisation of internal quality control systems;	Throughout the year	On 24 November, a webinar was held addressing changes to the procedure for organising and conducting audits to control the quality of audit services. On 21 December 2023, a webinar was held discussing current issues in applying international auditing standards, based on the findings from quality control reviews in 2023.

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
11.4.	conducting disciplinary proceedings against audit entities authorised to audit the financial statements of public interest entities, as well as auditors practising within such audit entities, and applying penalties to auditors and audit entities for professional misconduct;	Constantly	<p>Throughout 2023, the Inspection carried out checks of information based on instructions from the Oversight Board:</p> <ul style="list-style-type: none"> information provided in 2022, following five complaints regarding the actions of four audit entities authorized to conduct mandatory audits of the financial statements of public interest entities; information provided in 2023 regarding the actions of four audit entities authorized to conduct mandatory audits of the financial statements of public interest entities. <p>As a result of the information checks:</p> <ul style="list-style-type: none"> regarding one audit entity: by decision of the Oversight Board on 17 February 2023, No. 2/56, the instruction to conduct a review was revoked due to the loss of the audit entity's right to conduct mandatory audits of the financial statements of public interest entities;
11.5.	supporting the process of preparing materials for disciplinary proceedings and the implementation of sanctions.	Constantly	<ul style="list-style-type: none"> regarding one audit entity: by decision of the Oversight Board on 27 October 2023, No. 7.1/9/63, the initiation of a disciplinary case was denied; regarding two audit entities: by decisions of the Oversight Board on 26 April 2023, No. 5/5/59, and 27 October 2023, No. 7.2/9/63, disciplinary cases were initiated, and one of them was held professionally accountable for misconduct and a warning was imposed as a penalty; regarding three audit entities: by decision of the Oversight Board on 30 November 2023, disciplinary cases were initiated, and hearings were scheduled for 23 February 2024; regarding one audit entity: the review of the information provided in the complaint is still ongoing.

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
12.	Ensuring the proper functioning of the Register of Auditors and Audit Entities (hereinafter referred to as the 'Register') in accordance with legal requirements, including:		
12.1.	automation of the process of entering registration information into the Register through an electronic cabinet (the 'Cabinet of the Auditor and Audit Entity' functionality);	First quarter 2023	The process of entering registration information by auditors and audit entities into the Register through the Electronic Cabinet of the Auditor and Audit Entity has been introduced.
12.2.	establishing the Register and determining its commencement date in accordance with the requirements of the Law;	I-II quarters 2023	<p>A software product for functioning of the Register was developed, and information from the files of auditors and audit entities, received from the Audit Chamber of Ukraine, is being transferred to the Register's information system.</p> <p>By the decision of the Oversight Board dated 27 October 2023 (No. 2/9/63), the date of commencement for the Register's operation, in accordance with the procedure established by the Law, was set to 1 November 2023.</p> <p>Since 1 November 2023, the Inspection has ensured the publication of the Register on the official website of the APOB, providing unlimited, unauthorised (general) access to it. As of 1 November 2023, there have been 23,701 requests made to the Register.</p>
12.3.	maintaining and administering the Register;	Constantly	<p>In 2023, the Inspection:</p> <ul style="list-style-type: none"> processed 3,160 applications submitted by auditors and audit entities for their registration in the Register, the inclusion of information (or amendments to it) in the Register, and the removal of register information from the Register. These applications were received by the APOB through the electronic cabinet of auditors and audit entities and/or, during the transitional period, through the electronic document management service "ASKOD Online"; prepared and provided 283 certificates from the Register in response to requests made to the APOB by auditors, audit entities, and other individuals for register information. <p>Since 1 November 2023, following the publication of the Register on the APOB's official website, users have been able to request extracts from the Register by completing the authorisation procedure. As of 1 November 2023, 145 extracts have been issued.</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
12.3.			<p>Based on the outcomes of the Register's administration, and further to the submission by the Inspection, the Oversight Board resolved to cancel the registration of two audit entities due to non-compliance of their legal status with the requirements set out in Article 5 of the Law.</p> <p>Additionally, following the administration of the Register, the Inspection adopted the following decisions:</p> <ul style="list-style-type: none"> to cancel the registration of two auditors pursuant to paragraph 5 of part one of Article 22¹ of the Law; to determine that one audit entity does not meet the requirements of the Law applicable to audit entities authorised to carry out statutory audits of financial statements, including those of public interest entities, due to non-compliance with the requirement under paragraph 4 of part one of Article 23 of the Law regarding the sufficiency of appropriately qualified personnel to perform statutory audit engagements. As a consequence, the registry information relating to the audit entity was removed from the relevant sections of the Register.
12.4.	monitoring the completeness, accuracy, and timeliness of the information about auditors and audit entities to be included in the Register;	Constantly	<p>Based on the results of the monitoring of the completeness, accuracy, and timeliness of the submission of information concerning the auditor and the audit entity to be included in the Register, discrepancies were identified between the information submitted by auditors and that submitted by audit entities, particularly with regard to the classification and commencement date of employment relationships.</p> <p>Instances were also identified in which audit entities failed to submit timely updates to the register information, including, inter alia, in respect of the expiry of professional indemnity insurance contracts for civil liability to third parties, and compliance with the requirements of paragraph 4, part one of Article 23 of the Law in relation to the adequacy of personnel within the audit entity to deliver statutory audit services.</p> <p>Furthermore, breaches of Article 5 of the Law were identified, specifically regarding the prohibition on the head of an audit firm being concurrently employed by another audit firm, unless such firms are founded or co-founded by the individual concerned.</p>
12.5.	taking measures to address violations of the Law regarding the completeness, accuracy, and timeliness of the information submitted about auditors or audit entities for inclusion in the Register.	Constantly	<p>Explanatory work was carried out with auditors and representatives of audit entities to ensure their compliance with the requirements of the Law regarding the completeness, accuracy, and timeliness of submitting information to the Register. This was done through posting informational messages on the official APOB website, as well as through correspondence and direct communication.</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
12.5.			<p>In connection with the identification of facts that may indicate violations of the requirements of the Law regarding the completeness and timeliness of submitting information about auditors and audit entities to be included in the Register, the Inspection sent approximately 60 letters to auditors and audit entities demanding the urgent elimination of such violations and requesting explanations regarding the reasons for these violations. Additionally, an order was issued to an auditor to address and rectify the identified violations of the Law.</p> <p>Following the monitoring of the Register's data, 40 audit entities were notified that their certificates of conformity for the audit services quality control system, issued by the Audit Chamber of Ukraine, would expire on 31 December 2023, as per the requirements of paragraph 22 of Section X 'Final and Transitional Provisions' of the Law.</p>
13.	Ensuring oversight of the continuous professional training of auditors, including:		
13.1.	automating the process for auditors to report on the completion of continuous professional training through the functionality of the 'Auditor and Audit Entity Cabinet' electronic system;	Third quarter 2023	<p>The development and implementation of the functionality of the "Auditor and Audit Entity Cabinet" have been ensured to facilitate:</p> <ul style="list-style-type: none"> submission by auditors of information on completing continuous professional training through the electronic cabinet, with automatic entry of this information into the Register; submission of information on educational events by individuals included in the list of authorised bodies to conduct such events, with automatic inclusion of this information into the records of auditors who participated in these events; submission of information on specific types of short-term events by their organisers, with automatic inclusion of this information into the records of auditors who participated in these events; informal correspondence between individuals authorised to conduct educational events, organisers of specific types of short-term events, and the Inspection.

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Ensuring the exercise of powers in the field of regulation of audit activities			
13.2.	preparation of proposals to simplification of the procedure the process of generating information on auditors' continuous professional training;	Second quarter 2023	Proposals have been prepared to simplify the process of compiling information on auditors' completion of continuous professional training. In particular, this includes generating relevant records based on data submitted by educational centres. These proposals have been taken into account in the development of draft amendments to the Procedure for Continuous Professional Training of Auditors, as well as the procedure and format for auditors to submit information on their continuous professional training.
13.3.	monitoring the timely submission of information on continuous professional training	Constantly	As of 31 December 2023, following the previous monitoring, 1,828 auditors had submitted the reporting information on the completion of continuous professional education, representing nearly 65% of the total number of auditors registered in the Register. In the period following the reporting date, an additional 191 auditors submitted the reporting information.
13.4.	taking measures to address violations of the requirements of the Law regarding auditors' completion of continuous professional training.	Constantly	The powers of the Inspection to verify information on auditors' continuous professional training and take action based on the results are outlined in the Procedure for Continuous Professional Training of Auditors. The relevant amendments came into force on 19 October 2023. However, in accordance with paragraph 19 of Section X 'Final and Transitional Provisions' of the Law, for the duration of martial law, as well as for six months after its termination or cancellation, auditors are not held liable for violations of the Law regarding continuous professional training. This provision prevents the initiation of disciplinary actions under the Law and the Procedure. At the same time, within the framework of public events and individual consultations, active explanatory work is being carried out regarding the need for auditors to report on their continuous professional training.
14.	Oversight of the implementation of international auditing standards, including ensuring funding for their translation into the state language, as well as review and editing.	Throughout the year	Translations of the following International Standards on Auditing have been completed: 2020 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements Volume I, II and III; 2021 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements Volume I, II and III; International Standard on Auditing 600 (Revised) Special considerations—audits of group financial statements (including the work of component auditors); 2022 Handbook of the International Code of Ethics for Professional Accountants Including International Independence Standards.

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
15.	Methodological support for the professional qualification of auditors, including:		
15.1.	organization of, if possible, two qualification exams;	II-IV quarters 2023	In accordance with the Temporary Procedure for the qualification exam, two qualification exams were conducted in 2023, held on 21 July and 3 November simultaneously in two cities, Kyiv and Lviv. A total of 181 candidates for auditors took these exams in 2023. Of these, 56 candidates successfully passed, representing nearly 31% of all participants.
15.2.	organising the exam of International Financial Reporting Standards;	Third quarter 2023	On 22 September 2023, the "International Financial Reporting Standards" exam took place, with a total of 21 participants. This exam serves not only as a stage in the attestation of auditors but also as a means of demonstrating a high level of expertise in International Financial Reporting Standards under a globally recognised programme. As a result, the exam was taken not only by auditor candidates but also by practising accountants and auditors. Nine participants successfully passed the exam, accounting for nearly 43% of the total number of participants.
15.3.	holding (organising), if possible, two events to discuss current issues related to the attestation of auditors, the acquisition of practical auditing experience by auditor candidates, and the continuous professional training of auditors;	Throughout the year	<p>A round table discussion titled "The International Dimension of Auditor Certification" was organised and held in collaboration with the Association of Chartered Certified Accountants (ACCA) on 17 May 2023. The event aimed to review the development of the auditor attestation process in Ukraine, examine its features in the context of international recognition, and outline future directions for the development of the auditing profession.</p> <p>The Attestation Commission, in collaboration with the Association of Chartered Certified Accountants (ACCA), organised a round table discussion titled "Improvement of the Auditor Attestation and Continuous Professional Training System," which took place on 15 November 2023. The event aimed to highlight recent legislative innovations and discuss current issues related to auditor attestation and their continuous professional training.</p>
15.4.	implementation of the concept for harmonising the processes of auditor attestation and higher education attainment;	Throughout the year	<p>A series of thematic discussions were organised and held with representatives of educational institutions and audit entities to review the draft Concept for Harmonising the Processes of Auditor Attestation and Obtaining Higher Education.</p> <p>In collaboration with the State University of Trade and Economics, a round table discussion titled "Harmonisation of the Processes of Auditor Attestation and Obtaining Higher Education" was organised and held on 18 April 2023. The event aimed to discuss the Concept, its implementation prospects, and its potential impact on the development of the profession.</p>

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Ensuring the exercise of powers in the field of regulation of audit activities			
15.4.			<p>The Concept was approved by the Oversight Board's decision No. 6/5/59, dated 26 April 2023. Consultations were held at Odesa National Economic University to enhance the educational process and organise efforts for the development of professional standards.</p>
15.5.	organising the development of professional standards for Auditors and Auditor's Assistants	Throughout the year	<p>The Oversight Board, in cooperation with the Ministry of Finance of Ukraine, has established the Sectoral Council for the Development of Professional Standards in the Field of Accounting and Auditing.</p> <p>By order of the Ministry of Finance of Ukraine, the Regulation on the Sectoral Council and its membership have been approved.</p> <p>The Oversight Board has decided to establish working groups for the development of professional standards for Auditor, Assistant (Junior) Auditor, Chief Accountant of a Public Interest Entity, Inspector for Quality Control of Audit Services, and Key Partner (Engagement Partner).</p> <p>During the fourth quarter of 2023, the Inspection formed and approved the composition of these working groups, facilitated their meetings, and ensured the smooth organisation of their activities.</p> <p>As part of the working groups' efforts:</p> <ul style="list-style-type: none"> - Relevant information was collected and summarised; - A list of occupational functions and related tasks was developed and approved for the professional standards of Auditor, Assistant (Junior) Auditor, Inspector for Quality Control of Audit Services, and Key Partner (Engagement Partner); - A survey was launched among professionals in the respective fields to assess the significance of each occupational function.

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
16.	Ensuring European integration and international cooperation within the powers of APOB, including:		
16.1.	developing proposals to facilitate the integration of APOB into the public oversight system for audit activities of the European Union (EU), supporting the implementation of EU legislation on statutory audit into national law, and creating conditions for the establishment of a unified audit services market between Ukraine and the EU;	Throughout the year	To facilitate the integration of APOB into the EU public oversight system for audit activities, throughout 2023, APOB held meetings with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) to obtain observer status within CEOAB, as well as with representatives of other international institutions, including the European Financial Reporting Advisory Group (EFRAG) and the Institute of Chartered Accountants in England and Wales (ICAEW), among others.
16.2.	establishing bilateral cooperation with the Committee of European Auditing Oversight Bodies and the auditing public oversight bodies of EU countries, as well as the auditing public oversight bodies of Eastern Partnership countries;	Constantly	<p>On 20 and 21 March 2023, during a CEOAB meeting, a decision was made to grant APOB observer status for participation in CEOAB plenary sessions. This status allows APOB to take part in discussions during plenary meetings.</p> <p>During the reporting period, APOB representatives attended CEOAB plenary sessions held in Brussels, Belgium, on 29–30 June 2023 and 23–24 November 2023.</p> <p>Participation in CEOAB plenary sessions provides APOB with the opportunity to gain international experience, establish bilateral cooperation with CEOAB, and engage with auditing public oversight bodies across EU member states.</p>
16.3.	initiating and overseeing the process of assessing the equivalence of Ukraine's public oversight, quality assurance, investigation, and sanction systems with the requirements of Articles 29, 30, and 32 of Directive 2006/43/EC of the European Parliament and Council of 17 May 2006 on statutory audits of annual and consolidated accounts;	Fourth quarter 2023	<p>Communication has been established, including a meeting held on 21 November 2023 in Brussels, Belgium, with representatives of the EU, specifically the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) of the European Commission. The discussion focused on the assessment of the equivalence of Ukraine's public oversight, quality assurance, investigation, and sanctioning systems with the requirements of Articles 29, 30, and 32 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual and consolidated financial statements, as well as their adequacy.</p> <p>As agreed during the meeting, the Inspection prepared and submitted information to DG FISMA to substantiate the economic feasibility of recognising Ukraine's public oversight system as equivalent and adequate..</p>

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№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
16.4.	organisation of the information exchange process and participation in the activities of IFIAR's working bodies;	Throughout the year	<p>To ensure continuous exchange of experience and the implementation of best practices in the national audit sector, APOB consistently participates in events organised by the International Forum of Independent Audit Regulators (IFIAR).</p> <p>Additionally, a separate meeting was held with IFIAR representatives to address the confidentiality of IFIAR members' information, with a proposal to discuss blocking access to such information and the eventual exclusion of russia from IFIAR membership.</p> <p>Additionally, the completion and submission of a questionnaire to IFIAR on providing assurance for sustainability reporting has been ensured.</p>
16.5.	hosting an event on the IFIAR platform regarding the role of audit regulators in ensuring compliance with sanctions legislation in the audit of financial statements;	Second quarter 2023	The relevant event was organised during the second quarter and held on 12 July 2023.
16.6.	strengthening cooperation with the Association of Chartered Certified Accountants (ACCA).	Throughout the year	<p>The procedure for the mutual recognition of the order and syllabuses of all nine theoretical examinations required for obtaining the ACCA qualification and auditor attestation in Ukraine has been completed.</p> <p>As part of public events addressing current issues related to auditor attestation and continuous professional training, the relevant decisions were presented, practical aspects of mutual exam recognition were discussed, and the benefits of bilateral cooperation for the auditing community were outlined.</p> <p>A series of bilateral meetings and consultations have been scheduled to explore further cooperation</p>
17.	Ensuring the reporting of audit entities, including:		and new opportunities.
17.1.	automating the reporting process for audit entities through the electronic cabinet (functionality of the "Auditor and Audit Entity Cabinet");	Third quarter 2023	<p>The process of submitting reporting information on services provided by entities through the Auditor and Audit Entity electronic cabinet has been implemented.</p> <p>Throughout 2023, reporting information on the services provided was submitted by 546 audit entities, which represents approximately 67.4% of their total number as of 1 January 2024.</p> <p>Ongoing work has been carried out to improve the reporting process for audit entities through the electronic cabinet, including the ability to export reports in Excel format and the compilation of a consolidated report on the services provided.</p>

