

Review Paper

# Development of Accounting and Auditing in EU Countries: Comparative Aspect

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## ABSTRACT

The current state of development of the international economy is characterized by the spread of the influence of globalization factors that lead to the expansion of economic ties between countries and the need for unification and standardization of mechanisms for managing economic activity. Under such circumstances, the problem of implementing the provisions of European legislation on harmonization programs in the field of accounting and auditing and determining their features in the European Union is becoming more relevant. The article aims to substantiate the theoretical and applied principles of studying the features of accounting and auditing in the European Union. The methodological basis of the study consists of general scientific and unique methods of economic analysis and scientific knowledge, namely: system analysis, scientific abstraction, synthesis, comparison, analogy, grouping, comparative analysis, graphical, tabular, generalization, and systematization. The study results give grounds to assert that there are standard and distinctive features of accounting and auditing in the EU member states. It has been established that accounting in this group of countries is standardized and regulated by International Accounting Standards. Financial statements are prepared under the provisions and requirements of International Financial Reporting Standards, and auditing is carried out based on International Standards on Auditing. The importance of strengthening the quality of accounting and auditing services in the European Union, the basic requirements for which are legally enshrined in all countries except Denmark, Spain, Malta, and Slovakia, has been revealed.

## HIGHLIGHTS

- The current state of development of the international economy is characterized by the spread of the influence of globalization factors that lead to the expansion of economic ties between countries and the need for unification and standardization of mechanisms for managing economic activity. Under such circumstances, the problem of implementing the provisions of European legislation on harmonization programs in the field of accounting and auditing and determining their features in the European Union is becoming more relevant.

**Keywords:** Accounting, accounting forms, invoices, audit, audit activity, accounting, and auditing standards

Increasing globalization of the world economy and transformation of national capital markets into a single world economic system necessitates the protection of investors' rights. Moreover, they

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entail the need to establish new requirements for improving the methodological tools for collecting, processing, and transmitting information that characterizes the economic activities of business entities. Therefore, the problem of building an effective information system for the enterprise is actualized. Furthermore, there is a growing need to organize appropriate accounting practices based on unification, standardization, and adaptation to uniform requirements. EU member states seek to harmonize their national accounting and auditing systems and minimize differences between their principles. Therefore, they are increasingly guided by the provisions of the EU directives and move to international standards of accounting, financial reporting, and auditing. The outlined trends indicate the importance of the chosen problem. It requires a detailed study and deepening of scientific research through the prism of highlighting the features of the functioning of different accounting and auditing systems in the European Union and identifying their differences.

## Literature Review

The problem of studying the peculiarities of accounting and auditing in the European Union has been the focus of attention of both scientists and practitioners for a long time and is significantly exacerbated by globalization. Dubinina *et al.* (2022) note that the primary condition for the effective functioning of business entities in any world country is a well-built integrated accounting system. Such a system ensures the implementation of the principles of accounting and financial reporting and also requires documentary guidance and regulation.

Korkushko and Kushnir (2022) evaluated the features of accounting and auditing in the European Union. They found that economic, political, and social factors significantly impact the formation of the accounting system in the European Union. At the same time, scientists note that in the European Union, accounting is carried out in compliance with the strict requirements of the current legislation. According to it, the principle of consistent and continuous entry of accounting records in the registers of accounting accounts is implemented, based on which annual financial statements are prepared. Moreover, Korkushko and Kushnir (2022) found that outsourcing is a common practice in

most EU countries. It involves accounting by a third-party organization, the advantages of which are: (1) guaranteeing the quality of accounting and complete confidentiality; (2) a high level of professionalism of services; (3) efficiency of work; (4) cost reduction; (5) continuity of work.

According to the data published by the International Federation of Accountants (International Federation of Accountants. Legal and Regulatory Environment), the EU countries have introduced EU Regulations and Directives, according to which the requirements for accounting, auditing, and financial reporting are transposed into national laws and regulations. The EU countries are obliged to apply EU and International Financial Reporting Standards in their accounting and auditing practices, according to which the annual financial statements of economic entities are to be published. At the same time, the regulatory act governing the organizational and legal framework for the audit is the EU Directive and Regulation No. 537 of 10.04.2014 (Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014). In this context, according to Luca and Berardino, 2018, implementing such a principle of accounting and auditing as the prevalence of substance over form is of great importance. It provides for its wide application in the countries of the European Union and the reflection of accounting information as it is, without distortions and corrections. At the same time, Baumüller and Sopp, (2022) emphasize the need to develop the principle of materiality in the study of accounting issues at the level of the European Union, since the modern system of accounting and auditing in Europe is subject to changes caused by political priorities and the consequences of European integration. Under such conditions, the European community needs to unify approaches to the definition of accounting forms.

