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Transparency and Disclosure

SURVEY – Ukraine

by

Svitlana Yak. Zubilevitch

**Head of the UFPAA Professional Education
Committee**

**Ukrainian Federation of Professional
Accountants and Auditors**

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Questionnaire

A-What is the role of your institutions regarding financial and non-financial disclosure?

1. What is the role of your institution in establishing disclosure standards (specify)?

The Accounting Standards and Practices Committee prepares draft accounting standards that are submitted to the Methodological Council with the Ukrainian Ministry for Finance. The State Securities and Exchange Market Commission (SSEMC) forwards its draft documents relating to financial disclosures to our organisation for discussion.

2. What is the role of your institution in enforcing disclosure rules/ regulations (specify)? What sanctions can it impose?

No sanctions are imposed by UFPAA for violations of disclosure regulations. The State Securities and Exchange Market Commission forwards its draft documents that provide for such sanctions to our organisation for discussion.

3. What are your institution's other roles and responsibilities (i.e. licensing, training, etc.)?

During 1999-2000, UFPAA in co-operation with SSEMC trained accountants of open joint stock companies (6 000 people) under the World Bank Project. Manual on Accounting and Financial Reporting has been prepared and distributed to practitioners and students.

B- Country background information

1. Number of Joint Stock Companies:

1.1 Number of Open Joint Stock Companies (publicly listed / traded companies):

1.2 Number of Closed Joint Stock Companies (non publicly listed / traded limited companies):

C- Does the corporate governance framework ensure that timely and accurate disclosure is made on all material matters regarding the corporation?

1. Is the company required to prepare annual (or more frequent) audited financial statements showing the financial performance and the financial situation of the company?

*Is this required by the company law, securities law, stock exchange regulation or other related laws?
Yes, this is provided by the Law of Ukraine "On Business Entities", the Law of Ukraine "On Auditing Activities", other regulatory documents of SSEMC.*

Is this applied in practice?

Yes. SSEMC requires these reports to be filed by 30 April of the year that follows the reporting year.

What are the enforcement procedures? Are there any sanctions (specify)?

2. Is consolidated financial reporting required for corporate groups? On what basis?

*Is this required by the company law, securities law, stock exchange regulation or other related laws?
This is provided by the Law of Ukraine "On Accounting and Financial Reporting".*

Is this applied in practice?

This requirement is just beginning to be implemented in Ukraine.

What are the enforcement procedures? Are there any sanctions (specify)?

3. Is the company required to include in annual reports:

3.1 Company objectives and strategy?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.2 Major share ownership and voting rights?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.3 Related party transactions (management's direct or indirect interest in any material transaction to which the company or any of its subsidiaries was or is to be a party)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.4 The identity and the professional background of board members and key executives, and their individual or collective remuneration?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.5 Directors' and key executives' ownership interest in company shares?

Is this required by the company law or by the stock exchange regulation?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.6 Material foreseeable risk factors (trends or uncertainties that are expected to have or have had a material impact on the company)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.7 Material issues regarding employees and other stakeholders (management-employee relations, business ethics, environment, or other public policy concerns)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

3.8 The governance / organisational structure of the company (i.e. key positions in the company)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

2.9 An analysis of the company's operational results?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

4. Is the company required to disclose extraordinary developments affecting the company (i.e. mergers/acquisitions, resignation of key executives, filing for bankruptcy, etc.) -

5. What accounting standards are used?

4.1 Are companies required to prepare accounts in accordance with local or recognised International Accounting Standards (specify)?

Yes. Ukrainian law requires companies to present financial statements prepared under national standards that do not contradict IAS.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

The Law of Ukraine "On Accounting and Financial Reporting"

Is this applied in practice?

Yes, since 2000

What are the enforcement procedures? Are there any sanctions (specify)? -

4.2 What are the major differences between the local and International Accounting Standards?

National Ukrainian standards choose mainly IAS benchmark treatment.

4.3 What are, in your opinion, the major deficiencies of the local accounting standards?

In some cases (although they are very rare), old accounting treatment is prescribed. For example, low value items with the useful life of more than one year are accounted for as non-current assets.

4.4 Is there a programme for implementing IAS (specify)?

Internal documents of the SSMEC indicate that joint stock companies will report under IAS since 2003.

5. Are the annual accounts required to be audited? If so how frequently and by whom?

Is this required by the company law, securities law, stock exchange regulation or other related laws?
Yes, it is provided by the Law of Ukraine "On Business Entities", "On Auditing Activities", other regulations issued by SSMEC.

Is this applied in practice?

Yes.

What are the enforcement procedures? Are there any sanctions (specify)?