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
17.2.	summarising and analysing the information submitted by audit entities to the APOB;	III-IV quarters 2023	Technical and advisory support was provided to audit entities in the preparation and submission of their reporting information on services rendered through the electronic cabinet. The reporting information on the services provided was analysed on a selective basis to identify any significant errors. As a result, audit entities were notified of the need to make corrections where necessary.
17.3.	preparing and publishing the annual report on the state of auditing activities in Ukraine.	Fourth quarter 2023	A Report on the State of Auditing Activities in Ukraine for the period from 1 January 2022 to 30 June 2023 was prepared and published.
18.	Ensuring the operation of the APOB information and analytical system to exercise its powers of public oversight over auditing activities, including:		
18.1.	developing an electronic communication system with auditors and audit entities via the electronic cabinet;	Throughout the year	The development of the electronic communication system with auditors and audit entities through the electronic cabinet has been ensured by creating additional functionalities such as "Official Correspondence", "Instructions", "Professional Responsibility", and "Registration Form of Auditor Information Published in the Register by 31 December 2022". Additionally, continuous training and enhancement of the electronic cabinet are being maintained.
18.2.	improving and expanding the functionality of the electronic system to support the auditor attestation process.	Throughout the year	The development of software for the integration module between the "Auditor and Audit Entity Cabinet" and the "Auditor Candidate Cabinet" subsystems of the APOB Information and Analytical System has also been ensured.
19.	The delegation of responsibilities for quality control of audit services provided by audit entities that have notified their intention to conduct mandatory audits of financial statements, or for overseeing the continuous professional training of auditors, including:		

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the exercise of powers in the field of regulation of audit activities			
19.1.	defining the procedure for delegating powers to the Audit Chamber of Ukraine and professional organisations of auditors and accountants, as well as overseeing the execution of these powers;	Second quarter 2023	The Inspection has developed, and the Oversight Board has approved the following decisions: - The procedure for delegating powers to the Audit Chamber of Ukraine and professional organisations of auditors and accountants; - The procedure for overseeing the execution of delegated powers by the Audit Chamber of Ukraine and professional organisations of auditors and accountants; - The format for the report on the execution of delegated powers.
19.2.	establishing requirements for professional organisations of auditors and accountants to which powers may be delegated for quality control of audit services provided by audit entities that have notified their intention to conduct mandatory audits of financial statements, or for overseeing the continuous professional training of auditors;	Second quarter 2023	The requirements for professional organisations of auditors and accountants to which powers can be delegated for overseeing the quality of audit services provided by audit entities that have declared their intention to carry out mandatory financial statement audits, or for overseeing the continuous professional training of auditors, are outlined in the Procedure for Delegating Powers to the Audit Chamber of Ukraine and professional organisations of auditors and accountants.
19.3.	making decisions regarding the delegation of specific powers to the Audit Chamber of Ukraine or professional organisations of auditors and accountants.	Throughout the year, in the event of receiving requests from the Audit Chamber of Ukraine or professional organisations of auditors and accountants	Following the consideration of the request from the Audit Chamber of Ukraine regarding its compliance with the conditions required to exercise delegated powers, and to delegate the authority to oversee the quality of audit services provided by audit entities that have declared their intention to conduct mandatory financial statement audits, as well as other checks prescribed by law, the Oversight Board, upon the recommendation of the Inspection, decided to delegate to the Audit Chamber of Ukraine the authority to oversee the quality of audit services provided by such audit entities, as well as the conduct of other audits stipulated by law.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the exercise of oversight over the implementation of delegated and other powers			
20.	The systematic review of the reporting information regarding the activities of the Inspection and providing recommendations for the improvement of its operations.	Constantly	Reports on the activities of the Inspection for the first quarter, first half, and the full year were prepared and submitted for review to the Oversight Board.
21.	Oversight the performance of delegated powers by the Audit Chamber of Ukraine and professional organisations of auditors and accountants, including:		Throughout 2023, the APOB received requests from five public organisations to include their information in the Register as professional organisations for auditors and accountants. Following the Inspection's verification of the submitted information from these public organisations to ensure compliance with the requirements set by the Law for professional organisations of auditors and accountants, the following organisations were added to the Register: - the All-Ukrainian Professional Public Organisation "Union of Auditors of Ukraine" - the Public Organisation "Federation of Professional Accountants and Auditors of Ukraine" - the Public Organisation "Professional Organisation of Auditors, Accountants, and Teachers of OKD" as professional organisations of auditors and accountants.
21.1.	the systematic review of the reporting information submitted by the Audit Chamber of Ukraine and professional organisations of auditors and accountants regarding the execution of delegated powers, initiating reviews to assess the fulfilment of these powers, conducting such reviews, and offering recommendations for rectifying identified shortcomings or withdrawing the delegated powers;	Constantly	The Oversight Board, in its decision (protocol dated 10 March 2023, No. 3/57), took note of the Report from the Audit Chamber of Ukraine regarding the performance of delegated powers for the year 2022. In accordance with the requirements of the Procedure for Oversight of the Audit Chamber of Ukraine and professional organisations of auditors and accountants, the Audit Chamber of Ukraine submitted reports on the execution of delegated powers, including an interim report for the first half of 2023 and a report for the first nine months of 2023.
21.2.	the participation of members of the Oversight Board in the management activities of the Audit Chamber of Ukraine and professional organisations of auditors and accountants within the scope of this oversight	Constantly	As part of the oversight of the Audit Chamber of Ukraine's performance of its delegated powers, members of the Oversight Board participated in 11 meetings of the Audit Chamber's Council. The members of the Oversight Board also took part as observers in the work of the highest governing body of the Audit Chamber of Ukraine – the Congress of Auditors of Ukraine, which took place on 24 June 2023. This was in accordance with the requirements of the Procedure for convening and holding the Congress of Auditors of Ukraine remotely, using an electronic voting system.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the exercise of oversight over the implementation of delegated and other powers			
21.3.	reviewing the decisions made by the Audit Chamber of Ukraine and professional organisations of auditors and accountants within the scope of their delegated powers, and the annulment, either wholly or partially, of any unlawful decisions made by the Audit Chamber of Ukraine and the professional organisations of auditors	Constantly	No review of decisions made by the Audit Chamber of Ukraine and professional organizations of auditors and accountants was conducted.
21.4.	approval of the schedule for reviews by the Audit Chamber of Ukraine and professional organisations of auditors and accountants for quality control in 2024;	Fourth quarter 2023	The draft Plan-Schedule for conducting quality control reviews of auditing services and other reviews for 2024, developed by the Quality Control Committee of the Audit Chamber of Ukraine, was approved at the Oversight Board meeting on 28 November 2023 (protocol of the Oversight Board meeting, 28 November 2023, No. 10/64).
21.5.	approval of the Audit Chamber of Ukraine's budget for 2024, specifically for the funding of delegated powers.	Fourth quarter 2023	By a decision recorded in the protocol of the Oversight Board meeting (protocol No. 10/64, 28 November 2023), the draft budget of the Audit Chamber of Ukraine for 2024 was approved, specifically regarding the funding of delegated responsibilities.
22.	Oversight of the commission's implementation of its powers as defined by law, including:		
22.1.	regular review of the commission's activity reports;	Constantly	Reports on the activities of the Attestation Commission for the first quarter, the first half of the year, nine months, and the full year were prepared and presented for review by the Oversight Board.
22.2.	consideration of applications (complaints) regarding unlawful decisions made by the commission and the subsequent review of those decisions.	Constantly	Two appeals were received regarding the assessment outcomes of the qualification exam. Following consideration, the Oversight Board decided to refrain from addressing the appeal on its merits due to the lack of authority to review the qualification exam's assessment.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the exercise of oversight over the implementation of delegated and other powers			
23.	Oversight of the fulfilment of the obligations set out in the Law by public interest entities concerning the functioning of audit committees, including:		
23.1.	monitoring information about the audit committees established by public interest entities, or the appointed bodies (departments) entrusted with these functions;	Constantly	<p>The exercise of powers to hold entities administratively accountable for failing to establish an audit committee or assign the relevant functions to a body (department), in cases specified by law, will be carried out by APOB once the necessary amendments are made to the Code of Ukraine on Administrative Offences.</p> <p>The exercise of powers related to the imposition of administrative responsibility for the failure to establish an audit committee or assign the relevant functions to the body (unit) in cases specified by law will be ensured by the APOB after the necessary amendments are made to the Code of Ukraine on Administrative Offences.</p>
23.2.	providing recommendations to public interest entities regarding the establishment and functioning of audit committees or the appointed bodies (departments), in accordance with the requirements of the Law.	Constantly	Requests concerning the functioning of audit committees or appointed bodies (departments) entrusted with the relevant functions, in accordance with the requirements of the Law, are reviewed by APOB as they are received.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the operation of the Inspection			
24.1.	Improvement of the management system and staffing of APOB, including:		
24.2.	ensuring the implementation of proposals based on the results of the internal assessment of corruption risks in APOB's activities;	I-II quarters 2023	<p>To ensure the implementation of recommendations resulting from the internal assessment of corruption risks in the activities of APOB, the following orders were approved: "On measures to prevent corruption in the activities of APOB" "On ensuring the functioning of internal channels for reporting possible cases of corruption or corruption-related offences, and other violations of the Law of Ukraine 'On Prevention of Corruption,'" "On the Commission for Valuation Matters, Resolution of Issues Regarding the Use, Location, and Storage Period of Gifts," and "On Certain Issues Related to the Submission of Declarations by Persons Authorised to Perform State or Local Government Functions."</p> <p>On 26 July 2023, employees of the Inspection participated in a short one-day seminar on the topic: "Practical Aspects of Preventing Corruption in the Activities of Inspection Staff Ensuring the Quality of the Audit Public Oversight Body: Financial Control, Conflicts of Interest, and Other Anti-Corruption Requirements and Restrictions."</p> <p>In accordance with the Corruption Risk Assessment Plan for APOB dated 2 October 2023, the Corruption Risk Assessment Commission conducted an internal evaluation of the corruption risks in the activities of APOB for 2023. The report on the results of the corruption risk assessment for 2023 was reviewed at the meeting of the Corruption Risk Assessment Commission (protocol of the meeting dated 17 November 2023, No. 1/3) and at the meeting of the Oversight Body on 28 November 2023 (protocol of the meeting dated 28 November 2023, No. 10/64).</p>
24.3.	the implementation in APOB of best international practices in the organisation and operations of public oversight bodies for auditing activities:	Constantly	Incorporating best practices for organising quality control systems in auditing services, the report on the results of quality control reviews has been enhanced. Additionally, a new comprehensive information questionnaire for audit entities has been developed, based on the requirements of international quality management standards.

APPENDIX 1. REPORT ON THE IMPLEMENTATION OF THE ACTIVITY PROGRAM OF THE AUDIT PUBLIC OVERSIGHT BODY FOR 2023

№	Tasks	Deadline	Result
Ensuring the operation of the Inspection			
24.4.	Ensuring the continuous professional training of the Inspection staff.	Constantly	<p>The staff of the Inspection participated in the event "Open Data Intensive for Information Holders," organised by the Ministry of Digital Transformation of Ukraine on 13th and 14th June 2023.</p> <p>On 27th June 2023, the inspectors of the Inspection took part in a training session for members of the CEAOB on the application of ISA 315 (revised in 2019).</p> <p>On 12th July 2023, the inspectors of the Inspection participated in a webinar on sanctions restrictions, their impact on audit activities, and the conduct of inspection reviews. The webinar was conducted by the APOB in collaboration with IFIAR for inspectors of IFIAR member organisations.</p> <p>In addition, throughout the year, the inspectors of the Inspection participated in various educational and short-term continuous professional training activities for auditors.</p> <p>The Inspection organised and held a joint event for the professional development of inspectors of the Inspection and the committee for quality control of audit services of the Audit Chamber of Ukraine, which took place from 17th to 21st July 2023. The event focused on the practical issues of conducting quality control audits in the context of recent legislative changes, international audit standards, and international financial reporting standards.</p> <p>From August to October 2023, the staff of the Inspection completed a course on "Developing Professional Standards," delivered by the National Agency for Qualifications, aimed at providing participants with fundamental knowledge and skills regarding methodological approaches to developing professional standards.</p>

General Information on Conducted Reviews and Their Results

❖ The quality control of audit services provided by audit entities authorised to conduct statutory audits of the financial statements of public interest entities is carried out by the Inspection. This process includes testing internal procedures, reviewing working papers, audit reports and other reports, audit service agreements, as well as internal regulatory documents of the audit entity that define the policies and procedures to be applied in the provision of audit services and covers the following:

- compliance with applicable International Standards on Auditing (ISA), independence requirements, and other legal provisions, including the accuracy of information submitted for inclusion in the Register;
 - the adequacy and quality of resources used, including compliance with requirements for auditors' continuous professional training;
 - compliance with the requirements regarding remuneration for audit services, where such requirements are established;
 - the effectiveness of the audit entity's internal quality control system (quality management system);
 - the accuracy of information in the transparency report, where its publication is required by law.
- ❖ According to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine," public interest entities are enterprises that are issuers of securities admitted to trading on stock exchanges or whose securities have

been publicly offered, as well as banks, insurers, non-state pension funds, and other financial institutions (excluding financial institutions and non-state pension funds classified as micro or small enterprises), along with enterprises classified as large.

❖ From 1 January 2023, the requirements of the Law regarding the organisation, conduct of audits, and provision of other audit and non-audit services, which apply to public interest entities, have also been extended to political parties receiving state budget funding, state-owned enterprises (except those meeting the criteria for small enterprises and micro-enterprises), the National Bank of Ukraine, banking groups, and non-banking financial groups.

❖ Quality control reviews of audit services (hereinafter referred to as "reviews") are conducted by the Inspection's Quality Control Department in accordance with the review schedule and in compliance with the Law, the Procedure for Conducting Quality Control Reviews of Audit Services and Other Reviews, as approved by Order No. 253 of the Ministry of Finance of Ukraine dated 17 May 2023 (hereinafter referred to as "the Procedure"), and the Recommendations for Conducting Quality Control Reviews of Audit Services and Other Reviews, as approved by the decision of the Oversight Board of the Audit Public Oversight Body on 27 October 2023, No. 3/9/63 (hereinafter referred to as "the Recommendations").

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

- ❖ The Procedure sets out the mechanism for organising, conducting, and documenting the results of quality control reviews of audit services and other reviews.
- ❖ The Recommendations define:
 - methods and approaches for planning and organising quality control reviews and other reviews, including the application of a risk-based approach when drafting annual schedules for such reviews;
 - conducting procedures for quality control reviews and other reviews;
 - evaluation criteria and materiality thresholds for violations;
 - procedure for documentation and reporting on the results of quality control and other reviews;
 - monitoring the implementation of mandatory recommendations issued to audit entities and assessing their outcomes;
 - the mechanism and approaches for organising, collecting, and exchanging information on quality control reviews and other reviews, as well as their results, between the Quality Control Committee of the APU / the Quality Control Committee of professional organisations and the Inspection.
- ❖ The 2023 review schedule, approved by the Order of the Audit Public Oversight Body on 1 December 2022, No. 42 (as amended by the Order of the Audit Public Oversight Body on 4 April 2023, No. 5), provided for reviews of 25 audit entities authorised to conduct statutory audits of financial statements for public interest entities.
- ❖ In accordance with the approved review schedule, the Inspection carried out reviews, which resulted in the following outcomes:
 - 13 audit entities were deemed to have passed the quality control review of audit services, subject to mandatory recommendations for implementation;
 - 2 audit entities lost their right to conduct statutory audits of public interest entities before the commencement of the review at their registered office;
 - the results of reviews for 2 audit entities were under review and subject to agreement;
 - for one audit entity, a report was issued stating the inability to conduct the review;
 - reviews for 2 audit entities commenced in 2022 and continued into 2023;
 - 5 audit entities declined to undergo review, citing the provisions of the Law of Ukraine "On Amendments to the Law of Ukraine 'On Audit of Financial Statements and Auditing Activities'" (No. 2285-IX, dated 31 May 2022). This law stipulates that during the period of martial law, as well as for six months following its cessation or repeal, reviews may only be conducted with the consent of the audit entity.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

- ❖ Additionally, in 2023, reviews of five audit entities included in the previous year's reports schedule were completed, reports on the results of these reviews were still in the process of finalisation as of 1 January 2023.
- ❖ Table 1 presents the results of reviews activities conducted in 2023.

Table 1: Summary of Reviews Activities in 2023

REVIEWS RESULTS	2023		2022	
	Number of Audit Entities	%	Number of Audit Entities	%
Mandatory Recommendations to be Implemented	18	60,0%	10	35,7%
Consent to Conduct the Review Not Provided	5	16,7%	10	35,7%
Review Results Under Reconciliation	2	6,7%	5	17,9%
Review Not Completed Due to the Audit Entity Losing the Right to Conduct Statutory Audit of Public-Interest Entities	2	6,7%	2	7,1%
Review Commenced in the Current Year and Continued into the Following Year	2	6,7%	1	3,6%
Inability to Conduct the Review	1	3,3%	-	-
Total	30	100%	28	100%

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

❖ Figure 1 presents the results of review activities in 2023 compared to the previous year, 2022.