Significant inaccuracies and shortcomings of the audit in the EU countries are worth noting. They cause a high level of bias in the activities of audit firms and increase corruption risks. However, according to Jong *et al.* (2020), they were corrected by improving the current domestic legislation. In particular, in the Netherlands, in 2014, a special provision was adopted for the mandatory rotation of audit firms for business entities of public interest. At the same time, Rothuizen (2022) found

that, according to the current legislation of the Netherlands, a mandatory audit is carried out on medium and large enterprises that prepare an annual financial report, which is verified by an independent, qualified and certified auditor appointed by an audit firm. At the same time, Pozzoli *et al.* (2022) note the significant impact on audit activities in the European Union of new destabilizing factors caused by the spread of the COVID-19 pandemic. As a result, the issue of ensuring the activities of audit committees, which can improve the quality of financial reporting under quarantine restrictions, as well as strengthen the independence and objectivity of auditors, internal control, and reduce corruption risks, is becoming more relevant.

Instead, Sysoieva (2021) connects the peculiarities of the organization of audit activities in the European Union with the determination of state intervention and control over audit entities. In addition to that, the scientist proposes to distinguish between two directions of approaches to the concept of regulation of audit activities: (1) professional; (2) state, and the main models of such regulation should be divided into three types: (1) state regulation; (2) self-regulation; (3) mixed model of regulation.

Cameran *et al.*, (2020) note that in the EU countries, great importance is attached to ensuring the quality of the audit, the parameters of which are assessed by the growth entity's profitability. According to Bouvier (2018), in the current conditions in the EU countries, the growing trends in the spread of fraud in accounting necessitate a quality audit.

An equally important feature of accounting and auditing in EU countries is the use of information technology in practice. The use of modern digital resources, according to Lemishovska and Linynska (2022), allows for improving the quality of accounting and audit and simplifying the process of collecting, storing, and transmitting information, to optimize them. Moreover, it allows for enhanced stakeholder access to real-time consolidated accounting data and financial statements. Kroon *et al.*, (2021) argue that using modern information and communication technologies in accounting facilitates practice and indicates the qualification level of professional accountants.

Analyzing the existing developments in the field of accounting and auditing in the EU countries,

it is worth highlighting their significant features, which are the need to unify accounting and auditing principles. In the context of accounting and auditing practice, harmonizing the national legislation of the EU countries with the European norms in terms of the organizational and legal mechanism for regulating accounting and auditing is of great importance.

The article aims to substantiate the theoretical and applied foundations of the study of accounting and auditing in the EU states.

## MATERIALS AND METHODS

The methodological basis of the study consists of general scientific and unique methods of economic analysis and scientific knowledge. Determination of the essence and features of accounting and auditing in the EU states was carried out using the method of system analysis, scientific abstraction, and synthesis. Applied research of the current state and trends of accounting and auditing in the European Union was held based on the method of comparison and analogy. Grouping and comparative analysis methods were applied to identify common and distinctive features of accounting and auditing in the EU member states. Graphical and tabular methods were employed to highlight the results of the study. The formulation of the hypotheses proposed and the formation of conclusions based on the study results were performed using the methods of generalization and systematization.

The information base of the study is made up of scientific works of leading domestic and foreign scientists, as well as reports from international organizations.

## RESULTS

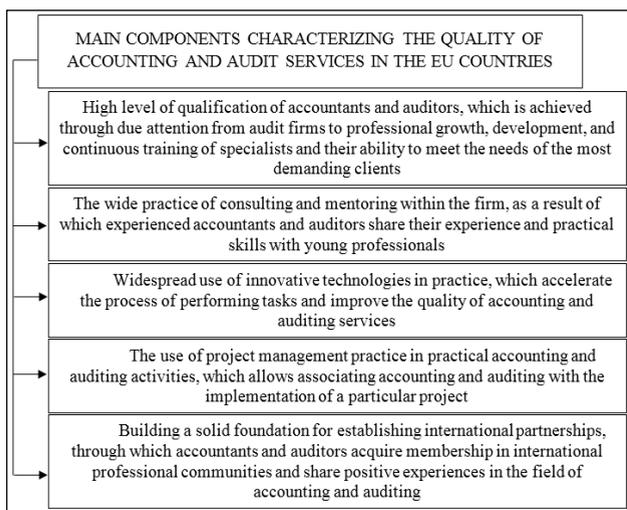
The existing practice of accounting and auditing used in the EU countries is characterized by certain features and the need for standardization. At the present stage, the problem of ensuring the legality and transparency of accounting, preparation of financial statements, and audits is becoming more urgent. Creating proper organizational and legal requirements for accounting and auditing activities requires the unification of the rules of their conduct and regulation of the conditions for applying the main provisions, which was achieved

through the development and implementation of International Accounting Standards. At the same time, standardization of accounting allows to:

1. use uniform accounting principles and prepare financial statements based on uniform established rules;
2. timely receive and correctly interpret accounting information based on which management decisions are made;
3. standardize IT systems used for accounting.

