

The Law of Ukraine

On Auditing Activity

as amended and supplemented by the Laws of Ukraine

No.81/95-VR dd. March 14, 1995

No.54/96-VR dd. February 20, 1996

This Law establishes legal grounds of conducting auditing activity in Ukraine and is aimed at developing the system of independent financial control in order to protect owner's interests.

Section I

GENERAL PROVISIONS

Article 1. Scope of the Law

Provisions of this Law shall be valid within the territory of Ukraine.

Article 6. Auditing Firm

Mandatory auditing inspection of the annual balance sheet and accounting of subjects of economic activity with economic turnover at least 250 untaxed minimal shall be conducted once per three years.

(Article 10 is supplemented with paragraph two according to the Law of Ukraine No.81/95-VR dd. March 14, 1995)

- 2) inspection of financial state of founders of commercial banks, enterprises with foreign investments, joint-stock companies, holdings, investment funds, subsidiaries and other financial intermediaries;
- 3) securities issuers;
- 4) state enterprises in case of leasing integral property compounds, privatization, corporatization and other changes of the form of ownership;
- 5) raising the question on recognizing a company insolvent or bankrupt.

Conducting audit is also mandatory in other cases, envisaged by Laws of Ukraine.

Article 11. Responsibility for Observing the Procedure of Accounting

Responsibility for observing the procedure of accounting determined by Ukrainian legislation, timely and complete provision of accounting to users and auditors shall be assigned to the general manager of the subject of economic activity.

Public accounting must be inspected by auditor (auditing firm) and may be made public within the year following the accounting year.

Auditing inspections do not exclude conducting control by state tax inspections over observing tax legislation and performing controlling functions by other subjects, authorized to do this by Laws of Ukraine.

Section II

CERTIFICATION AND LICENSING IN AUDITING ACTIVITY

Article 12. Certification of Auditors.

Certification (identification of qualification aptitude) of auditors shall be conducted by the Auditing Chamber of Ukraine.

The right to receive the certificate is given to citizens of Ukraine that have higher education, certain knowledge on audit issues and work experience not less than three years running on the position of auditor, inspector, accountant, lawyer, financier or economist. Possession of certain knowledge on audit issues is identified by means of a corresponding examination.

Persons that failed the examination are entitled to take it again not earlier than one year after the decision is made by the Auditing Chamber of Ukraine.

Term of validity of the certificate cannot exceed five years.

Members of the Auditing Chamber of Ukraine are subject to certification in compliance with the established procedure.

Persons, delegated to the Auditing Chamber of Ukraine on the first calling are subject to certification pursuant to requirements of this Law, with exception of taking the examination.

Article 13. Licensing of Auditing Activity

License (permit) to practice auditing activity is issued by the Auditing Chamber of Ukraine to individual auditors or auditing firms in compliance with requirements of this Law and other Laws of Ukraine.

Application for obtaining the license shall be submitted to the Auditing Chamber of Ukraine following the state registration of an auditing firm or an individual auditor as a subject of entrepreneurial activity.

A charge shall be imposed for issuing the license in the size of five minimal non-taxable personal incomes, which shall be transferred to the state budget.

(part three, Article 13 is as amended by the Law of Ukraine No.54/96-VR dd. February 20, 1996)

Term of validity of licenses cannot exceed five years.

Section III

THE AUDITING CHAMBER OF UKRAINE

Rotation is conducted on the basis of determination of the personal rating of members of the Auditing Chamber of Ukraine by means of secret questioning of auditors of Ukraine.

Results of questioning are approved by the Auditing Chamber of Ukraine.

Appointment of new members of the Auditing Chamber of Ukraine to replace those who left is conducted according to the established procedure.

All decisions of the Auditing Chamber of Ukraine are made at meetings by simple majority of votes once there are two thirds of its members, except for decisions, envisaged by Article 14 of this Law. In certain cases subject to determine in the Charter of the Auditing Chamber of Ukraine, decisions may be made by means of written questioning.

In case of equal distribution of votes, preference is given to the decision favored by the Chairman.

The meeting of the Auditing Chamber of Ukraine is by the Chairman, whose functions are performed by all

Article 19. General Conditions of Conducting Audit and Providing Other Auditing Services

Auditor may provide auditing services individua

Article 23. Liabilities of Auditors and Auditing Firms

Auditors and auditing firms shall be obliged to:

- 1) properly provide auditing services, inspect the state of customer's accounting and reporting, their reliability, completeness and conformity with the current legislation and established standards;
- 2) inform owners, persons authorized by them, customers of deficiencies in accounting and reporting found out during the auditing inspection;
- 3) keep secret the information received during the auditing inspection and while providing other auditing services. Not to divulge data, considered a commercial classified information, nor to use them in their own interests or in the interests of third parties;
- 4) be liable before the customer for violation of terms of agreement in compliance with the current legislative acts of Ukraine;
- 5) restrict their activities to providing auditing services and other activities, directly associated with auditing services in the form of consultations, inspections or expert examinations.

Article 24. Special Requirements

Audit cannot be conducted by:

- 1) the auditor, who has direct family relations with management of the inspected subject of economic activity;
- 2) the auditor, who has personal property interest in the inspected subject of economic activity;
- 3) the auditor – member of management, founder or owner of the inspected subject of economic activity;
- 4) the auditor – employee of the inspected subject of economic activity;
- 5) the auditor – employee, co-owner of a subsidiary, affiliate or a representative office of the inspected subject of economic activity.

Section VII

LIABILITY OF AUDITORS AND AUDITING FIRMS

Article 25. Civil Liability of Auditors and Auditing Firms

Auditor (auditing firm) shall bear property and other liability, stipulated in the agreement in compliance with the current legislation for improper performance of his/her obligations.

The size of property liability of auditors (auditing firms) cannot exceed the amount of losses actually suffered by the customer through auditors' (auditing firms) fault.

All disputes of property character between the auditor (auditing firm) and the customer shall be settled in compliance with the established procedure in keeping with the requirements of this Law.

Article 26. Other Kinds of Liability of Auditors

Punishments in the form of warning, suspension of the validity of certificate and the license for the term of up to one year, or abrogation of the certificate and the license.

Article 27. Termination of Validity of the Certificate and the License

Termination of the validity of the certificate or the license to auditing activity is done on the basis of the decision of the Auditing Chamber of Ukraine in the following cases:

- 1) if there are numerous facts of poor quality of auditing inspections;
- 2) if there are systematic or gross violation of the current Ukrainian legislation, established auditing norms and standards.

The procedure of termination of validity of the certificate and the license to auditing activity is determined by the Auditing Chamber of Ukraine.

Decision of the Auditing Chamber of Ukraine on termination of validity of the certificate and the license may be appealed in court or arbitration court.

Section

LIABILITIES OF SUBJECTS OF ECONOMIC ACTIVITY WHEN CONDUCTING AUDITING INSPECTION

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