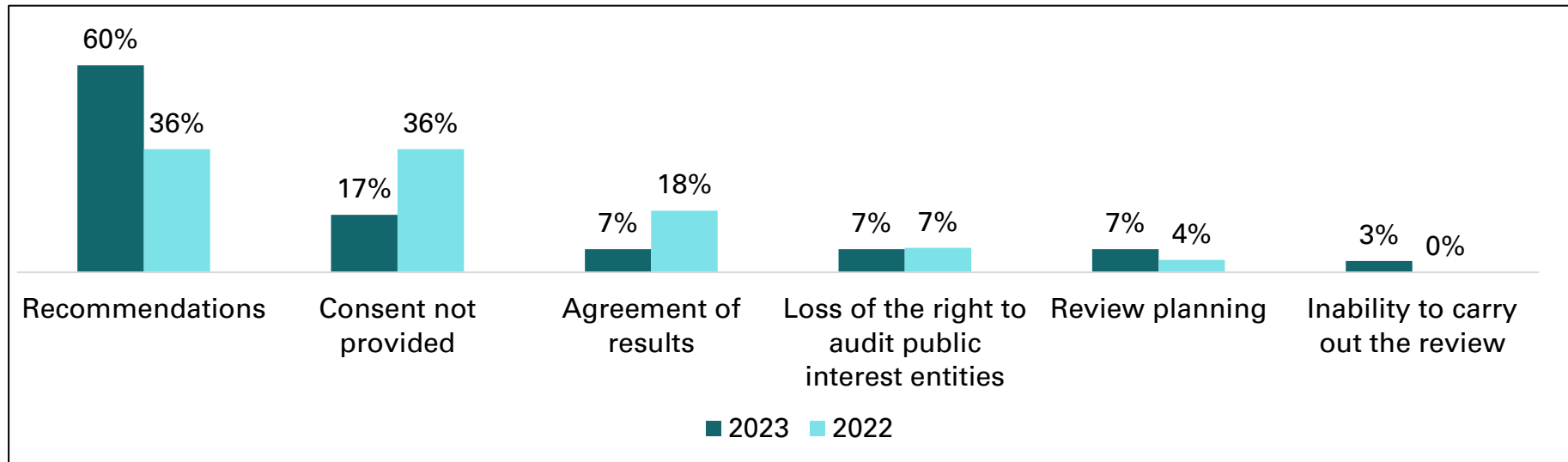


Figure 1. Results of Review Activities

❖ The share of the audit entities referred to in Table 1 in the total value of mandatory statutory audit services provided for the most recent reporting period to the APOB, from 1 January 2022 to 30 June 2023, amounted to 33.5% (UAH 660.9 million). At the same time, the share of such audit entities in the total number of mandatory statutory audit engagements performed during the same period was 18.4% (1,726 engagements).

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

❖ Figure 2 illustrates the distribution of the share of these audit entities in the total volume of statutory audit services, based on the outcomes of the quality assurance reviews.

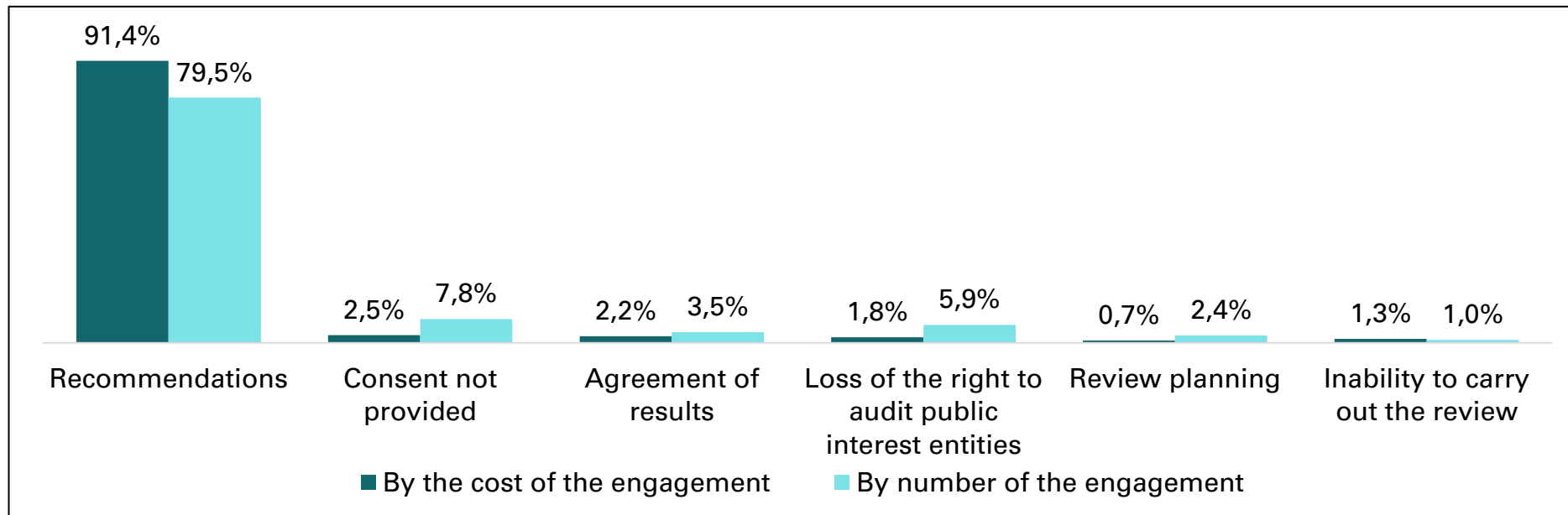


Figure 2. Distribution of audit entities based on their share of the total volume of statutory financial statement audit services.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

❖ Compared to 2022, the average duration of on-site reviews did not change significantly and remained at 13 working days (2022: 12 working days).

❖ The number of audit engagements selected for review also remained unchanged, averaging 3 engagements (2022: 3 engagements).

❖ A total of 60 statutory financial audit engagements were reviewed, with audit reports signed by 55 key partners (2022: 51 engagements and 45 key audit partners).

❖ In some cases, specific aspects of the completed financial audit engagements were additionally selected for review.

❖ Engagements for review were selected by the Inspection using a risk-based approach.

❖ Table 2 and Figure 3 provide detailed information about the audit entity reviews and their summarised results.

Table 2. Details of the Reviews

REVIEWS RESULTS	2023		2022	
	Number of Audit Entities	%	Number of Audit Entities	%
The number of audit entities for which decisions have been made regarding the results of the review, as included in the review schedule:	18	–	13	–
- this year;	13	72%	11	85%
- the previous year.	5	18%	2	15%
The number of key audit partners for the audit entities during the period under review.	128	–	86	–
The number of key audit partners for the audit engagements selected for review.	55	43%	45	52%
The number of financial statement audit engagements reviewed, including:	60	–	51	–
based on the conceptual framework for the preparation of financial statements:				
- IFRS;	50	83%	40	78%
- National Accounting Standards (NAS);	9	15%	10	20%
others;	1	2%	1	2%
by the status of the audit entity::				
- Public Interest Entities (PIEs);	40	67%	35	69%
- Others.	20	33%	16	31%

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

- ❖ Summarised information on deficiencies in the activities of the audit entities will be included in this report for the period in which the decision on the audit results is made, or if, by 31 December, the on-site audit has been completed and the audited entities have signed a protocol approving the draft report.
- ❖ A deficiency is defined as a violation of specific requirements of the International Standards on Auditing (ISA) or the law. The significance of the deficiency refers to its relative importance in a particular context, which is determined by both quantitative and qualitative factors, such as the materiality and nature of the violation of the ISA and/or the law that the audited entity committed during the development, implementation, or use of the quality control system (quality management system), performance of the task, the sufficiency and/or acceptability of audit evidence, the degree of non-compliance with ISA and/or legal requirements, and the impact on the adherence to measurement or evaluation requirements of the subject matter of the assurance engagement according to established criteria (including in the International Financial Reporting Standards (IFRS), national regulations (standards) of financial reporting (NFRS), etc.). The presence of a significant deficiency in the performance of the task does not necessarily indicate that the audit report does not align with the circumstances.

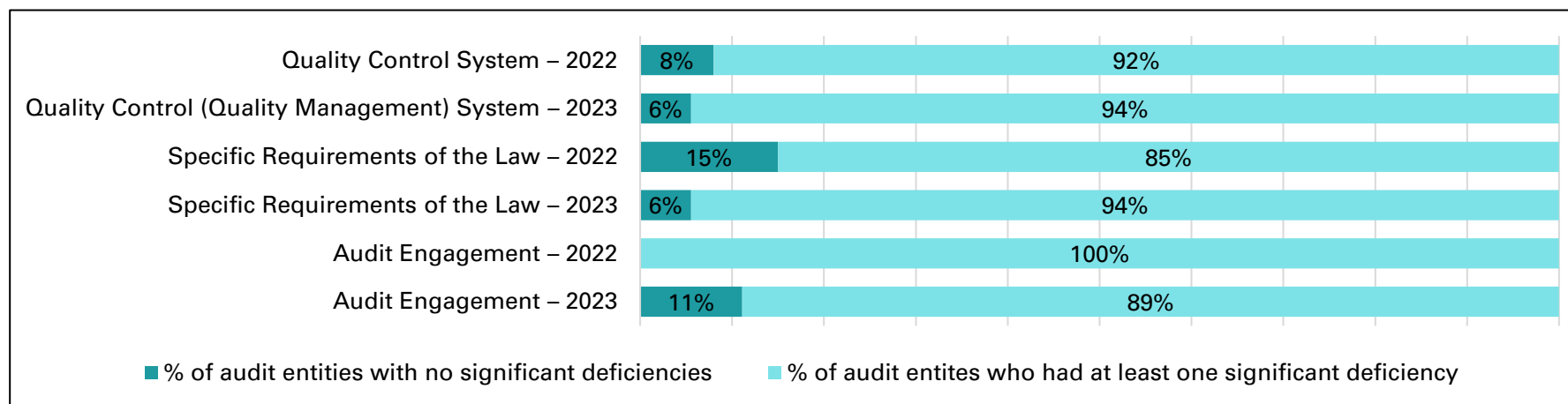


Figure 3. Distribution of audit entities by areas of identified significant deficiencies.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

❖ The proportion of audit entities that have implemented specialised software for the organisation, supervision, and documentation of audits has continued to gradually increase year on year, reaching 56% in 2023 of all audit entities for which decisions on the results of the review were made during the year (compared to 54% in 2022 and 33% in 2021). However, the use of computerised audit techniques, such as accounting data analysis, data visualisation, and business process analysis, remains at a low level, accounting for approximately 17% (2021: 14%).

❖ The devastating impact of the war in Ukraine on the economic activities of audit entities shaped the focus of the reviews of statutory audit engagements conducted in 2023:

1. in the course of quality control of engagements relating to the 2021 financial statements, increased attention was given to auditors' compliance with ISA 570 "Going Concern" and ISA 560 "Subsequent Events," including an assessment of the adequacy of disclosures in the notes to the financial statements.;

2. for the 2022 financial statements, we continued to focus on auditors' compliance with ISA 570, while also placing particular emphasis on the audit procedures performed in accordance with ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" and ISA 540 (Revised) "Auditing Accounting Estimates and Related Disclosures" in relation to accounting estimates that were subject to heightened estimation uncertainty due to the impact of the war, specifically:

- expected credit losses;
- impairment of non-financial assets;
- fair value of property, plant and equipment;
- net realisable value of inventories.

Deficiencies in the quality control system (quality management system)

❖ As of 15 December 2022, International Standard on Quality Management 1 (ISQM 1) – "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" – came into effect. This standard has significantly altered the approach to the development and implementation of audit entities' quality control systems, which have now evolved into quality management systems. The introduction of this fundamentally new standard, amidst the ongoing martial law and a lack of sufficient Ukrainian-language methodological materials, has posed a serious challenge for the audit community. These circumstances have led to certain shortcomings, which the Inspection has highlighted to the audit entities as part of its review findings. However, most of the identified deficiencies remain consistent with those observed in previous years. We hope that the summarised review results and the recommendations provided will contribute to the improvement of the quality management systems within all audit firms.

❖ According to the Recommendations, a deficiency in the internal quality control system (quality management system) refers to the inefficacy of policies and/or procedures implemented by the audit entity concerning a

component of the quality control system (quality management system). As a result, this leads to a failure in the timely prevention of deficiencies, or the identification and rectification of deficiencies, or the absence of the necessary policies and/or procedures required to prevent or detect and correct deficiencies in a timely manner. If a specific deficiency in the execution of an engagement is found in three or more inspected engagements or specific elements of their execution, such a deficiency is considered systemic and will additionally be regarded as a deficiency in the internal quality control system (quality management system).

❖ Figures 4 and 5 illustrate the distribution of significant deficiencies across the individual components of the quality control system, based on their relative weight and the frequency of their occurrence in audit entities. This year, the largest proportion of deficiencies were related to human and intellectual resources, as well as the execution of engagements. However, the percentage of deficiencies concerning the "Monitoring and Correction" component decreased from 31% in 2022 to 19%, primarily due to audit entities that had previously undergone review by the Inspection and, following the results of those reviews, implemented measures to improve their monitoring and correction processes.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

❖ The most common deficiencies in the functioning of the internal quality control system (quality management system) are primarily related to:

- delays in the timely archiving or finalisation of the audit file;
- lack of an appropriate assessment of how audit quality impacts partner remuneration, as well as the remuneration and promotion of other staff;
- failure to identify deficiencies in audit performance during monitoring activities and to respond appropriately to potential systemic weaknesses in engagement execution;
- failure to effectively monitor the personal independence of the firm's personnel and its partners;
- inadequate design, performance, and documentation of monitoring procedures, including the determination of a scope that provides reasonable assurance that the objectives of the quality management system are being met;
- shortcomings in the process of firm's staff training and development;
- lack of appropriate audit methodology and guidance (e.g., assessment of risks of material misstatement, substantive analytical procedures, audit sampling, testing of controls, auditing accounting estimates, etc.);
- inadequate management attitude towards the importance of addressing identified deficiencies;
- insufficient consideration of applicable requirements for the rotation of key audit partners;
- absence of adequate policies and procedures for engagement quality reviews to ensure an objective evaluation of the key judgements made by the engagement team and the conclusions reached.



APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

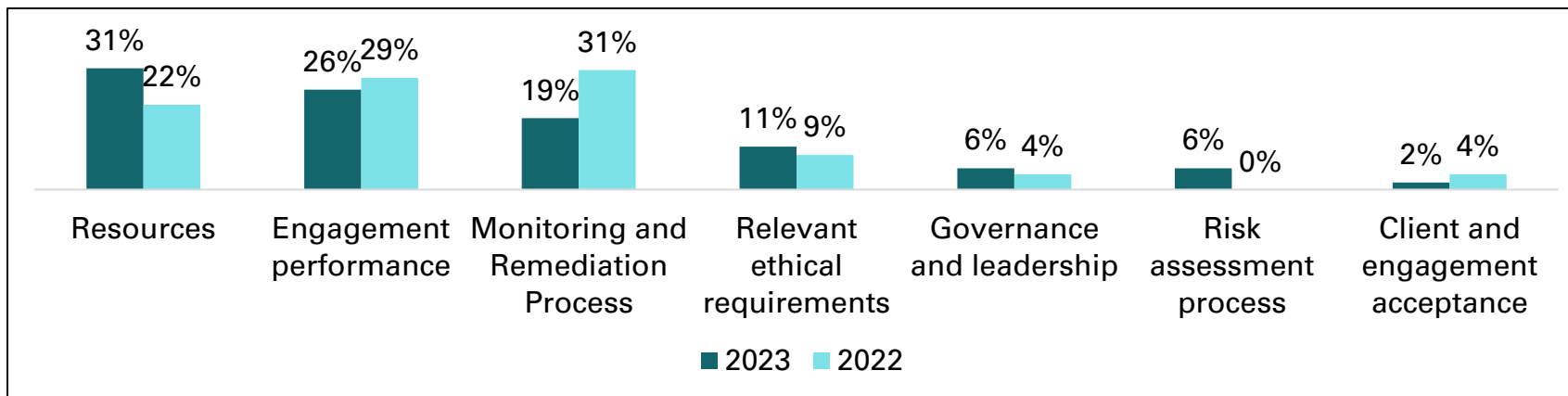


Figure 4. Structure of deficiencies by components of the quality management system

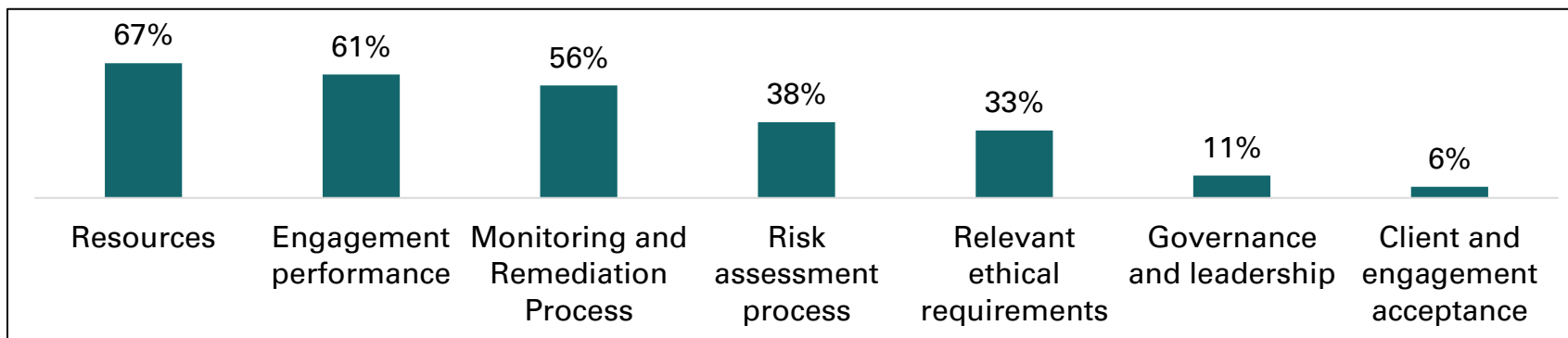


Figure 5. Frequency of deficiencies identified in 2023 within audit entities, categorised by components of the quality management system

❖ The most common deficiencies, along with recommendations for their resolution, are discussed below.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

The untimely archiving/finalisation of the audit file.

❖ Most audit entities did not consistently ensure the completion and archiving of final audit files for financial statement audits within 60 days of signing the audit report. In some cases, audit entities were unable to demonstrate the timely finalisation of audit documentation, failed to give sufficient attention to the security of storage, completeness, integrity, and recoverability of audit files, and lacked proper controls over amendments to the documentation.

Recommendations:

❖ The audit entity must prepare audit documentation in a timely manner. The auditor's working papers should be finalised and archived no later than 60 days after the audit report is signed.

❖ The audit entity should establish policies, procedures, and control measures to ensure compliance with the completion of the final audit file. These should include:

- the removal or deletion of superseded documentation;
- the sorting, organisation of working papers and the inclusion of cross-references;
- the approval of completion checklists related to the process of finalising the audit file;
- the documentation of audit evidence obtained, assessed, and agreed

upon by the audit entity in collaboration with the relevant engagement team members before the auditor's report date.

