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**Guidance on good practices in the area of compliance  
monitoring and enforcement**

Presented by

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**The United Nations Conference  
on Trade and Development  
(UNCTAD)**



**Monitoring of Compliance  
and Enforcement (MC&E) Mechanisms  
for Corporate Reporting, Audit, and Requirements for  
Professional Accountants in Ukraine**

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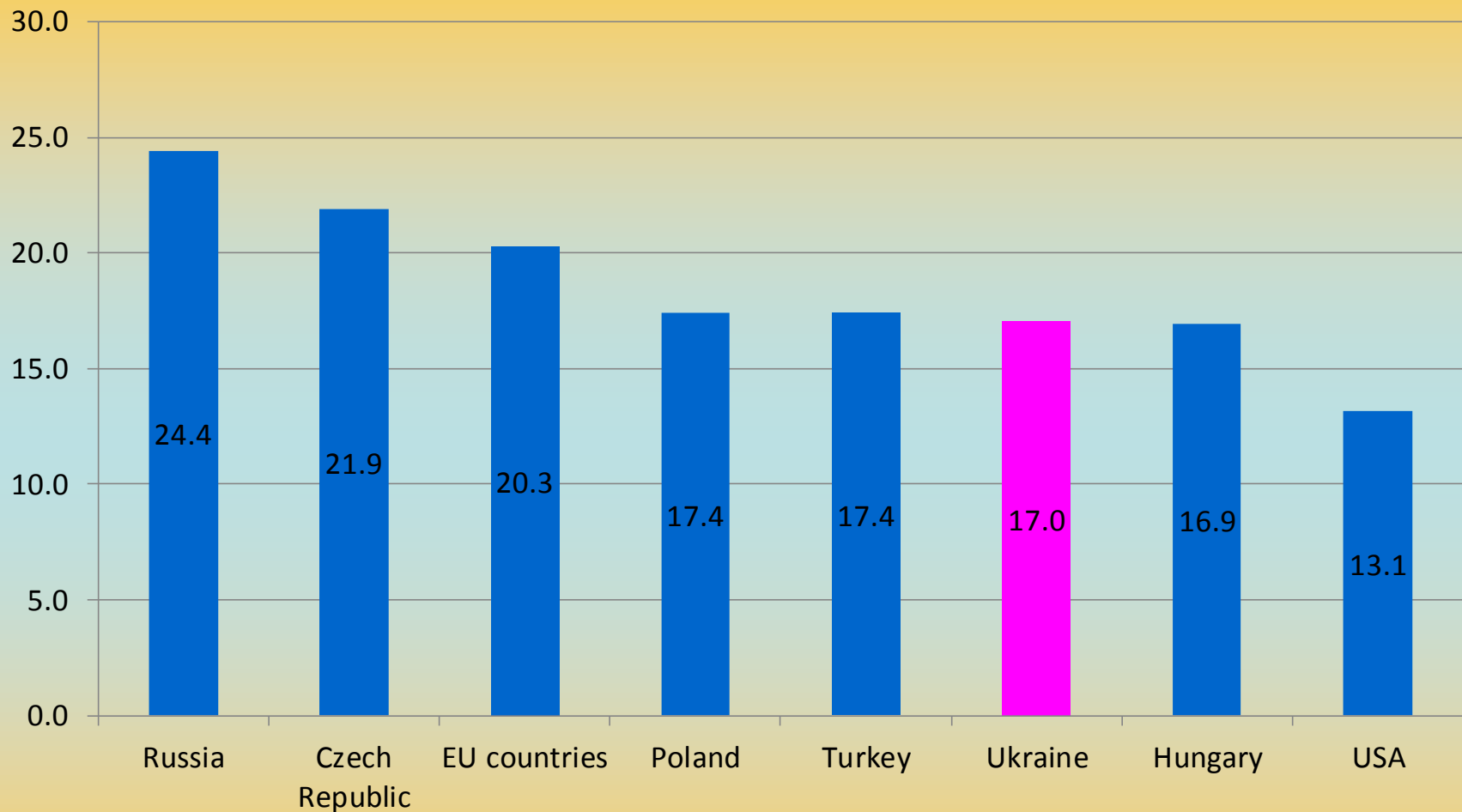
*the Ministry of Finance of Ukraine,*

*Ph.D. in Economics, Professor*

# SUGGESTIONS TO BROADEN THE SCOPE OF THE MC&E SYSTEM

- I. Introduction and background
- II. Conceptual Framework for building the MC&E system
- III. Monitoring of compliance and enforcement of corporate reporting requirements
- IV. Monitoring of compliance and enforcement of reporting requirements for public sector entities in accordance with IPSAS**
- V. Monitoring of compliance and enforcement of auditing requirements and quality assurance
- VI. Monitoring of compliance and enforcement of requirements for professional accountants