6. What is the role of the board of directors in ensuring that the company complies with financial and non-financial disclosure requirements?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

7. What is the role of the management in ensuring that the company complies with financial and non-financial disclosure requirements?

Is this required by the company law, securities law, stock exchange regulation or other related laws?
Under the Law of Ukraine "On Accounting and Financial Reporting", management is responsible for the preparation and timely presentation of financial statements.

Is this applied in practice?

Yes

What are the enforcement procedures? Are there any sanctions (specify)?

8. Are auditors required to be independent (e.g. no material relationships with the company including other fee-generating activities)?

If so, how is independence defined? Who appoints the auditor?

Is this required by the company law, securities law, stock exchange regulation or other related laws?
Auditors are required to be independent by the Law of Ukraine "On Auditing Activities", national standards on auditing and Code of Professional Ethics for Auditors based on IFAC requirements. Auditors are appointed by a company's management.

Is this applied in practice?

No. The Ukrainian Union of Auditors and Audit Chamber of Ukraine do not exercise control over auditors' independence.

What are the enforcement procedures? Are there any sanctions (specify)?

Yes. Suspension or termination of auditor's certificate.

9. Are auditors liable (i.e. responsible) for negligence or other wrongdoing (specify)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?
Liability of auditors for improper performance of contract for audit services is stipulated in the Law of Ukraine "On Auditing Activities".

Is this applied in practice?

Yes.

What are the enforcement procedures? Are there any sanctions (specify)?

Yes. Suspension or termination of auditor's certificate.

Who has the right to seek redress (i.e. shareholders, managers, the state, or other stakeholders)?

10. Does the legal framework require companies to disclose to a specific range of users (i.e. SRO's, shareholders, securities regulators, etc.)? If so, does the legal framework distinguish what information must be disclosed to specific users and when this information must be disclosed? -

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

11. Do all shareholders receive a copy of the annual report and accounts or are they able to obtain them upon request?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Yes. This is required by the Law of Ukraine "On Business Entities".

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

12. What are the channels of disclosure (i.e. dissemination through the press, over the internet, through the postal system)? Which are the most used?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

D- What are the training needs and existing training facilities for accountants and auditors?

1. Does the legal and regulatory framework specify the qualifications or recognition criteria that an accountant must satisfy in order to be certified as a public accountant?

Yes. The Law of Ukraine "On Auditing Activities". These requirements are specified in the Audit Chamber's Regulations on Certification of Auditors.

2. Does company law or other laws and regulations specify the qualifications or recognition criteria that an auditor must satisfy in order to be able to conduct a statutory audit?

Yes. The Law of Ukraine "On Auditing Activities"

3. Are there sufficient training facilities for accountants and auditors (specify)?

UFPAA conducts training seminars and carries out the certification of its members under three levels. However, the right to certify auditors belongs solely to the Audit Chamber of Ukraine. The existing certification programme proposed by the Chamber does not meet the requirements of the International Certification of Auditors.

- 4. Do local auditors have sufficient training and resources to conduct audits according to internationally used auditing standards? Are they sufficiently familiar with International Accounting Standards? If so, how do they gain such knowledge and experience?**

No. UFPAA is conducting negotiations with UUA and Audit Chamber to review the auditors' certification programme UFPAA, in collaboration with the IBTCI Accounting Reform Project, intend to train 200 certified auditors how to perform audits under international standards during March – April 2001.

- 5. Do companies have a dedicated accounting department? If so, does this department employ certified accountants? Who supervises the work of the accounting department?**

- 6. Do internal accountants have sufficient training and resources to prepare annual accounts according to International Accounting Standards?**

The Ukrainian Institute of Internal Auditors was registered in 2001. Only the National Bank of Ukraine prescribes mandatory internal audits in commercial banks and has issued regulations on internal audit department and standards.

- 7. What is the total number of certified accountants? How many accountants are certified yearly?**

There are over 3,000 certified accountants in Ukraine. UFPAA started certifying its members in 1997. Around 600 people passed the first level examination, 42 people passed the second level.

- 8. How many certified accountants engage in auditing functions on a full-time basis? (i.e. what is the total number of licensed auditors?)**

Under effective Ukrainian laws, auditing activities is not subject to licensing. The total number of audit firms and individual auditors in public practice, according to the Chamber's Register, is

_____.

E- Can you describe one or several cases involving major violations of disclosure requirements? (i.e. denied access to information; accounting manipulation; non disclosure of required strategic information; etc.). What enforcement actions were taken in each case?

F- What are from your point of view the impediments and deterrents to full disclosure by companies?

G- Please add any relevant information that has not been covered by the above questionnaire.