❖ The audit entity must establish policies and procedures that ensure the confidentiality, secure storage, integrity, accessibility, and recoverability of engagement documentation. Regardless of the medium used to store the documentation (paper, electronic, or otherwise), the integrity, accessibility, or recovery of the data could be compromised if changes can be made to the documentation, or information can be added or deleted, without the knowledge of the audit entity, or if the documentation itself is lost or destroyed. Accordingly, the controls that the audit entity should develop and implement to prevent unauthorized changes to, or loss of, engagement documentation should include measures that:

- enable the identification of when and by whom the engagement documentation was created, modified, or reviewed;
- protect the integrity of the information at all stages of the engagement process and throughout the entire retention period;
- prevent unauthorized changes to the engagement documentation; and
- ensure that access to the documentation by unauthorised parties is prevented.

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Lack of an appropriate assessment of how audit quality impacts partner remuneration, as well as the remuneration and promotion of other staff.

❖ The majority of audit entities have not established a clear, transparent, and understandable link between the evaluation of the work of partners and other personnel and their remuneration. Such a system would be aimed at fostering and enhancing an internal culture where quality is prioritised as the most important factor in carrying out engagements.

❖ In certain cases, the policies and procedures implemented by audit entities either did not cover the evaluation of the managers within the audit entities, who are also engagements partners, or the assessment of quality was not given adequate attention.

Recommendations:

❖ The audit entity should develop and implement procedures for evaluating performance, compensation, and career progression for all levels of staff involved in providing audit services, including engagement partners. Such procedures for periodic evaluation and remuneration should place significant emphasis on employees' commitment to quality.

❖ Performance evaluation, compensation, and career advancement

procedures should provide appropriate recognition and incentives for developing and maintaining competence and adherence to ethical principles. Steps that the audit entity may take to foster and uphold competence and ethical commitment include:

- informing staff about the audit entity's expectations regarding performance and ethical principles;
- providing staff with feedback on their performance, progress, and career development opportunities, along with relevant guidance;
- helping staff understand that promotion to positions of greater responsibility depends, among other factors, on the quality of their work and adherence to ethical principles, while failure to comply with the audit entity's policies and procedures may result in disciplinary action.

❖ Audit entities should focus on enhancing and strengthening the clear and transparent link between quality, the overall evaluation of the partner's performance, and the level of their remuneration.

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❖ A periodic (annual or semi-annual) evaluation of engagement partners and other personnel is not sufficiently differentiated to effectively incentivise audit quality. The link between audit quality and the evaluation and remuneration of partners should be strengthened to ensure appropriate behaviour and foster a quality-driven internal culture. Audit entities should establish a policy that connects quality ratings and the remuneration system to clear and measurable quality indicators, demonstrating the firm's commitment to high standards. In doing so, they should incorporate audit quality-related factors into the annual assessment of partners and senior team members, such as:

- results of internal and external quality control reviews;
- compliance with independence requirements;
- adherence to audit file archiving deadlines;
- instances of error corrections in financial statements previously audited by the audit entity;
- compliance with continuous professional training requirements;
- any other breaches of the audit entity's quality control policies and procedures.

❖ Audit entities should consider salary increases (beyond inflationary adjustments), bonuses, and promotions based on performance evaluation outcomes.

❖ Additionally, audit entities should communicate their evaluation policies and performance criteria transparently to all staff, fostering trust in the fairness of the assessment and reward process while reinforcing a focus on audit quality. Depending on the employee's level, evaluation criteria may include, among others, the achievement of professional qualification goals, adherence to continuous professional training programmes, results of internal and external quality control reviews, timely archiving of audit files, client feedback, and assessments of professional knowledge and soft skills by supervisors, subordinates, and self-evaluation.

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Failure to identify deficiencies in audit performance during monitoring activities and to respond appropriately to potential systemic weaknesses in engagement execution.

- ❖ Given the number of deficiencies identified in task execution at certain audit entities, the Inspection has concluded that the monitoring processes and/or quality reviews conducted before issuing the audit report for these audit entities cannot be considered effective.
- ❖ Moreover, some audit entities have not established clear criteria for measuring the effectiveness of monitoring outcomes and assessing the impact of deficiencies for each component of the quality management system and each audited audit engagement.

Recommendations:

- ❖ The audit entity should establish a monitoring process that provides sufficient assurance that its quality control system policies and procedures are appropriate, adequate, and operating effectively. This process should include continuous review and evaluation of the quality control system of

audit entity, including the periodic review of at least one completed engagement per engagement partner.

- ❖ Audit entities should continuously enhance their monitoring programme at both the firm and engagement levels to ensure sufficient detail, comprehensive coverage of all key areas of audit activity, and timely communication of any programme revisions to those responsible for monitoring.
- ❖ For the review of completed engagements should involve professionals with the necessary level of competence to ensure a high-quality review.
- ❖ It would be advisable for audit entities to establish clear and logical criteria for measuring monitoring outcomes and assessing the impact of deficiencies on each component of the quality control system. This should include criteria for evaluating the significance of individual deficiencies and their cumulative effect on financial statement misstatements, as well as determining the overall outcome of each completed audit engagement.

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Failure to effectively monitor the personal independence of the firm’s personnel and its partners.

❖ In some audit entities, the oversight of the annual confirmation process regarding employees’ compliance with independence policies and procedures has proven ineffective. In one instance, an audit entity belonging to an audit network failed to conduct a proper conflict-of-interest check with other network companies when accepting an engagement to audit the financial statements of a public interest entity.

Recommendations:

❖ The audit entity should obtain a written confirmation at least once a year from all personnel required to maintain independence in accordance with relevant ethical requirements and legal provisions, confirming their compliance with the entity’s independence policies and procedures. To ensure this, the audit entity should implement effective controls to verify the completeness and timeliness of these confirmations from all personnel.

❖ The audit entity must document its policies and procedures and ensure that all personnel are informed. Communication regarding quality control

policies should include a clear description of these policies and their intended objectives. Employees should also be made aware that they bear personal responsibility for maintaining audit quality and are expected to comply with these policies and procedures.

❖ Audit entities are required to take appropriate measures to maintain independence when providing audit services, as stipulated by International Standards on Auditing (ISA). This includes preventing actual or potential conflicts of interest and mitigating the influence of contractual or other relationships involving the audit entity, its network, owners, officers, employees, or other individuals engaged in audit services, as well as related parties.

❖ As part of its monitoring activities, the audit entity should ensure that the relevant policies and procedures for maintaining the firm's independence, including the annual confirmation by personnel, are effectively implemented in practice.

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Inadequate design, performance, and documentation of monitoring procedures, including the determination of a scope that provides reasonable assurance that the objectives of the quality management system are being met.

- ❖ Some audit entities have failed to ensure an adequate frequency of monitoring activities.
- ❖ In certain cases, employees' participation in monitoring activities was not substantiated by time records. Additionally, instances were identified where:
 - completed audit engagements were inspected by individuals lacking industry-specific experience relevant to the audited entity, posing risks to the competence and reliability of such monitoring;
 - the absence of evidence demonstrating the testing of the effectiveness of actions established by policies and procedures to address quality risks, with a focus solely on the compliance of such policies and procedures with existing requirements;
 - a lack of detailed documentation outlining the specific monitoring procedures performed, their scope, and the outcomes for each component of the quality management system;
 - the risk of losing objectivity during the review and judgment process by an individual conducting the quality review of an engagement, where the key audit partner for that engagement was their direct supervisor.

Recommendations:

- ❖ The audit entity must ensure an appropriate frequency for conducting monitoring activities.
- ❖ Audit entity should establish policies and procedures that require individuals responsible for monitoring to possess the necessary competence and capabilities, including sufficient time, to effectively carry out monitoring measures. Additionally, these policies and procedures should address the objectivity of those conducting the monitoring activities.
- ❖ Monitoring procedures should, among other things, include a review of relevant documentation to provide evidence of the functioning of each component of the firm's quality management system.
- ❖ Furthermore, audit entity must ensure the documentation of the nature, timing, and scope of monitoring activities, including the specific monitoring procedures performed and the evidence obtained regarding the effectiveness of the actions implemented to address quality risks.
- ❖ Documentation related to the monitoring and remediation process should include evidence of monitoring activities carried out, an assessment of findings, identified deficiencies and their root causes, corrective actions taken to address these deficiencies, an evaluation of the development and implementation of such corrective actions, and communication of monitoring and remediation outcomes.

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Failure to establish an appropriate quality risk assessment process to provide a basis for the development and implementation of appropriate response actions.

❖ Throughout 2023, audit entities continued to carry out activities aimed at developing (reviewing), implementing, and ensuring the functioning of their quality management systems in accordance with the requirements of ISQC 1, particularly in terms of improving the quality risk assessment process and some other components of the quality management system. This remains a continuous and determining factor in ensuring the high quality of audit services.

❖ At the same time, certain deficiencies were identified in the development, implementation, and functioning of the quality management system within some audit entities, the consideration of which would enable a higher degree of compliance with the requirements of ISQC 1 and ISQC 2. This would help reduce the likelihood of quality risks arising and/or their negative impact on achieving the relevant quality objectives. For example:

- the audit firm did not timely develop and implement a process for assessing quality risks;
- during the identification and assessment of quality risks, the audit entity did not sufficiently understand the conditions, events, circumstances, actions, or inactions that could negatively impact the achievement of quality objectives and did not consider to what extent

these factors might negatively affect achieving quality objectives;

- there was an overgeneralisation of quality risks into categories such as business risk, operational risk, financial risk, legal risk, instead of identifying specific quality risks that would demonstrate a clear understanding of the conditions, events, circumstances, actions, or inactions that could negatively impact the achievement of quality objectives;
- some identified risks were not quality risks as defined by ISQC 1, for example, certain business risks, financial risks, etc.;
- some quality risks were formulated as deficiencies or breaches, which does not align with the definition of quality risk;
- quality risks were not directly related to the defined ISQC 1 quality objectives, making it impossible to ascertain whether the audit entity had properly identified and assessed quality risks for each quality objective;
- some risks were formulated as quality objectives in a negative form, which does not take into account the nature of risk occurrence in order to develop appropriate responses to quality risks;
- regarding some quality objectives, the audit entity did not identify any quality risks for further evaluation and determination of actions in response to quality risks;

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- failure to consider, when identifying and assessing quality risks and determining responses to such risks, the legislative changes that came into effect on 1 January 2023. These changes include strengthened requirements for independence, internal organisation of audit entities authorised to conduct statutory audits of financial statements, organisation of work related to statutory audit engagements, reporting to oversight bodies, and other aspects;
 - lack of consistency between approved policies and procedures, as well as the matrix of quality objectives, quality risks, and corresponding responses to these risks;
 - identified and assessed quality risks are not linked to specific responses (policies or procedures);
 - some identified response actions or their combination for certain quality risks did not sufficiently reduce the likelihood of the respective quality risk to an acceptably low level. This was due to the response action being inadequately developed, not properly implemented, or not functioning effectively;
 - the same response actions were assigned to different quality risks, despite these risks requiring different responses from the audit entity due to their nature. As a result, the nature, timing, and scope of response actions were not based on nor aligned with the reasons for the quality risk assessments.
- ❖ Audit entities should continue improving the process of developing and implementing the quality management system by:
 - identifying specific quality risks based on an understanding of the conditions, events, circumstances, actions, or inactions that may negatively impact the achievement of quality objectives;
 - recognising as quality risks only those risks that have a negative impact on the achievement of quality objectives;
 - aligning identified quality risks with the corresponding quality objectives to: 1) ensure that the identification and assessment of quality risks are conducted for each quality objective; 2) enable a proper assessment of the achievement of the relevant quality objective in accordance with paragraph 54 of ISQC 1 in cases where deficiencies are identified;
 - defining specific quality risks for each relevant quality objective to facilitate their further assessment and the determination of appropriate responses;
 - the approved policies and procedures of the quality management system must be aligned with the identified and assessed quality risks;
 - taking into account, when identifying and assessing quality risks and determining responses to such risks, the legislative changes that came into effect on 1 January 2023, as well as other relevant legal requirements;

Recommendations:

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- it is advisable to include references to the implemented document templates used within the quality management system in the internal company regulations on the quality management system, as well as in their annexes;
- procedures (response actions) should be supplemented with internal control measures where applicable, in order to achieve the objective of reducing quality risk to an acceptable low level.

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Shortcomings in the process of firm's staff training and development.

- ❖ In some audit entities, there is no effective monitoring system to track compliance with continuous professional training requirements for auditors. Such a system should ensure the proper classification of training activities, accurate recording of training hours, and documentary evidence of staff participation in these activities.
- ❖ Additionally, instances have been identified where there is a lack of appropriate documentary evidence confirming the participation of other personnel, apart from auditors, who are involved in the provision of audit services.

Recommendations:

- ❖ Audit entities should implement continuous professional training and training initiatives for all personnel involved in providing audit services.
- ❖ The content and scope of such training should typically be differentiated based on the employee's position, experience, the audit procedures they perform, and management's expectations regarding future tasks.
- ❖ The monitoring of an audit entity's continuous training and professional development activities, as well as verification of compliance with ongoing training requirements by all personnel, should be supported by documented evidence. The assessment of employees' compliance with continuous training programmes may also be incorporated into the annual staff evaluation process.

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Lack of appropriate audit methodology and guidance.

❖ During quality reviews of financial statement audit engagements, certain audit entities were found to have systematic deficiencies in the execution of audit tasks. These deficiencies most commonly related to: the assessment of risks of material misstatement, the application of substantive analytical procedures, audit sampling, testing of control measures, the audit of accounting estimates, responses to risks of material misstatement due to fraud. These findings, among other aspects, indicate that such audit entities lack an adequate audit methodology and appropriate guidance on these matters.

Recommendations:

- ❖ Audit entities should identify the root causes of systematic deficiencies, including assessing the appropriateness of the audit methodology being applied.
- ❖ Based on the root cause analysis, they should evaluate the impact of each systematic deficiency on quality risks and the existing response actions. Depending on the circumstances, additional response actions should be developed and implemented, or existing response actions should be adjusted to eliminate the systematic nature of the identified deficiencies.
- ❖ If an audit entity lacks internal resources to refine its methodology, it should consider the feasibility of utilising intellectual resources from appropriate external service providers.

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Inadequate management attitude towards the importance of addressing identified deficiencies.

❖ Certain audit entities did not devote sufficient attention to addressing deficiencies identified during quality control reviews and the monitoring of the quality control system for audit services, including recurring deficiencies. Additionally, some audit entities failed to establish clear recommendations for analysing the root causes of deficiencies, developing a remediation plan, and implementing further measures to eliminate the deficiencies identified during monitoring.

Recommendations:

❖ Audit entities should focus on the consistent improvement of audit quality by analysing the root causes of deficiencies and implementing appropriate measures to prevent their recurrence in the future.

❖ Audit entities should assess the impact of deficiencies identified through the monitoring process and determine whether they are:

- cases, which do not necessarily indicate that the audit entity's quality control system fails to provide reasonable assurance of compliance with professional standards and applicable legal and regulatory requirements, and that reports issued by the audit entity or engagement partners are appropriate under the circumstances; or
- systemic, recurring, or other significant deficiencies, which require immediate corrective action.

❖ Recommendations based on monitoring results for actions aimed at addressing identified deficiencies should include the following:

- implementing appropriate measures to address deficiencies related to specific engagements or individual staff member;
- informing those responsible for staff training and professional development about the identified deficiencies;
- making amendments to quality control policies and procedures; and
- taking disciplinary action against individuals who have failed to comply with the firm's policies and procedures, particularly those who do so repeatedly.

❖ Audit entities should place greater emphasis on the process of analysing the root causes of identified deficiencies and developing an action plan for their remediation. A competent individual should be appointed for this purpose, and where adequate internal resources are lacking, an independent expert should be engaged. This will enable the development of an effective remediation plan based on the impact of deficiencies on audit practice and their priority in terms of timing.

❖ The recommendations arising from monitoring should be practically applicable to the audit entity. The completeness of the implementation of the remediation plan and the effectiveness of corrective actions must be included as a mandatory component of the following year's monitoring programme.

Improper Consideration of Applicable Firm or Partner Rotation Rules.

❖ Some audit entities failed to ensure the availability of accurate and complete information regarding the duration for which their employees provided services to audit clients in the roles of key audit partner or engagement quality control reviewer. Additionally, some audit entities misinterpreted the methodology for determining the maximum period of involvement of a key audit partner in the audit of the financial statements of a public interest entity.

Recommendations:

❖ Key audit partners responsible for conducting the statutory audit of financial statements must cease their involvement in the statutory audit of a public interest entity no later than seven years from the date of their appointment. In accordance with the amendments made to Part Five of Article 30 of the Law, effective from 1 January 2023, these individuals are prohibited from participating in the statutory audit of the same entity for the following five years.

❖ According to paragraph R540.8 of the Code of Ethics, if an audit client becomes a public interest entity, the audit entity must take into account the duration for which an individual has provided audit services as a key audit partner prior to the client being classified as a public interest entity when determining the rotation period.

❖ The audit entity must ensure the rotation of auditors involved in the statutory audit of financial statements. A phased rotation mechanism should be applied progressively to specific individuals rather than to the entire audit team.

❖ It is advisable for the audit entity to establish and maintain an up-to-date database to track and plan mandatory rotation. This database should contain accurate and precise records of the period of continuous involvement of the key audit partner, the engagement quality control reviewer, and other senior team members, as well as the start and suspension of their cooling-off period.

❖ For this purpose, the audit entity may adapt personnel records, the maintenance of which is mandatory under Article 24 of the Law.

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Absence of adequate policies and procedures for engagement quality reviews to ensure an objective evaluation of the key judgements made by the engagement team and the conclusions reached.