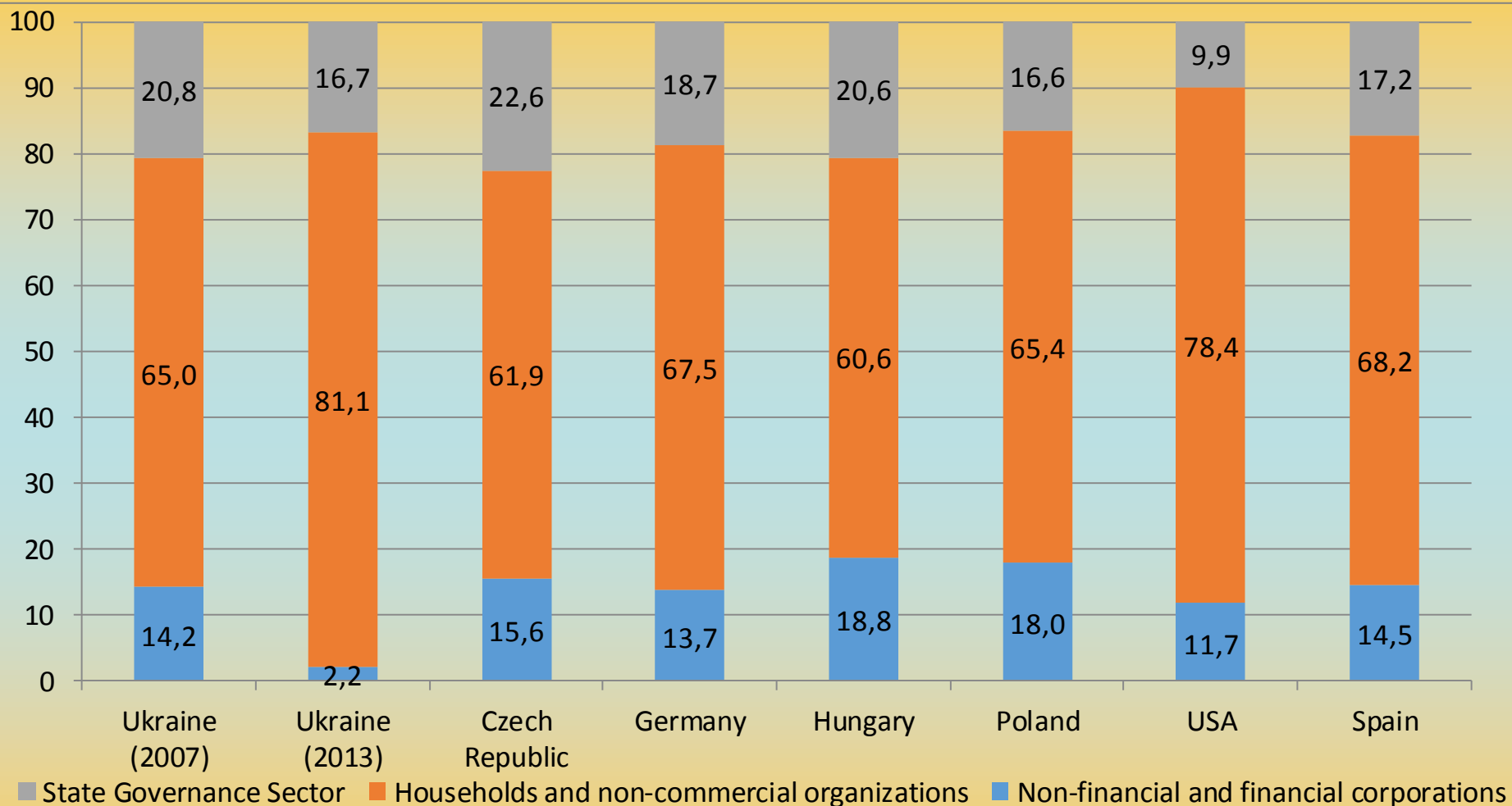
# GROSS NATIONAL DISPOSABLE INCOME (GNDI) OF THE STATE GOVERNANCE SECTOR (as % of the official GDP) (2013)



Source:

- 1) OECD National Accounts Statistics: General Government Accounts. Available at: [http://www.oecd-ilibrary.org/economics/data/general-government-accounts-sna-2008\\_na-gga08-data-en;jsessionid=2krubtbjoqfjj.x-oecd-live-02](http://www.oecd-ilibrary.org/economics/data/general-government-accounts-sna-2008_na-gga08-data-en;jsessionid=2krubtbjoqfjj.x-oecd-live-02)
- 2) «Національні рахунки України за 2013 рік» /Держстат: статистичний збірник. – Київ, 2015. –164 с.