- ❖ There were instances where audit entities appointed individuals who were not auditors, as defined by the Law, to be responsible for engagement quality reviews. In some cases, the quality review of financial statement audit engagements was conducted by direct subordinates or close relatives of the key audit partner, leading to risks of bias and a loss of objectivity in the quality control review process.
- ❖ Additionally, cases were identified where the individual responsible for the engagement quality review was assigned to a large number of engagements within a short period or lacked experience in the client's industry. This hindered the consistency and quality of the review.

Recommendations:

- ❖ Audit entities should ensure compliance with the legal requirements for the individual responsible for the engagement quality review, including their objectivity, competence in the client's financial reporting practices, experience in auditing financial statements, and understanding of the client's industry. The appointment of engagement quality reviewers should be structured to allow them sufficient time to perform their duties effectively.
- ❖ Other identified deficiencies included:
 - failure to conduct sufficient procedures and/or obtain reliable information for an objective assessment of a new client's integrity;
 - the absence of, or failure to adhere to, policies and/or procedures for adequate and timely supervision of engagement performance and its review.

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Deficiencies in Compliance with Certain Legal Requirements

❖ According to the Recommendations, a deficiency in compliance with certain legal requirements refers to a violation of the provisions of the Law and other regulatory legal acts governing audit activities, excluding violations that constitute deficiencies in the execution of an audit engagement or weaknesses in the internal quality control system (quality management system).

❖ Figures 6 and 7 illustrate the distribution of deficiencies in compliance with certain legal requirements based on their relative weight and frequency of occurrence in audit entities during reviews. These deficiencies are primarily related to:

- established staff remuneration policies for personnel involved in statutory audit engagements that do not include incentives to ensure the quality of work;

- lack of proper control over the timely submission of updates by audit entities to information subject to disclosure in the Register;
- failure to comply with legal requirements regarding the obligation to inform the National Bank of Ukraine or the National Securities and Stock Market Commission, which oversee public interest entities, about specific facts and circumstances;
- non-compliance with the legal requirements regarding the disclosure of information in the independent auditor's report, in addition to the requirements set out in the ISAs;
- failure to meet legal requirements regarding the content of the additional report for the audit committee;
- failure to ensure the accuracy of information provided in accordance with the conditions of a particular tender or procurement process.

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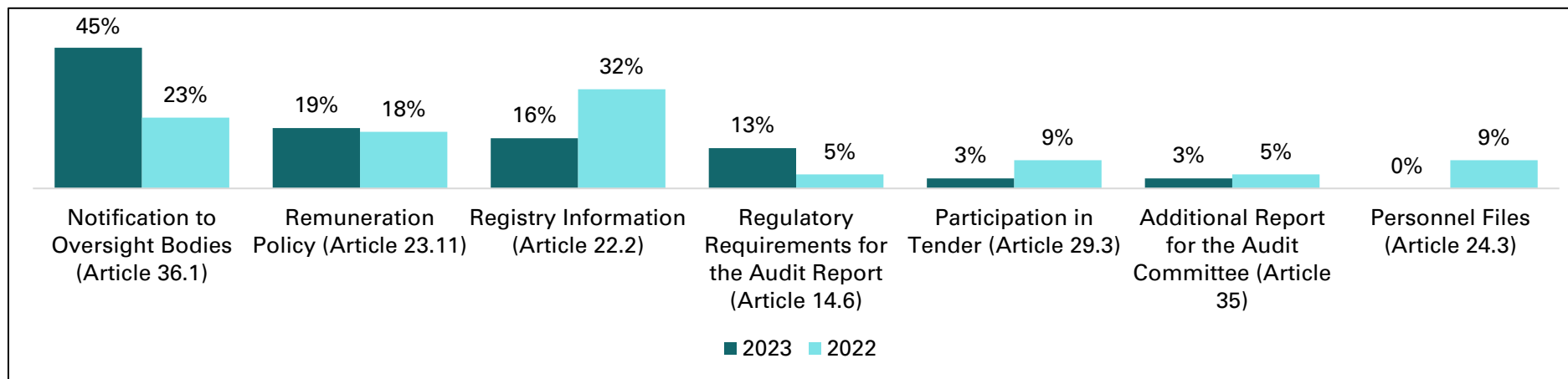


Figure 6. Structure of deficiencies by areas of non-compliance with specific provisions of the Law

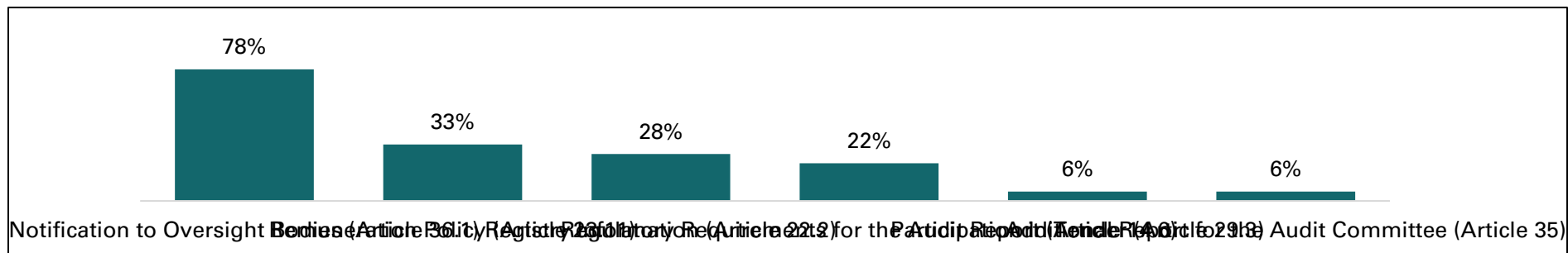


Figure 7. Frequency of Identifying Deficiencies in the Audit Entity by Areas of Non-Compliance with Specific Requirements of the Law in 2023

❖ The most common individual deficiencies, along with the corresponding recommendations from the audit entity, are detailed below.

Non-compliance with requirements for informing authorities overseeing public interest entities.

❖ Certain audit entities failed to comply with the legal requirements to inform the National Bank of Ukraine (NBU) or the National Commission on Securities and Stock Market (NCSSM), which oversee such enterprises under the law, about a significant threat to the entity's ability to continue as a going concern and/or the issuance of a modified opinion.

Recommendations:

❖ An audit entity providing mandatory audit services or other mandatory tasks to an enterprise of public interest must promptly, but no later than the date of signing the audit report (unless otherwise specified by law), inform the NBU or the NCSSM, which oversee the enterprise under the law, in the manner prescribed by them, of any established facts regarding:

- violations of legislation within the competence of the NBU and the NCSSM, including quantitative indicators considering materiality levels;
 - a significant threat or doubts about the enterprise's ability to continue as a going concern;
 - the existence of a modified opinion (opinion with qualification, negative opinion, or disclaimer of opinion).
- ❖ An audit entity providing audit services to an enterprise of public interest,

which is subject to supervision by the NBU, must immediately, but no later than the date of signing the audit entity report (unless otherwise specified by law), inform the NBU in the manner prescribed by the NBU of any identified instances of non-compliance with established prudential requirements and standards.

❖ An audit entity providing audit services in accordance with the law to an enterprise of public interest that is a financial services provider and is supervised by the NCSSM must immediately, but no later than the date of signing the audit entity report, inform the NCSSM in the manner prescribed by the NCSSM of any identified instances of non-compliance with established prudential requirements and standards.

❖ Additionally, in accordance with the seventh paragraph of Part 1 of Article 36 of the Law, the audit entity must report any information regarding the matters specified in points 1–3 of this section that becomes known during the performance of a mandatory audit of a legal entity that has close ties to an enterprise of public interest, whose financial statements are also subject to mandatory audit by the audit entity.

Lack of Remuneration Policies for Staff Involved in Mandatory Audit Engagements That Provide Incentives for Ensuring Work Quality.

❖ Some audit entities failed to comply with the requirements of Article 23 of the Law regarding the implementation of remuneration policies for staff involved in mandatory audit engagements. These policies should ensure an appropriate level of compensation for auditors to maintain their motivation in delivering high-quality audit services.

❖ In particular, the salaries of a significant portion of staff in such audit entities, including auditors engaged in providing audit services, were either at or only slightly above the minimum wage set by law. At the same time, the vast majority of audit entities' personnel involved in mandatory audit engagements are auditors with many years of experience in auditing and accounting. They hold certificates and diplomas confirming their high level of proficiency in IFRS.

Recommendations:

❖ Point 11 of Part One of Article 23 of the Law stipulates that an audit entity providing mandatory audit services for financial statements must implement a remuneration policy for staff involved in mandatory audit

engagements. This policy should include incentives to ensure the quality of work. Additionally, the remuneration received by the audit entity from a legal entity for services unrelated to the mandatory audit of financial statements must not, in any way, be considered when determining the remuneration of auditors and other employees involved in the mandatory audit engagement for that legal entity.

❖ Given the above, the remuneration policy for personnel engaged in mandatory audit engagements should provide incentives to ensure work quality, and salaries must not be set at the minimum wage level.

❖ A low level of remuneration for auditors and other staff involved in mandatory audit engagements increases the risk of personnel losing motivation to deliver high-quality audit services. It also undermines an audit entities' ability to attract and retain qualified staff, distorts pricing, and affects competitiveness in the audit services market.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

Delayed Submission of Information by Audit Entities Regarding Changes in Register Information Subject to Disclosure.

❖ Certain audit entities failed to ensure proper control over the timely submission of information to the APU, and from 1 January 2023, to APOB, regarding changes in register information that, in accordance with Article 21 of the Law, must be disclosed in the Register. This primarily relates to information about the hiring or dismissal of auditors, as well as the transfer of an auditor from part-time to full-time employment or vice versa.

Recommendations:

❖ Audit entity must implement internal control measures to ensure the timely and complete identification of changes in register information, as well as the submission of relevant updates to APOB.

❖ Please note that on 16 March 2024, the Law of Ukraine "On Amendments to the Tax Code of Ukraine to Improve Online Communication with Taxpayers and Clarify Certain Provisions of Legislation" (No. 3603-IX, dated 23 February 2024) came into force. This law reinstates the requirement for auditors to submit changes in register information to the Register within 30 calendar days and for audit entities to do so within 10 calendar days from the date the changes occur (excluding information on an auditor's continuous professional education). Additionally, the law establishes liability for non-compliance with the requirements regarding the completeness and timeliness of submitting information on auditors and audit entities for disclosure in the Register (Part 2 of Article 22 and Clause 19 of Section X of the Law).

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Non-Compliance with Legal Requirements in the Preparation of Audit Reports.

❖ Some audit reports prepared by certain audit entities as a result of the mandatory audit of financial statements did not fully comply with the requirements of Article 14 of the Law, particularly in terms of disclosing additional information in accordance with the Requirements for Information Related to the Audit or Review of Financial Statements of Capital Market Participants and Organised Commodity Markets, overseen by the National Securities and Stock Market Commission (NSSMC). These requirements were approved by NSSMC Decision No. 555 of 22 July 2021 (as amended) in addition to ISA (International Standards on Auditing).

Recommendations:

- ❖ Audit entities must establish effective control measures to ensure that audit reports resulting from mandatory audits accurately reflect the information required by Article 14 of the Law, in addition to compliance with ISA.
- ❖ According to Part 6 of Article 14 of the Law, the NBU and NSSMC may introduce additional mandatory requirements for information related to the audit or review of financial statements. Such information must be included in audit reports for mandatory audit or reports on the review of interim financial information in accordance with ISA. Furthermore, these regulatory authorities may set additional reporting requirements for audit entities concerning legal entities subject to their regulation.

APPENDIX 2. QUALITY CONTROL OF AUDIT SERVICES

Submission of False Information for Participation in the Selection of Audit Firms or Procurement of Mandatory Audit Services

❖ In one of the selection processes, an audit entity failed to ensure the accuracy of certain information required under the terms of the procurement of mandatory audit services. This information primarily related to the availability of employees with specific qualifications within

the audit entity. As a result of the review of the competition documentation, the audit entity was disqualified.

Recommendations:

❖ To participate in the selection process for audit entities or in the procurement of mandatory audit services, an audit entity must implement proper control measures to ensure the accuracy and reliability of the information submitted as required by the competition or procurement terms.

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Non-compliance with Certain Requirements for the Preparation and Submission of the Additional Report to the Audit Committee.

❖ In some of the reviewed engagements, the additional report to the audit committee did not include the disclosure of all relevant information required by Article 35 of the Law, specifically:

- a description of the valuation methods applied to different groups of assets and liabilities;
- ensuring that the officials of legal entities provide all necessary requests, explanations, and documents.;
- notification of:
 - any significant difficulties encountered during the mandatory audit of financial statements;

- significant matters that were discussed with the officers of the legal entity whose financial statements are being audited;
- engagement of external experts and confirmation of their independence from the legal entity whose financial statements are being audited.

Recommendations:

- ❖ The audit entity must ensure that the additional report to the audit committee discloses the results of the mandatory audit engagement and includes, at a minimum, the information specified in Part Two of Article 35 of the Law.
- ❖ The information provided by the audit entity in the additional report to the audit committee must be consistent with the compiled audit documentation.

Deficiencies in Task Execution

- ❖ The summarised results of quality control reviews of audit services over the past few years continue to indicate that deficiencies in the auditing of financial statements remain widespread and may lead to the unreliability of issued audit reports.
- ❖ The primary deficiencies are related to the collection and evaluation of audit evidence, the risk assessment process, and the auditing of accounting estimates. To mitigate these issues, audit firms must perform their duties in accordance with International Standards on Auditing (ISA) and adhere to best practices. Such deficiencies can have a significant impact on audit quality and the reliability of financial reporting.
- ❖ To help audit firms avoid these shortcomings, we recommend focusing on the following aspects:
 - ensuring proper attention to audit quality control, including risk assessment and the selection of appropriate audit procedures;
 - improvement of documentation and ensuring appropriate working papers for each audit procedure;
 - applying professional judgement and professional scepticism.
- ❖ The deficiencies and recommendations outlined in this report are critical for ensuring the high quality of financial statement audits and their compliance with ISA. The occurrence of these deficiencies may lead to

serious consequences, such as the auditor's opinion not aligning with the circumstances, a lack of sufficient grounds for forming an opinion on the financial statements, and, ultimately, financial penalties and a loss of investor trust in the audit entity and the auditing profession as a whole.

- ❖ To improve the quality of financial statement audits, audit firms should move away from standardised audits and adopt an individualised approach for each company. To achieve this, audit entities must conduct a detailed analysis of the entity and its operations, which will help identify potential issues and risks that could impact the financial statements, and as a result, develop and implement appropriate actions in response.
- ❖ The recommendations also include the need to engage auditors with the appropriate qualifications and experience, ensuring sufficient time for the audit, and improving communication efficiency between the audit firm and the client.
- ❖ It is important to emphasise the necessity for audit firms to adhere to ethical standards and professional conduct. Auditors must uphold high ethical standards and avoid any conflicts of interest that could affect the objectivity of their work.

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- ❖ As auditing is a process that requires high levels of skill and knowledge, it is essential that audit firms provide their employees with opportunities for training and attestation to obtain auditor qualifications. Audit firms should support their staff in the ongoing process of professional development and in learning new methods and techniques for conducting audits.
- ❖ Audit firms should establish and implement effective quality control (management) systems that ensure the high quality of audit engagements. It is also essential for audit firms to adhere to auditing standards, ethical requirements, and independence norms, as well as to comply with applicable legal and regulatory provisions.
- ❖ Recommendations identify a significant deficiency in the performance of the engagement – a deficiency that, in the professional judgment of the inspector and based on the evidence obtained, affects or could potentially affect the reasonableness of the basis for the audit entity's conclusion regarding the achievement of the auditor's overall objectives, evidence that the engagement was planned and performed in accordance with international auditing standards and/or the Law, and is not classified as a significant deficiency in the quality control system (quality management

system).

- ❖ Figure 8 illustrates the areas of identified significant deficiencies in the performance of mandatory audits of the financial statements of public interest entities, based on the frequency of their occurrence in the audited financial statement engagements. Compared to the previous year, 2022, there have been no significant changes in the areas of deficiencies or their frequency of occurrence, which still indicates an unsatisfactory level of consideration by the audit entities of the summary results from the reviews and the failure to take preventive measures to address them in a timely manner.
- ❖ In 2023, the classification of certain categories of deficiencies in the performance of the engagement was amended, particularly deficiencies related to obtaining an understanding of the entity's internal control and analytical procedures performed to assess the risk of material misstatement of the financial statements, which have been included in the "Risk Assessment" category. The indicators shown in Figure 8 for 2022 have been revised accordingly.

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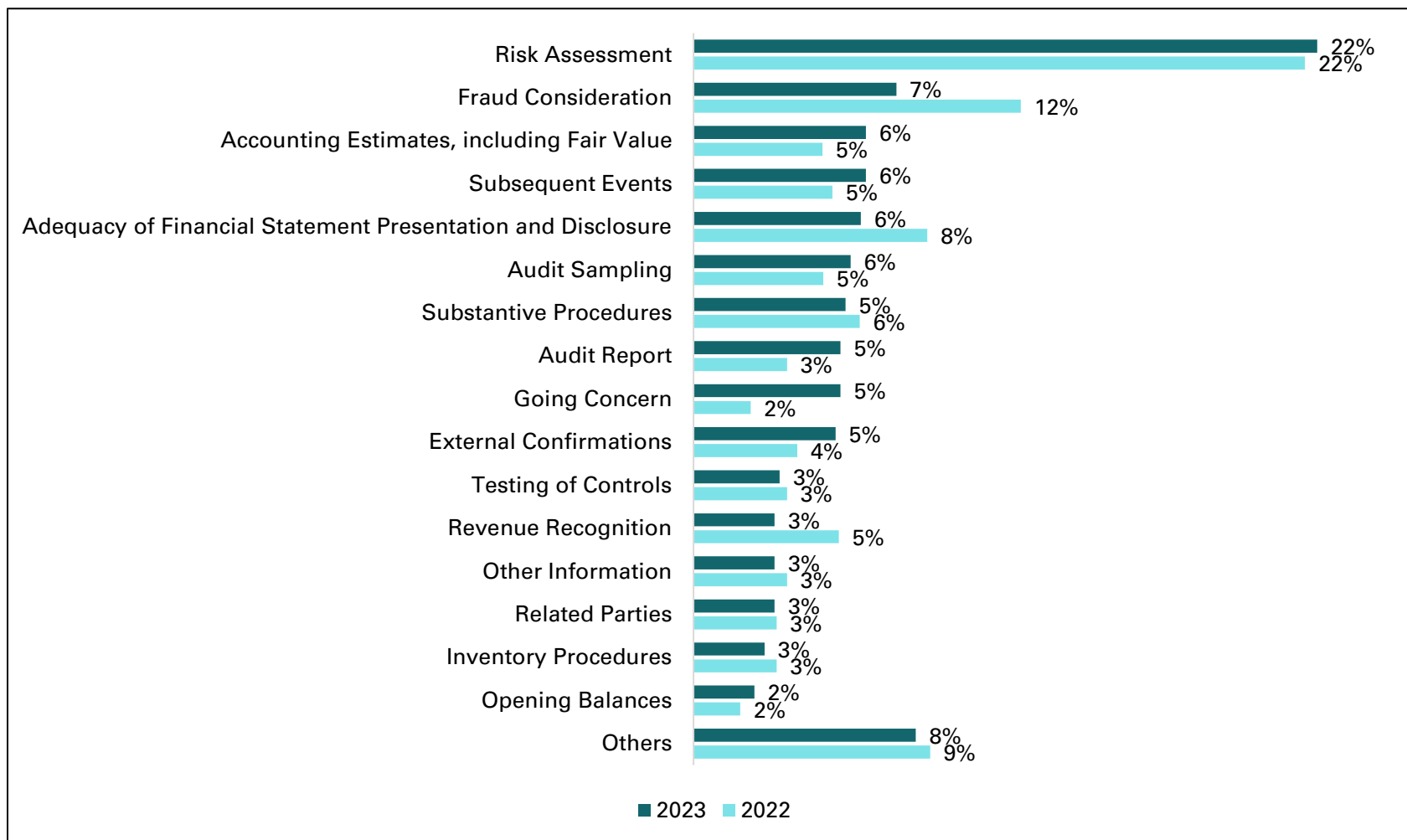


Figure 8. Areas in which significant deficiencies in the performance of tasks were identified

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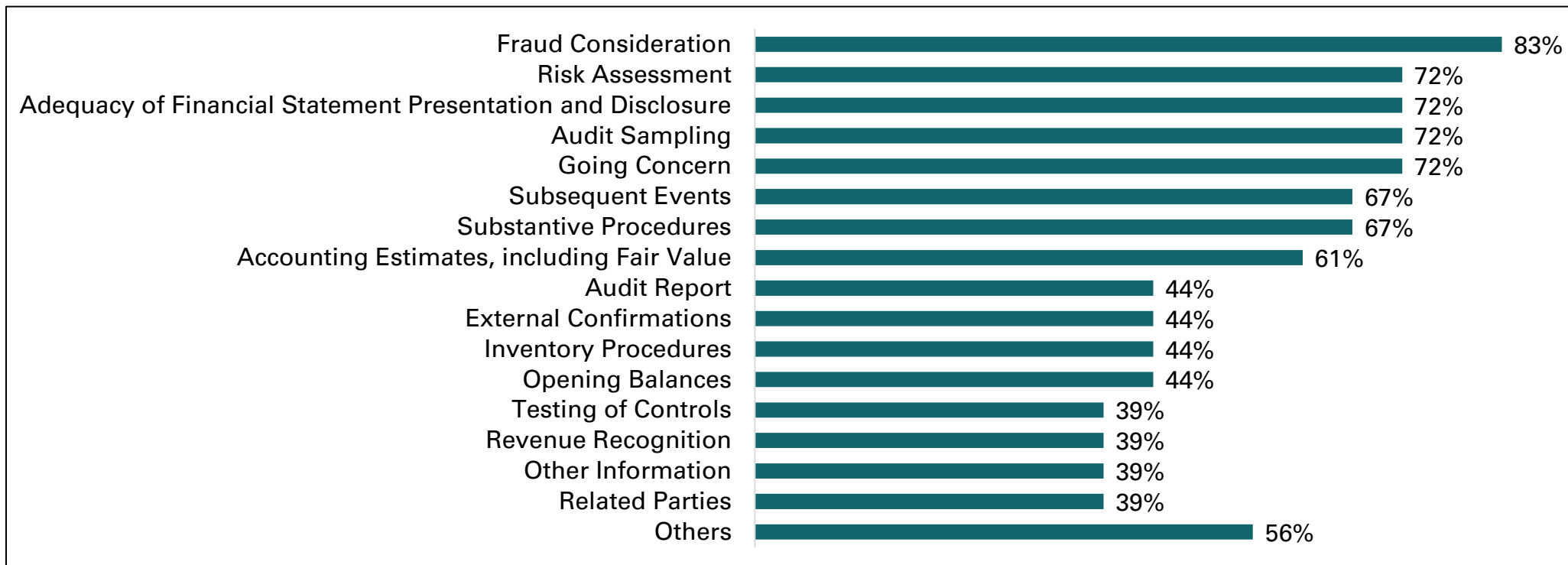


Figure 9. Frequency of Identification of Significant Deficiencies in Task Performance by the Audit Entity in 2023

❖ Below is a detailed list of the most common deficiencies, along with recommendations for their remediation.

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Assessment of the risk of material misstatement.

❖ The audit entity's evidence, obtained and appropriately documented, of understanding the entity and its environment, as well as the components of internal control—such as the control environment, the entity's risk assessment process, the information system (including relevant business processes related to financial reporting), control activities, and monitoring of control activities—provides the foundation for identifying and assessing the risks of material misstatement and developing further audit procedures. In most cases, there remains a lack of properly documented evidence of the audit entities's understanding of the entity and its environment, with documentation often limited to “Yes” or “No” responses in audit programmes or checklists, summarised responses from the entity, or formal phrases that are identical across all engagements.

❖ In a significant number of cases, the audit entities have either failed to document or inadequately documented:

- the identification and assessment of the risks of material misstatement at both the financial statement level and the assertion level for classes of transactions, account balances, and disclosures;
- the linkage of identified risks to what may be wrong at the assertion level, the consideration of the likelihood of misstatements, and whether any of the identified risks are significant;

- the understanding of control activities relevant to significant risks;
- the identification of risks arising from the use of information technology and the relevant general information technology controls and application controls;
- the documentation of the identification of the risk of material misstatement due to fraud related to revenue recognition;
- the identification of risks arising from the use of information technology and the relevant general information technology controls and application controls.

❖ In certain reviewed engagements, the audit documentation did not include evidence that, during the planning process, analytical procedures were sufficiently applied by the audit entity to identify the risks of material misstatement, including determining whether unusual or unexpected relationships indicated risks of material misstatement due to fraud. In many cases, analytical procedures were performed in a formal manner and were limited to the calculation of specific financial ratios, without considering the impact of these values on the risks of material misstatement in the financial statements. Furthermore, there were instances where there was no evidence of analytical procedures being performed at the conclusion of the audit.

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❖ As a result, the majority of auditor entities have been unable to properly plan the audit while simultaneously demonstrating compliance with the requirements of ISA 315 (Revised 2019).

Recommendations:

❖ An understanding of the entity and its environment, as well as the applicable financial reporting framework, assists the audit entity in identifying events or conditions whose characteristics may impact the susceptibility of the assertions about classes of transactions, account balances, or disclosures to misstatement.

❖ The greater the susceptibility of a class of transactions, account balance, or disclosure to misstatement due to complexity or subjectivity, the more professional scepticism is required.

❖ The audit entity shall:

- identify the risks of material misstatement and determine whether they exist at the financial statement level or at the assertion level for classes of transactions, account balances, and disclosures;
- for the identified risks of material misstatement at the assertion level, assess inherent risk by evaluating the likelihood and magnitude of misstatements. In doing so, the audit entity should

consider how factors affecting inherent risk influence the susceptibility of the relevant assertions to misstatement. A higher inherent risk may arise as a result of the following factors:

- the subjectivity of accounting methods;
- accounting estimates that involve a high degree of uncertainty or complex models;
- the complexity of obtaining and processing accounting data;
- information requiring complex calculations;
- accounting principles that may have different interpretations;
- changes in the entity's business that result in changes to the accounting treatment;
- determining whether any of the assessed risks of material misstatement are considered significant risks;
- assessing the control risk (in the event that the audit entity plans to test the effectiveness of control activities, which would allow reliance on the controls).

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❖ Risk assessment procedures shall include analytical procedures. Analytical procedures performed as part of risk assessment may reveal aspects of the entity's operations previously unknown to the audit entity and may assist in the evaluation of risks of material misstatement, thereby forming a basis for the design and implementation of responses to such assessed risks. In particular, analytical procedures help identify the existence of unusual transactions or events, and amounts, ratios, and trends that may require audit review and influence the nature, timing, and extent of further audit procedures.

❖ The approach to performing preliminary analytical procedures at the audit planning stage, in addition to comparing current and prior period figures, may include the auditor developing expectations regarding financial statement indicators, providing explanations for significant deviations between expected and actual results, and corroborating those explanations.

❖ The audit entity shall design and perform analytical procedures at the end of the audit that assist in forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

❖ Irrespective of the assessed risks of material misstatement, the audit

entity shall determine the override of controls by management as a significant risk. This is because management is in a unique position to perpetrate fraud due to its ability to manipulate accounting records and prepare intentionally misleading financial statements, overriding controls that might otherwise appear to be operating effectively.

❖ When identifying and assessing the risks of material misstatement due to fraud, the audit entity, based on the presumption that there are risks of fraud in revenue recognition, shall evaluate which types of revenue, commercial transactions, or assertions give rise to such risks. The audit entity shall regard the assessed risks of material misstatement due to fraud as significant risks. Accordingly, the audit entity is required to obtain an understanding of the entity's related controls, including control activities relevant to such risks, if this has not already been done. If the audit entity concludes that the presumption of a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, they shall include the rationale for this conclusion within the audit documentation.

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Deficiencies in the procedures for addressing fraud risk.

❖ In performing audit engagements, the majority of audit entities do not give sufficient attention to documenting procedures for identifying fraud risks and carefully executing audit procedures in response to such risks. In highlighting key observations, attention should be drawn to the insufficiency in the execution and documentation of procedures to obtain information used in identifying the risks of material misstatement due to fraud, such as:

- obtaining information regarding management's assessment of fraud risk, and the process followed by management to identify and take action in response to fraud risks;
- discussion of matters related to actual or suspected fraud with other personnel who may be aware of such information (including internal audit staff, internal security personnel, members of the audit committee, legal department, oversight board members, and other relevant personnel);
- discussion with staff regarding the vulnerability of the entity's financial statements to material misstatement, including material misstatement due to fraud and methods of committing fraud, prior to the commencement of further audit procedures;
- performing a retrospective review of the judgments and assumptions made by management relating to significant

accounting estimates reflected in the financial statements of the prior year;

- the lack of sufficient professional scepticism regarding the identification of fraud risk. At best, the audit entity identifies the risk of material misstatement due to fraud related to revenue recognition, but at times, this risk is not recognised by the audit entity, and the working papers do not provide adequate justification for this conclusion;
 - the absence of testing the compliance of journal entries and other adjustments, as actions in response to the risk of management's disregard for control measures, or inadequate documentation of such testing.
- ❖ In the absence of the necessary technical tools for testing the accuracy of postings recorded in the General Ledger and other adjustments made during the preparation of the financial statements, most of the audited audit entities did not perform such audit tests, or were unable to demonstrate that they had been carried out, other than a brief reference to their performance in the audit programme. Additionally, some audit entities, despite having the technical capability, do not consistently perform checks for the completeness of accounting records and the integrity of the data provided.

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Recommendations:

❖ The audit entity is responsible for obtaining sufficient assurance that the financial statements as a whole are free from material misstatement due to fraud or error. A lack of professional scepticism in identifying instances of fraud is often a cause of ineffective auditing. In planning and performing procedures, the audit entity should carefully consider the specifics of the client, the influence of internal and external factors, and thoroughly document the evidence obtained.

❖ The audit entity should make inquiries of management regarding:

- management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, scope, and frequency of such assessments;
- the process followed by management to identify and respond to fraud risks within the entity, including any specific fraud risks identified by management, those that have drawn management's attention, or classes of transactions, account balances, or disclosures where there is likely to be a fraud risk;
- the communication by management, if any, to those charged with governance, regarding processes for identifying and responding to

fraud risks within the entity;

- the communication by management to employees, if any, regarding their views on business practices and ethical behaviour.
- ❖ The audit entity should make inquiries of personnel within the entity, other than management, depending on the circumstances (including internal auditors, if there is an internal audit function), to determine whether they are aware of any actual or suspected instances of fraud, or any fraud cases under investigation (or that have been investigated), that affect the entity.
- ❖ Responses received from the entity's employees to inquiries, as well as the results of discussions with management and those charged with governance, should be documented and included in the audit file for the engagement.

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❖ The audit entity must consider accounting estimates for bias and assess whether any circumstances causing bias (if present) represent a risk of material misstatement due to fraud. In performing this review, the audit entity should, among other things, carry out a retrospective review of the judgments and assumptions made by management regarding significant accounting estimates reflected in the financial statements of the previous year.

❖ With regard to significant transactions that fall outside the ordinary course of business for the entity, or that the audit entity perceives, based on its understanding of the entity and its environment, as unusual in light of other information obtained during the audit, the audit entities should assess whether the economic substance (or lack thereof) of such transactions indicates that they may have been added for the purpose of committing fraud during the financial reporting process or concealing illegal misappropriation of assets.

❖ Introducing an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed is crucial, as employees of the entity, who are aware of the audit procedures typically carried out in engagements, may have more opportunity to conceal fraud during financial reporting. The audit entity can achieve this, for example, by:

- performing substantive procedures on selected account balances

and assertions that would not typically be tested due to their materiality or risk;

- adjusting the timing of audit procedures compared to expected time;
- using different sampling methods;
- carrying out audit procedures at different locations or without prior notice.

❖ Regardless of the auditor's assessment of the risk of management override of controls, the audit entity must test the accuracy of postings recorded in the General Ledger and other adjustments made during the preparation of the financial statements.

❖ When developing and performing audit procedures for such tests, the audit entity should:

- inquire of employees involved in the preparation of the financial statements regarding any improper or unusual activities related to the processing of postings and other adjustments;
- select entries and other adjustments made at the end of the reporting period;
- consider the need to test postings and other adjustments throughout the period.

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- ❖ The audit entity should exercise professional judgment in determining the nature, timing, and extent of testing postings and other adjustments. However, since fraudulent postings and other adjustments are often made at the end of the reporting period, paragraph 32(a)(ii) of ISA 240 requires the audit entity to select postings and other adjustments made at that time. Furthermore, because significant misstatements in the financial statements due to fraud may occur throughout the period and considerable efforts may be made to conceal the method of committing fraud, paragraph 32(a)(iii) of ISA 240 requires the audit entity to consider whether there is a need to also test postings and other adjustments made during the period.
- ❖ To enhance the efficiency of testing accounting data, the audit entity should consider the use of computer-assisted audit techniques (CAATs) for performing tests that cannot be carried out manually.
- ❖ Before commencing such testing, the audit entity must ensure the completeness of the accounting data and the integrity of the information obtained from the entity's accounting system, for example, by reconciling the account balances from the trial balance (or its equivalent) for the audit period with the accounting records.
- ❖ The engagement partner and other key members of the engagement team must discuss the vulnerability of the entity's financial statements to material misstatement and the application of the relevant applicable financial reporting framework to the facts and circumstances of the entity.

Accounting estimates, including fair value

❖ During the examination of accounting estimates and the documentation of the results of such tests, the majority of audit entities encountered the following difficulties:

- significant deficiencies in the documentation of the risk assessment procedures related to accounting estimates, including the lack of documentation of the audit entity's understanding of specific material accounting estimates, such as: the description of these estimates, how they are determined and calculated, based on which assumptions and sources of information, their degree of uncertainty, and the control measures implemented regarding them;
- absence of documentation of signs of potential bias from management concerning the estimates;
- failure to document the audit entity's review of the results of accounting estimates included in the financial statements of the previous period, or, if acceptable, their subsequent re-assessments for the current period;

- the absence of documentation by the audit entity of the review and analysis of the data used by management to make estimates., such as: historical data for expected credit losses, data for calculating provisions for employee benefits, input data for actuarial calculations, the accuracy of the presentation of accounts receivable by ageing and etc.;
 - insufficient documentation of the audit entity's consideration of the work of management's expert, such as: failure to adequately assess the competence and objectivity of the expert, and the terms of the agreement between the entity and its expert;
 - the absence of adequate documentation of procedures for testing estimates.
- ❖ In certain instances, the audit entity did not perform sufficient procedures to verify the assumptions and models, calculations, and data underlying the estimates (e.g., fair value measurement) on which these estimates are based, nor the reasonableness of the resulting outcomes. This deficiency has been observed even in cases where the audit entity engages its own experts to review the accounting estimates.