# STRUCTURE OF GNDI BY ECONOMIC SECTOR, % (2013)

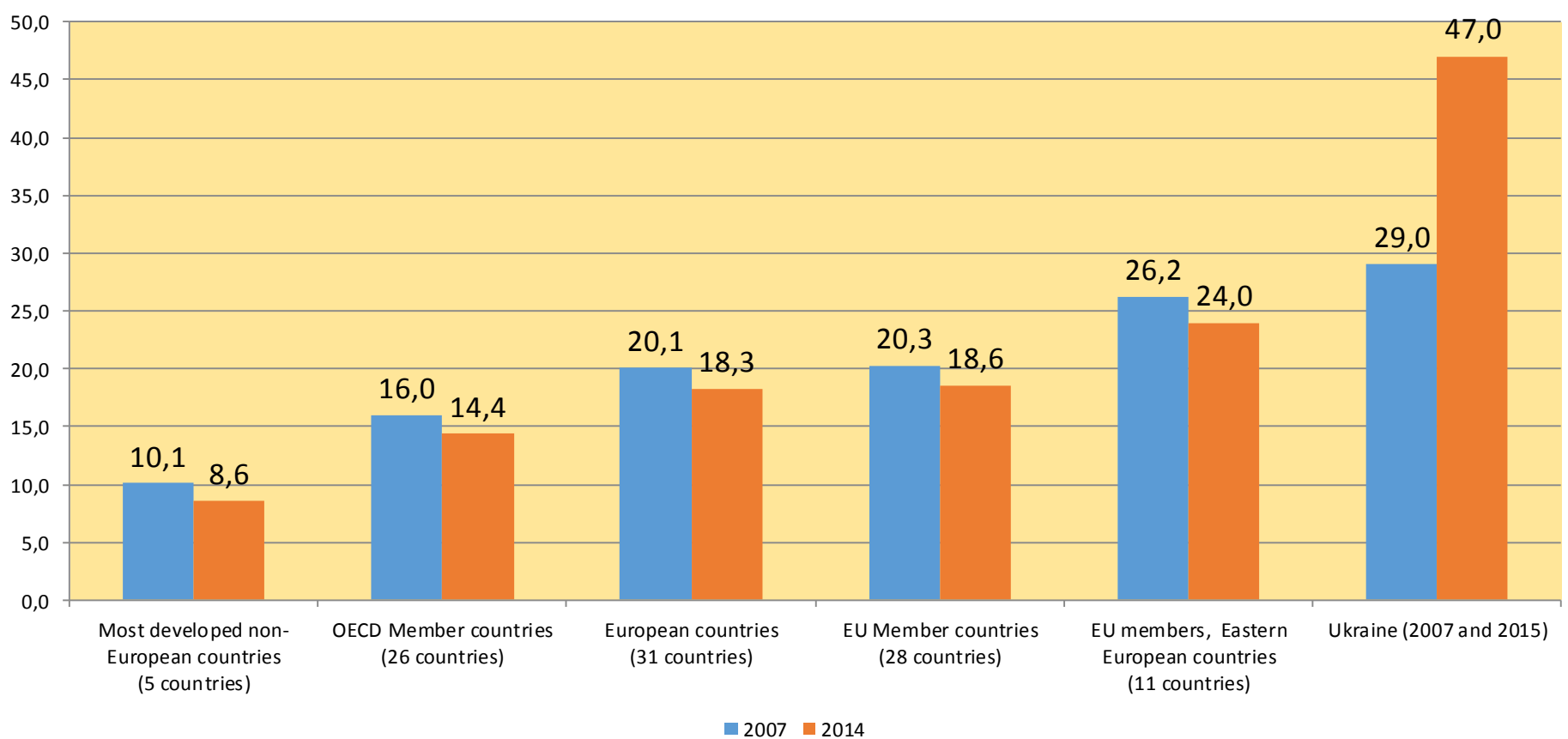


Source:

1) National Accounts at a Glance 2013, OECD. Available at: [http://www.oecd-ilibrary.org/economics/national-accounts-at-a-glance-2013/disposable-income\\_na\\_glance-2013-8-en](http://www.oecd-ilibrary.org/economics/national-accounts-at-a-glance-2013/disposable-income_na_glance-2013-8-en)

2) «Національні рахунки України за 2013 рік» /Держстат: статистичний збірник. – Київ, 2015. – 164 с

# SHADOW ECONOMY (as % of the official GDP)



Source:

1) Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Developments. Available at:

<http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf>

2) Тенденції тіньової економіки в Україні: I квартал 2015 року / Мінекономрозвитку. - [Електронний ресурс]. – Режим доступу: <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=e384c5a7-6533-4ab6-b56f-50e5243eb15a&tag=TendentsiiTinvoiiEkonomiki>

# POTENTIAL RISKS THAT DETERMINE THE ASYMMETRY FOR INFORMATIONAL ENVIRONMENT OF A PUBLIC SECTOR ENTITY IN ACCORDANCE WITH COSO: INTERNAL CONTROL — INTEGRATED FRAMEWORK

## EXTERNAL RISKS

- Economic, social and political threats;
- Increased competition and changes in market conditions;
- Fiscal risks;
- Legal and regulatory changes;
- IT changes;
- Litigations and fraud;
- Risks associated with inefficient activities of Oversight Bodies.

## INTERNAL RISKS

- Noncompliance with regulatory requirements;
- Deficiencies in internal control systems;
- Unethical and unprofessional conduct of managers of all levels and employees;
- Failures of computer information systems;
- Possible errors caused by wrong managerial decisions.

# THE IMPORTANCE OF MONITORING OF COMPLIANCE AND ENFORCEMENT OF STANDARDS IN THE PUBLIC SECTOR

- In most countries, state expenditures represent one third of GDP.
- Public services undergo rapid changes and, accordingly, requirements for public services increase along with taxes.
- In certain western countries the public debt exceeds GDP;
- Public expectations regarding the quality of public services are growing.
- There is a growing need for continuous improvement of accountability and transparency of public funds;
- Other challenges (population ageing, social services reform, environment and climate changes, military expenditures, costs of fighting terrorism and crime, etc.).



# THE RESULTS OF APPLYING ADT AND THE SYSTEM OF MC&E MECHANISMS TO CORPORATE REPORTING IN UKRAINE

**Stabilization  
Transparency**

**These tools have been used to develop the following bills:**

- Draft Law of Ukraine on Amendments to the Law of Ukraine on Accounting and Financial Reporting in Ukraine (24.04.2015);
- Draft Law of Ukraine on an Audit of Financial Statements and Auditing (17.08.2015);
- Draft Law of Ukraine on Internal Audit (07.07.2015).

**Unification  
Openness**

.....  
**Reforms**

# SUGGESTIONS FOR IMPROVING THE DRAFT GUIDANCE (MC&E)

## **1. In the area of coordination of the work on issues of strengthening corporate and public transparency and accounting:**

-Ensure the quality of maintaining accounting records and preparing financial statements in the public sector when the scope of the MC&E system is defined (*for example, by the following criteria, such as relevance, faithful representation, understandability, comparability, timeliness etc.*) – *paragraph 12*;

-Resolve issues of monitoring of compliance with the reporting standards by public sector entities – *paragraph 13*.

## **2. In the area of coordination of the work on monitoring of compliance and enforcement of requirements for corporate reporting:**

- Expand the scope of MC&E to cover institutions included in the public sector: general government, government-owned corporations, budget-funded entities – *paragraph 41*.

## **SUGGESTIONS FOR IMPROVING THE DRAFT GUIDANCE (MC&E) (cont.)**

### **3. In the area of coordination of the work on monitoring of compliance and enforcement of requirements for audit and quality assurance:**

-Specify the Oversight Bodies that supervise and control the compliance with accounting standards by public sector entities – *paragraph 51*;

-Disclose institutional mechanisms of internal monitoring, such as the appointment of internal auditors in government entities; organizational and financial independence of internal government auditors, their official subordination and accountability; professional and social protection, etc. – *paragraph 52*;

-Disclose the criteria applied by national regulators to reform national accounting and audit systems, in particular, the best global and European standards – *paragraphs 61-62*;

-Initiate the inclusion of specific provisions regarding the need for post-audit support services and strengthening the responsibility of a government corporation's management for the use of the auditor's report and implementation of recommendations made by the auditor – *paragraph 60-60<sup>1</sup>*;

## SUGGESTIONS FOR IMPROVING THE DRAFT GUIDANCE (MC&E) (cont.)

- 4. In the area of coordination of work on monitoring of compliance and enforcement of requirements for professional accountants:**
- To the MC&E Guidance, add the provisions for training potential workforce for public sector entities involved in providing public services – *paragraph 85*;
  - In the scope of impact assessment, include requirements for public disclosures in the area of disciplinary proceedings and imposition of differentiated (violation-based) sanctions against auditors, audit firms, and professional accountants – *paragraph 89*.

**THANK YOU!**

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