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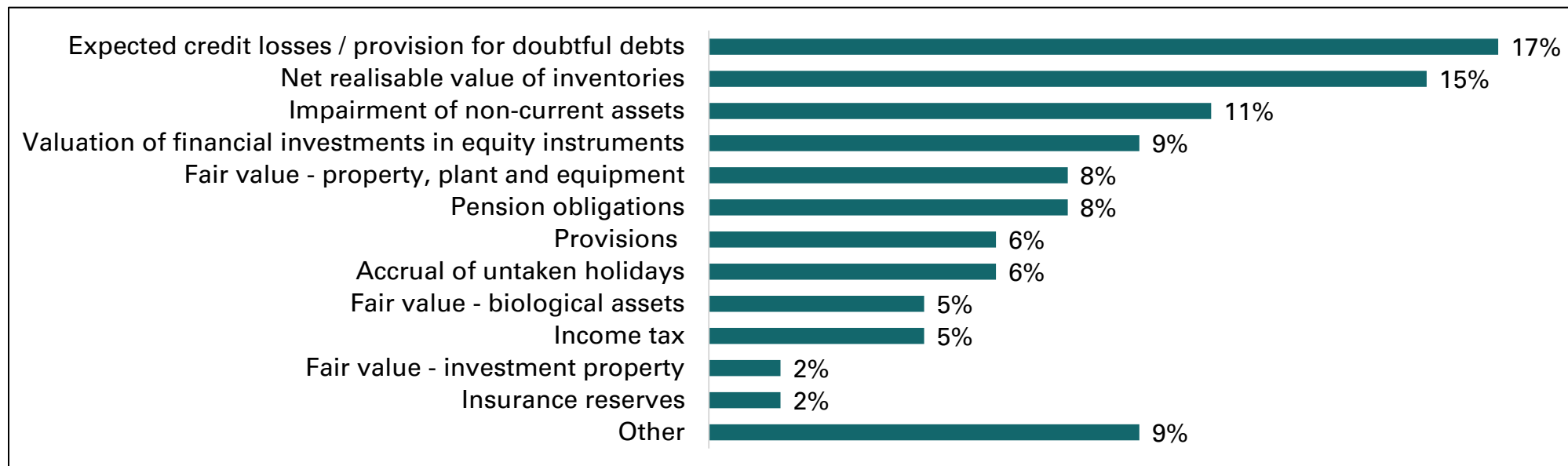


Figure 10. Distribution of Significant Deficiencies by Accounting Estimates in 2023

Recommendations:

❖ With regard to the testing of accounting estimates, it is particularly important to exercise professional scepticism throughout the audit engagement, although this may be especially challenging when considering the judgments and estimates made by management. To achieve this, the audit entity should possess appropriate up-to-date knowledge, skills, and resources. In order to ensure a quality audit of accounting estimates, in accordance with the requirements of ISA 540 (Revised), it is necessary to:

- while gaining an understanding of the entity and its environment (including internal control), the audit entity should obtain an understanding of the matters relating to accounting estimates. The audit entity should review the outcome of previous accounting estimates, or, where applicable, their subsequent re-evaluation, to assist in identifying risks and assessing the risks of material misstatement for the current period;

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- in relation to accounting estimates, the audit entity must determine whether the engagement team requires specialised skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement, develop and perform audit procedures to respond to these risks, or evaluate the audit evidence obtained;
- during the identification and assessment of the risks of material misstatement concerning accounting estimates and related disclosures, audit entity must separately assess inherent risk and control risk. In identifying risks of material misstatement and assessing inherent risk, audit entity must consider the degree of reliance of the accounting estimate on estimation uncertainty and the impact of complexity, subjectivity, or other factors contributing to inherent risk;
- subsequent audit procedures performed by audit entity should include one or more of the following approaches:
 - obtaining audit evidence based on events occurring after the report date;
 - testing how management has made the accounting estimate (evaluating the quality of the data used to prepare the estimate, assessing whether the measurement method is appropriate, and whether the assumptions made by management are reasonable);
 - developing the auditor's point estimate or range;
 - testing internal controls over estimates (where applicable);
- audit entity must design and perform further audit procedures to obtain sufficient and appropriate audit evidence regarding the disclosure of information related to the accounting estimate;
- audit entity must evaluate whether there is evidence of possible management bias in the judgments and decisions made by management during the process of making accounting estimates;
- based on the audit procedures performed and the audit evidence obtained, audit entity must assess:
 - whether the assessed risks of material misstatement at the assertion level remain appropriate, including situations where signs of possible management bias have been identified;
 - whether management's decisions related to recognition, measurement, presentation, and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework;
 - whether sufficient and appropriate audit evidence has been obtained; and
 - whether the accounting estimates are reasonable or distorted.

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Events after the reporting period.

❖ There have been instances where audit documentation does not include an analysis of interim financial statements and/or accounting records of the audited entity for the period from the balance sheet date to the date closest to the auditor's report date, including an analysis of significant changes during that period and testing transactions related to such changes. This issue is of particular importance due to the consequences of the military invasion, which are subject to change almost daily.

Recommendations:

❖ The audit entity should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report, which require adjustment or disclosure in the financial statements, have been identified.

❖ To achieve this, such procedures should be carried out in a manner that ensures coverage of the period from the date of the financial statements to the date of the auditor's report, or as close to that date as possible.

❖ The audit entity should review the most recent interim financial statements of the entity, if available, and/or accounting records for the

period from the date of the financial statements to the date of the auditor's report or as close to this date as possible.

❖ Depending on the risk assessment, the audit entity's procedures related to events after the reporting period may include reviewing or testing accounting records or transactions that occur between the reporting date and the date of the auditor's report.

❖ If the accounting records are not up to date and, accordingly, interim financial statements (for internal or external purposes) have not been prepared, or minutes of meetings of management or those charged with governance have not been recorded, the relevant audit procedures may be performed in the form of inspecting available accounting records and documents, including bank statements.

❖ Relevant audit procedures also include:

- reviewing the most recent available budgets, cash flow forecasts, and other relevant management reports of the entity for periods subsequent to the reporting date;
- make inquiries of the entity's legal counsel regarding any litigation or claims that have been initiated up to the date of the auditor's report.

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Adequacy of the assessment of presentation and disclosure in the financial statements.

❖ Deficiencies in the presentation and disclosure of information in the financial statements in accordance with IFRS and the National Accounting Standards (NAS) have remained, and will continue to remain, a focal point for both the Audit Public Oversight Body and other regulators. However, certain audit entities have not given sufficient attention to performing audit procedures to ensure compliance with the presentation in the financial statements and the completeness of disclosures in accordance with the applicable conceptual framework. This creates significant risks that the audit entities may fail to identify improper disclosures or omissions in the financial statements, which may be considered material by regulators of the entities, such as the National Bank of Ukraine (NBU) and the National Securities and Stock Market Commission (NCSSMC), or by key users of the financial statements, such as existing or potential investors and creditors. Consequently, the Inspection has identified instances of:

- the absence of certain disclosures required by IFRS or NAS, or inadequate disclosure of such information;
- inconsistencies in specific financial statement items;
- internal contradictions in certain accounting policies disclosed in the notes to the financial statements;
- non-compliance of certain accounting policies with the

requirements of the conceptual framework.

- ❖ The majority of audit entities, where deficiencies have been identified in this area, have not applied the appropriate tools that would assist them in promptly identifying significant omissions in the disclosure of information in the financial statements.
- ❖ Examples of the most common material omissions and other deficiencies in financial reporting include:
 - inadequate disclosure of significant uncertainties related to events or conditions that may cast substantial doubt on the entity's ability to continue as a going concern;
 - information regarding related parties, including the identification of the ultimate controlling party, verification of the completeness of details related to transactions and balances with related parties, and disclosures related to the compensation of key management personnel;
 - the presentation and disclosure of corrections of prior period errors;
 - the absence of significant disclosures in the financial statements required by IFRS 9, particularly with respect to expected credit losses, inconsistencies in individual accounting policies, and other disclosures related to financial instruments;
 - the adequacy of disclosures required by IFRS 4 in the financial statements of an insurance entity;

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- the absence of disclosures regarding significant items such as financial instruments, other current assets, other current liabilities, and cash flow statement items such as “Other receipts,” “Other payments,” and other items aggregating multiple types of cash flows;
- recognition and disclosure of information related to investment property in the financial statements;
- disclosures related to lease transactions;
- information regarding intangible assets, where the useful life is assessed as indefinite;
- information on biological assets, for example a description of each group of biological assets, indicating the nature of the activities and non-financial indicators for each group, the volume of agricultural produce, and a reconciliation of the changes in the carrying amount of biological assets for the current period;
- information regarding interests in other entities, including judgements and assumptions regarding control over such entities;
- relevant disclosures regarding impairment of assets as required by IAS 36;
- the existence of restrictions on the use of assets and their value;
- management of risks arising from financial instruments;
- the disclosure of revaluation of non-current assets, including the effective date of the revaluation, whether an independent valuer was involved, increases or decreases during a given period resulting from revaluations, as well as impairment losses recognised or reversed in other comprehensive income;
- fair value estimates, including information on the fair value hierarchy level, a description of the valuation method(s) and inputs, quantitative information on significant unobservable inputs used in determining fair value estimates for Level 3 of the fair value hierarchy, the fair value measurement processes used, and the sensitivity of the fair value estimate to changes in unobservable inputs;
- disclosure of income tax information, including the main components of income tax, the portion of deferred taxes to be recognised through other comprehensive income, an explanation of the relationship between tax expense (income) and accounting profit; an analysis of assets and liabilities giving rise to deferred taxes, recognised income or expenses from changes in deferred tax assets and liabilities, and unused tax losses for which a deferred tax asset has not been recognised in the statement of financial position;

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- disclosures of significant events occurring after the reporting period, such as the liquidation of a bank with substantial balances at the end of the reporting period, the decision to corporatise, the incurrence of significant liabilities or contingent liabilities, or the commencement of a large litigation arising solely from events occurring after the reporting period;
 - non-submission of the report on equity for the previous year;
 - absence of the date of approval of the financial statements.
- ❖ In a number of instances, the audit documentation did not include evidence of the verification of the preparation of the cash flow statement and segment reporting.
- ❖ Some audit entities documented the findings of deficiencies identified during the verification of disclosures in their prepared audit documentation and communicated these to management. However, the audit entities did not assess the impact of these omissions on the opinion on the financial statements.
- ❖ Some audit entities have not adequately assessed the impact on the audit opinion regarding the absence of consolidated financial statements prepared by the entity, which is the parent company.

Recommendations:

- ❖ The audit entity should perform audit procedures to assess whether the overall presentation of the financial statements complies with the applicable financial reporting framework. In doing so, the audit entity should consider

whether the financial statements have been presented in a manner that appropriately reflects:

- the classification and description of financial information and the relevant transactions, events, and circumstances; and
 - the presentation, structure, and content of the financial statements.
- ❖ The evaluation of the acceptability of the presentation, structure, and content of the financial statements should include, for example, consideration of whether appropriate terminology has been used in accordance with the requirements of the applicable financial reporting framework for financial reporting, the level of detail, aggregation or disaggregation of amounts, and the established bases for calculating amounts. To achieve this, the audit entity should consider the use of an up-to-date, detailed checklist of disclosures in accordance with IFRS and national accounting standards (NAS).
- ❖ The audit entity should ensure a clear demonstration of the interrelationship between the issues in the checklist and the corresponding notes to the financial statements, which will enhance the quality of oversight of the procedure by the engagement partner and the individual responsible for quality control.
- ❖ The audit entity should develop and perform audit procedures to obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level, in relation to disclosures associated with the accounting estimate.

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- ❖ The audit entity should give greater attention to the quality of the review of the completeness of the disclosures in the financial statements, their assessment, and to communicating to management the need for more comprehensive and complete disclosure in the notes to the financial statements. Such omissions in disclosures also constitute qualitative misstatements in the financial statements. The audit entity should identify those omissions that should be included in the communications of audit findings to management and those charged with governance, as well as in management representation letters prepared in accordance with ISA 580. This will enable both management and those charged with governance to assess the impact and materiality of the disclosure omissions, which, among other things, will contribute to improving the quality of their oversight of the financial reporting process and, as a result, the quality of the financial statements.
- ❖ The audit entity should modify the opinion in the audit report if it concludes, based on the audit evidence obtained, that the financial statements, as a whole, contain material misstatements, including the presence of material misstatements in the qualitative disclosures.

- ❖ The audit entity should perform and document substantive procedures related to the process of finalising the preparation of the financial statements, including the preparation of the statement of cash flows. These procedures should encompass reconciling or cross-checking the information in the financial statements with the underlying accounting records.
- ❖ The audit entity should obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by:
 - obtaining an understanding of the methods used by management in determining segment information; and
 - assessing whether these methods are likely to result in disclosures that are in accordance with the applicable financial reporting framework; and
 - where appropriate, testing the application of such methods; and
 - performing analytical or other audit procedures that are appropriate under the circumstances.

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❖ The audit entity should place greater emphasis on the quality of testing the completeness of disclosures in the financial statements, their evaluation, and the communication to management regarding the need for more thorough and comprehensive disclosure in the notes to the financial statements. Such disclosure omissions also represent qualitative misstatements in the financial statements. The audit entity should identify these omissions and include them in the audit findings communicated to management and those charged with governance, as well as in the management representation letters prepared in accordance with ISA 580. This will enable both management and those charged with governance to assess the impact and materiality of the disclosure omissions, which, among other things, will enhance the quality of their oversight of the financial reporting process and, as a result, the quality of the financial statements.

❖ The audit entity should modify its opinion in the audit report if it concludes, based on the audit evidence obtained, that the financial statements as a whole are materially misstated, including the existence of a material misstatement in the financial statements, which pertains to the

qualitative disclosure of information.

❖ The audit entity should perform and document substantive procedures related to the process of finalising the preparation of the financial statements, including the preparation of the statement of cash flows, which should involve reconciling or verifying the information in the financial statements with the underlying accounting records.

❖ The audit entity should obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by:

- gaining an understanding of the methods used by management in determining segment information; and
 - evaluating whether these methods are likely to result in disclosures that comply with the applicable financial reporting framework; and
 - where appropriate, testing the application of such methods; and
 - performing analytical or other audit procedures that are appropriate under the circumstances.

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Audit Sampling.

❖ Audit sampling and the associated selective testing remain problematic issues for many audit entities due to:

- in certain cases, the sample size is insufficient to reduce the sampling risk to an acceptably low level;
- the use of a sample that is biased and/or not representative of the population;
- the absence of an explanation in the working papers regarding the basis for selecting items in the sample;
- the lack of proper documentation of the obtained audit evidence and the results of detailed testing in the working papers;
- the inability to develop appropriate procedures to achieve the testing objectives and/or perform suitable alternative procedures

when necessary.

Recommendations:

- ❖ When developing the audit sample, the audit entities should consider the objective of the audit procedure and the characteristics of the population from which the sample will be drawn. In doing so, the sample size should be determined in a way that reduces the sampling risk to an acceptably low level.
- ❖ The audit entities should select items for sampling in such a way that each element of the sample has an equal chance of being selected. In doing so, audit entities should consider that the random selection method may be subject to bias or predictability.
- ❖ Audit documentation should include details of the specific evidence obtained for each selected item in the sample.

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Substantive procedures.

❖ Due to the lack of sufficient audit documentation in some engagements, most audit entities were unable to provide evidence of performing substantive procedures, the results of those procedures, and the audit evidence obtained regarding certain material classes of transactions or account balances, including, where applicable, the relevant assertions. The most common issue was the absence of substantive procedures performed on significant items of income and expenses. Additionally, a recurring

concern for some audit entities remains the audit procedures relating to the recognition of purchases and sales in the appropriate reporting period and the identification of unrecognised liabilities.

Recommendations:

❖ Regardless of the assessed risks of material misstatement, the audit entity should design and perform substantive procedures for each significant class of transactions, account balance, and disclosure.

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Deficiencies in Audit Reports.

❖ Common deficiencies in audit reports include:

- inadequate description of the modification of the audit opinion. Furthermore, in a specific engagement, the audit entity issued a disclaimer of opinion and stated in the audit report the inability to obtain audit evidence regarding certain matters. However, the audit firm failed to include in the audit report a description of the identified material misstatements;
- the absence of a modification to the opinion on the current year's financial statements in the event of a modified opinion for the previous year, where the issue leading to the modification of the prior year's opinion has not been resolved;
- discrepancy between the opinion and the conclusions presented in the audit documentation of the audit entity;
- the inclusion of information regarding material uncertainty related to going concern in the "Explanatory Paragraph" or "Other Information" sections, rather than in the "Material Uncertainty Relating to Going Concern" section, as required by paragraph 22 of ISA 570;
- inadequate identification and description of key audit matters in the

audit report, including the omission of details regarding how the key audit matters were addressed during the engagement, which were not substantiated by the audit documentation prepared by the audit entity;

- the absence of key audit matters in the audit report, without including an explanation in the audit documentation as to the reasons for the audit entity's decision to exclude them.

Recommendations:

❖ The audit entity should modify the opinion in the audit report if it:

- the conclusion is reached based on the audit evidence obtained, that the financial statements, as a whole, contain material misstatements, including the presence of a material misstatement related to the qualitative disclosure of information;
- is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

❖ The inability to perform a specific procedure does not constitute a limitation on the scope of the audit, provided that the audit entity is able to obtain sufficient appropriate audit evidence through the performance of alternative procedures.

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- ❖ In the event of a material misstatement of the financial statements relating to specific amounts (including the disclosure of quantitative information), the audit entity should include in the "Basis for Opinion" section a description and quantitative determination of the financial impact of the misstatement, unless it is not practicable. If a quantitative determination of the financial impact is not practicable, the audit entity should state this in the section. In the case of a material misstatement relating to the disclosure of qualitative information, the audit firm should include in the "Basis for Opinion" section an explanation of how the disclosure of information has been misstated.
- ❖ In the event of a material misstatement in the financial statements arising from the omission of required disclosures, the audit entity should:
 - discuss the absence of the disclosure with those charged with governance;
 - describe in the "Basis for Opinion" section the nature of the omitted information; and
 - include the disclosure of the omitted information if it is practicable and if the audit entity has obtained sufficient appropriate audit evidence regarding the omitted information, provided this is not prohibited by law.
- ❖ If the modification of the opinion is due to the inability to obtain

sufficient and appropriate audit evidence, the auditor must include in the "Basis for Opinion" section a description of the reasons for such inability.

- ❖ If the previously published auditor's report for the prior period contained a qualified opinion, a disclaimer of opinion, or an adverse opinion, and the matter that led to the modification remains unresolved, the auditor entity shall modify the opinion on the financial statements for the current reporting period. In the paragraph of the auditor's report detailing the basis for the modification, the auditor must either: refer to both the current period figures and the corresponding figures when describing the matter that resulted in the modification, if the effect or potential effect of this matter on the current period's figures is material; or in other cases, provide an explanation stating that the audit opinion has been modified due to the impact or potential impact of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
- ❖ A negative opinion or a disclaimer of opinion concerning a specific matter, as outlined in the "Basis for Opinion" section, does not justify the omission of a description of other identified issues that would have led to a modification of the auditor's opinion. In such cases, disclosure of these other matters known to the auditor may be appropriate for the users of the financial statements.

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❖ If the information regarding material uncertainty is appropriately disclosed in the financial statements, the audit entity shall express an unmodified opinion on the matter and include a separate section in the auditor's report under the heading Material Uncertainty Related to Going Concern to:

- draw attention to the note in the financial statements that discloses information regarding the matters referred to in paragraph 19 of ISA 570; and
- state that these events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and that the auditor's opinion is not modified in respect of this matter.

❖ If the financial statements for the prior period were not audited, the auditor shall state in the Other Matters paragraph of the auditor's report that the corresponding figures were not audited.

❖ The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the relevant disclosure, if any, in the financial statements and explain:

- why the matter was considered to be one of the most significant for the audit and, as a result, was determined to be a key audit matter; and
- how the matter was addressed in the course of the audit.

❖ If, based on the facts and circumstances of the entity and the audit engagement, the audit entity determines that there are no key audit matters to report, or that the only key audit matters are those that lead to a modified opinion, the audit entity shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters".

❖ The audit entity shall include in the audit documentation:

- the matters that required significant audit entity attention, as determined in accordance with paragraph 9, along with an explanation of why each of these matters constitutes a key audit matter in accordance with paragraph 10 of ISA 701;
- where applicable, an explanation of the reasons for the audit entity's determination that there are no key audit matters to be communicated in the auditor's report.

❖ The auditor's report shall be dated no earlier than the date on which the audit entity has obtained sufficient and appropriate audit evidence on which to base the auditor's opinion on the financial statements. This includes evidence that:

- all statements and disclosures are part of the financial statements; and
- those charged with governance have confirmed their responsibility for the financial statements.

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Procedures Regarding Going Concern.

❖ Deficiencies in the assessment of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been a focus of audits in both 2022 and 2023. These matters have gained particular importance in the context of the full-scale war waged by Russia against Ukraine.

❖ Deficiencies Identified in the Consideration and Documentation of Going Concern by the Audit Entity:

- failure to Consider All Relevant Events or Conditions That May Individually or Collectively Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern, such as: temporary or complete cessation of production or commercial activities due to the occupation of parts of Ukraine's territory or increased missile strike threats; destruction and loss of assets; disruption of supply chains and distribution channels; temporary relocation of employees to safer regions; issues with energy supply; potential scenarios regarding the further course of the war, and other related factors;
- lack of evidence regarding the inquiry made to management about whether they are aware of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;

- failure to perform additional audit procedures to obtain sufficient appropriate audit evidence in determining the existence of significant uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including consideration of mitigating factors;
- inadequate application of the principle of professional scepticism in evaluating management's assessment of the entity's ability to continue as a going concern may result in the failure to obtain sufficient and appropriate audit evidence regarding the validity of management's conclusions that no material uncertainty exists;
- when the audit entity identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and includes a "Material Uncertainty Related to Going Concern" section in the auditor's report, it is crucial to consider whether the financial statements adequately disclose the existence of such material uncertainty.

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Recommendations:

❖ The entity prepares its financial statements on a going concern basis, unless management intends to liquidate the entity or cease operations, or has no realistic alternative to such actions. Therefore, when preparing financial statements in accordance with IFRS under the challenging conditions of war, the company must assess its ability to continue as a going concern and make the appropriate disclosures in the financial statements.

❖ The assessment of the entity's ability to continue as a going concern requires management to exercise judgment at a specific point in time regarding the uncertain future outcomes of events or conditions. This judgment will necessitate that the entity considers the following factors:

- the scale of operational disruptions;
- potential reduction in demand for products or services;
- liabilities due for settlement within one year;
- potential liquidity issues and working capital shortages;
- access to existing sources of funding for working capital;
- risks related to the loss or impairment of assets.

❖ Therefore, when conducting the audit, the audit entity must give particular attention to the impact of events arising from military aggression

on the client's ability to continue as a going concern, ensuring that appropriate disclosures are made in the financial statements.

❖ The auditor's responsibility during financial statement audit in relation to going concern and its impact on the auditor's report is addressed in ISA 570, which requires the audit entity to:

- when performing risk assessment procedures, consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In this context, the audit entity must determine whether management has already undertaken an assessment of the entity's ability to continue as a going concern;
- in evaluating management's assessment, the audit entity should consider whether management's evaluation includes all relevant information that becomes available to the auditor during the audit.

❖ The audit entity should assess whether sufficient appropriate audit evidence has been obtained and reach a conclusion regarding the appropriateness of management's use of the going concern assumption as the basis for the preparation of the financial statements:

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- should perform and document additional audit procedures to obtain sufficient appropriate audit evidence regarding the existence of material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. These procedures should include consideration of mitigating factors;
- to assess the quality of the disclosures made by management. The audit entity should specifically focus on whether the financial statements contain a clear disclosure of the existence of significant uncertainty;
- to assess whether sufficient appropriate audit evidence has been obtained and consider the impact of the obtained evidence on forming the audit conclusions and the auditor's report. The audit entity should modify the opinion if there is a disagreement with management regarding their assessment of the entity's ability to continue as a going concern, or if there is inadequate disclosure in the financial statements;
- to report the relevant information to those charged with governance.

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External Confirmations.

❖ With regard to external confirmations, the most common deficiencies identified included:

- isolated instances where external confirmations were not included in the audit documentation;
- failure to demonstrate the performance of alternative procedures for each instance where a response to external confirmations concerning accounts receivable and payable was not received;
- lack of evidence to support the reconciliation of accounting records with the external confirmations received;
- absence of documentation demonstrating the performance of additional audit procedures when an external confirmation for an interim date was received;
- failure to investigate discrepancies between external confirmations and the accounting records;
- insufficient attention given to the use of external confirmations in relation to bank relationships, or failure to include off-balance-sheet liabilities within such external confirmations.

Recommendations:

❖ To comply with the requirements of ISA 501, the audit entity is recommended to:

- include external confirmations obtained as audit evidence in the audit documentation;
- investigate discrepancies to determine whether they indicate the presence of material misstatements;
- for each instance of non-response to external confirmation requests, perform alternative audit procedures to obtain relevant and reliable audit evidence;
- if external confirmation is obtained for an interim date, carry out further audit procedures to confirm the balance as of the reporting date;
- since bank account balances are associated with a high risk of material misstatement, obtain direct external confirmations from banks;
- the external bank confirmation request should include an enquiry to provide by bank information regarding any potential off-balance sheet obligations.

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Testing of Controls.

❖ Some audit entities assessed the risk of material misstatement at less than a high level (for example, low or moderate) in relation to certain business cycles, financial statement line items, or assertions, without performing tests of relevant controls either in the current or previous periods. In other instances, testing of controls was limited to enquiry-based procedures, including completion of questionnaires with binary “Yes” or “No” responses to control-related questions concerning general features of document flow, the existence and reconciliation of data between analytical and general ledger accounts in specific accounting areas, and, in some cases, the structure of the control activities. Common deficiencies also included:

- the audit entity’s reliance solely on tests of controls without the performance of substantive procedures;
- reliance on control activities that did not address all relevant assertions, while extrapolating the results of such control testing across all assertions generally.

Recommendations:

❖ The audit entity shall design and perform tests of controls to obtain sufficient appropriate audit evidence regarding the operating effectiveness of relevant controls when:

- the audit entity’s assessment of the risks of material misstatement at the assertion level includes an expectation that controls are operating effectively (i.e., the audit entity intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
 - substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.
- ❖ When designing and performing tests of controls, the audit entity shall obtain more persuasive audit evidence the greater the reliance placed on the operating effectiveness of those controls.
- ❖ Enquiry alone is not sufficient to test the operating effectiveness of controls. In designing and performing tests of controls, the audit entity shall:
- perform other audit procedures in combination with enquiry in order to obtain audit evidence about the operating effectiveness of the controls. This includes obtaining evidence regarding:
 - how the controls were applied at relevant times during the period under audit;
 - the consistency with which those controls were applied; and
 - by whom, or by what means, the controls were applied;

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- determine whether the controls being tested are dependent on other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence regarding the operating effectiveness of such indirect controls.
- ❖ In addition to the level of reliance placed on controls, matters considered by the auditor in determining the extent of tests of controls include:
 - the frequency with which the control is performed by the entity throughout the period;
 - the length of the period within the audit period for which the auditor intends to rely on the operating effectiveness of the control;
 - the expected rate of deviation from the control;
 - the relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level;
 - the extent of audit evidence obtained from tests of other controls related to the assertion.
- ❖ Where the audit entity obtains audit evidence regarding the operating effectiveness of controls during an interim period, it shall obtain audit evidence about any significant changes to those controls that have occurred subsequent to the interim period. The audit entity shall also determine what additional audit evidence needs to be obtained for the remaining period.
- ❖ When evaluating the operating effectiveness of relevant controls, the audit entity shall assess whether misstatements identified through substantive procedures indicate that such controls are not operating effectively. However, the absence of misstatements detected through substantive procedures does not provide audit evidence that the controls related to the assertion being tested are operating effectively.
- ❖ If deviations are identified from the control measures on which the audit entity intends to rely, the auditor must make specific inquiries to understand these issues and their potential consequences, as well as determine whether the tests of controls performed provide an acceptable basis for reliance on such controls, whether additional control tests are necessary, and whether potential risks of material misstatement should be addressed by substantive procedures.

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Other deficiencies.

❖ Other deficiencies identified by the Inspection predominantly relate to the following matters:

- Revenue recognition:
 - inadequate understanding of the terms and conditions of complex arrangements and their implications for accounting treatment and financial reporting (e.g., revenue recognised over time or at a point in time, discounts and rebates to customers, returns, etc.)
 - failure to identify inappropriate application of the applicable financial reporting framework in relation to revenue recognition;
 - failure to perform procedures to determine whether revenue was recognised in the appropriate accounting period;
 - inability to appropriately assess and respond to the risk of fraud in revenue recognition.
- With respect to other information:
 - inadequate identification of all relevant other information, such as the annual report of a securities issuer, the management report, and similar documents;
 - absence of audit documentation evidencing that the Audit Entity had read the other information for the purpose of identifying material inconsistencies between that information and the financial statements;
 - failure to obtain a written representation from management confirming that the final version of the other information would be provided to the Audit Entity prior to its issuance, in cases where such other information is prepared subsequent to the date of the auditor's report;
- failure to include the final version of other information in the audit documentation;
- failure to consider the implications for the other information of the basis for the audit opinion modification by the audit entity with respect to the financial statements.
- With respect to related parties:
 - failure to perform appropriate audit procedures to assess the completeness of the list of related parties;
 - failure to properly test known related party transactions and balances, as well as to evaluate the adequacy of related disclosures in the notes to the financial statements.
- With respect to inventory procedures:
 - failure to properly perform acceptable procedures for attendance at physical inventory counting;
 - failure to perform appropriate audit procedures regarding inventory held by third parties;
 - failure to obtain sufficient appropriate audit evidence regarding inventory movements where attendance at physical inventory counting is conducted at a date other than the reporting date.

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- With regard to opening balances:
 - deficiencies in the review of the previous auditor's working papers
 - the inability to obtain acceptable alternative audit evidence regarding the opening balances.
- ❖ In conclusion, it is important to emphasise that ensuring audit quality is the responsibility not only of the audit firm but also of its client. Clients must provide the audit firm with access to the necessary information and documentation required for the audit, and they must also comply with the requirements of the applicable financial reporting framework.
- ❖ A key recommendation in each of our annual reports is that audit entities should pay attention to the most common deficiencies identified in the work of audit firms and develop responsive actions to help them improve their processes and avoid future errors. By prioritising the adherence to these recommendations, audit firms will be able to enhance the quality of their services and ensure public trust in the outcomes of their work.

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The results of following up on previously provided recommendations

❖ Throughout 2023, the Inspection tracked the implementation of mandatory recommendations arising from the quality control reviews of audit services for 19 audit entities (compared to 16 audit entities in 2022).

❖ The most significant difficulties in implementing the recommendations regarding the application of ISAs, compared to 2022, have remained largely unchanged and were encountered by the audit entity in the following areas, which led to their non-fulfilment or partial fulfilment:

- identification and assessment of the risks of material misstatement, and their link to actions taken in response to assessed risks (ISA 315 (revised 2019), ISA 330);
- overall presentation of financial statements and completeness of disclosures (ISA 330);
- performing substantive procedures for each significant class of transactions, account balances, and disclosures (ISA 330);
- understanding the internal control of the entity (ISA 315);
- testing the effectiveness of control measures (ISA 330);
- obtaining audit evidence regarding the existence and condition of inventory (ISA 501);
- the reasonableness of accounting estimates (ISA 540);
- the assessment of fraud risks (ISA 240, ISA 315 (revised 2019));
- testing the compliance of journal entries (ISA 240);
- opening balances (ISA 510);
- external confirmations and alternative procedures in the absence of a response (ISA 505);
- performing procedures related to transactions with related parties (ISA 550);
- the assessment of the entity's ability to continue as a going concern, the review of disclosures in the financial statements regarding significant uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the evaluation of the impact of such matters on the auditor's report (ISA 570);
- the analysis of events after the reporting period, performing audit procedures if, after the issuance of the financial statements, the auditor becomes aware of a fact that, had it been known to the auditor at the date of the auditor's report, could have led to a modification in the auditor's report (ISA 560);

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- the assessment of the impact on the auditor's report of a modification to the opinion on the financial statements for the prior reporting period (ISA 710);
 - the review of other information and the consideration of the impact on other information of matters that led to the modification of the auditor's opinion (ISA 720).
- ❖ With regard to recommendations related to the quality management system, the audit entities should focus more on the following areas:
- the effectiveness and comprehensiveness of the internal quality control monitoring programme;
 - timeliness in finalising engagement files and ensuring the integrity of audit documentation;
 - the quality and transparency of the process for evaluating engagement staff and partners, along with the connection between performance quality, remuneration, and career progression.
- ❖ We would like to draw attention to the fact that failure to fully implement
- or partial implementation of recommendations may indicate a poor analysis of the root causes of deficiencies, and consequently, the development of an inappropriate action plan to address them. Additionally, the reasons for this may include:
- misunderstanding of the relevant ISA requirements;
 - ignoring recommendation;
 - lack of timely controlling of adherence to the established action plan within the audit entity;
 - insufficient internal communication within the audit entity for implementing changes;
 - lack of or poor-quality training for staff on updated policies and procedures, and audit documentation templates;
 - introduction of new methodologies and audit documentation templates without due attention to the quality of their application.

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Resources allocated for performing functions

❖ In 2023, the quality control reviews of audit services, the management of disciplinary proceedings, and the monitoring of the audit services market were carried out by the Inspection's Control Department, which consisted of five inspectors. External experts were not involved in the reviews.

APPENDIX 3. BUDGET EXECUTION

- ❖ Summary information on the consolidated budget performance indicators of the Audit Public Oversight Board for the year 2023

thousand UAH

Consolidated Information	Plan	Actual
Receipts (excluding cash balance)	23 793	32 341
Expenditures (excluding future period expenses)	33 707	28 809

- ❖ Budget performance indicators for receipts in 2023.

thousand UAH

Receipts	Plan	Actual
Opening balance at the beginning of the year	13 999	13 999
Fixed contribution from each audit report prepared by the audit entity as a result of providing audit services for the mandatory audit of public interest entities	18 854	26 348,3
Fixed contribution from each audit report prepared by the audit entity, authorised to conduct mandatory audits of public interest entities, resulting from the provision of audit services for mandatory audits, excluding public interest entities	2 814	3 782,3
Reimbursement of expenses related to the auditor attestation process	625	522,8
Other	1 500	1 687,6
Receipts (excluding opening balance)	23 793	32 341
Total income	37 792	46 340

APPENDIX 3. BUDGET EXECUTION

❖ Principal indicators of budget execution in respect of expenditure for the year ended 2023.

thousand UAH

Expenditure	Plan	Actual
Wages and related accruals	23 958	23 475,1
Provision for employee benefits (for unused annual leave from prior periods)	2 385	898,1
Utility, administrative (stationery) and other operating expenditures	3 389	2 199,8
Expenditure on the acquisition of equipment and furniture, office equipment, network computer hardware, and licensed software	400	391,7
Expenditure on the translation of ISAs and methodological support	300	–
Travel expenses	500	212,5
Expenditure on activities	100	–
Expenditure on the payment of membership fees to the International Forum of Independent Audit Regulators (IFIAR)	400	–
Expenditure on the audit of the annual financial statements of the state institution "Audit Public Oversight Board"	250	250
Expenditure on the operation of the information and analytical system elements of the state institution "Audit Public Oversight Board"	450	434,6
Expenditure on the creation of new elements of the information and analytical system of the state institution "Audit Public Oversight Board"	500	98
Expenditure on continuous professional training	150	124,5
Expenditure on providing social guarantees to employees of the Quality Assurance Inspection	250	102,5
Expenditure on supporting the auditor attestation process	675	622,2
Expenditure (excluding future period expenses)	33 707	28 809
Future period expenses	4 085	17 531
Total expenditure	37 792	46 340

❖ As at 31 December 2023, the closing balance of funds amounted to UAH 17,531,000.