Apart from that, the EU member countries have strict requirements for accounting, so accountants have to meet the following criteria:

1. have a license from the relevant state authority to conduct settlement operations;
2. have available knowledge in the field of tax and financial legislation;
3. know the main provisions of the labor legislation of the country where they perform their professional activities;
4. have appropriate education and work experience;
5. have practical skills in working with specialized software.



Compiled based on: Khrypiuk and Kovalova, (2022).

**Fig. 1:** The main components characterizing the quality of accounting and audit services in the EU member states

Equally important in the EU countries remains the problem of ensuring the quality of accounting services, the requirements for which are established at the state level, and there is control over their

observance. Herewith, the exact requirements are established for the provision of audit services. Fig. 1 shows the main components that characterize the quality of accounting and audit services in the EU member states.

Specific features of the audit organization in the European Union are the level of state intervention in the activities of audit entities and control over them. As is established, there are several regulation models of audit activities in the EU countries. The model of state regulation is inherent in such countries as Austria, Italy, Spain, the Netherlands, Germany, and Poland; the model of non-state regulation is widespread in the UK, which has long been a member of the EU and in 2020 completed its membership; a mixed model is typical for most EU countries (Bulgaria, Slovakia, Hungary, Croatia, Czech Republic, etc.). We consider it reasonable to systematize the peculiarities of audit in the EU countries in Table 1.

Analyzing these data, which are reflected in Table 1, it can be stated that among the countries of the European Union, there are countries where there are professional associations of auditors, in particular, Belgium, Bulgaria, Greece, Estonia, Ireland, Spain, Latvia, Lithuania, the Netherlands, Germany, Poland, Portugal, Romania, Slovenia, Hungary, the Czech Republic and Sweden, and countries where such associations are lacking - Austria, Denmark, Italy, Cyprus, Luxembourg, Malta, Slovakia, Finland, France, and Croatia.

Similar trends are observed in the availability of the quality control system to provide audit services, which is present in most European Union countries, except for Denmark, Spain, Malta, and Slovakia.

Despite the existence in the EU of clearly regulated rules and regulations for accounting and auditing, standardization and unification of which is carried out at the European level, in the countries of this group, there are certain peculiarities of implementing practical activities in the field of accounting and auditing.

## DISCUSSION

The conducted research on theoretical and applied principles of accounting and auditing in the EU countries allowed them to identify specific features of accounting and auditing activities in the countries

**Table 1:** Features of audit in the countries of the European Union

Country	Existence of professional associations of auditors	Obligation to conduct an audit			Availability of a quality control system for the provision of audit services
		small	medium	large	
Austria	-	-	-	+	+
Belgium	+	-	-	+	+
Bulgaria	+	+	+	+	+
Greece	+	-	-	+	+
Denmark	-	+	+	+	-
Estonia	+	-	+	+	+
Ireland	+	-	+	+	+
Spain	+	-	-	-	-
Italy	-	-	-	+	+
Cyprus	-	-	+	+	+
Latvia	+	-	+	+	+
Lithuania	+	-	+	+	+
Luxembourg	-	-	+	+	+
Malta	-	-	+	+	-
Netherlands	+	-	+	+	+
Germany	+	-	+	+	+
Poland	+	-	-	+	+
Portugal	+	-	-	+	+
Romania	+	-	-	+	+
Slovakia	-	-	-	-	-
Slovenia	+	-	-	+	+
Hungary	+	-	+	+	+
Finland	-	-	-	+	+
France	-	-	+	+	+
Croatia	-	-	-	+	+
Czech Republic	+	-	-	-	+
Sweden	+	-	+	+	+

Compiled based on: Sysoieva, (2021).

of the analyzed group. In particular, it is worth noting significant developments in the direction of standardization of accounting, financial reporting, and auditing within the EU member states, as well as harmonization of national accounting and auditing systems with the European one.

Another equally important factor is the adoption of International Accounting Standards, International Standards on Auditing, and International Financial Reporting Standards, which define the organizational and legal framework for accounting and auditing activities in different EU countries.

In this context, the actualization of the quality of accounting and auditing services, the tightening of requirements for which is regulated by law in

most countries of the European Union, is of great importance. Moreover, among the countries of this analyzed group, only Denmark, Spain, Malta, and Slovakia do not have quality control systems for providing such services, and the rest of the countries have successfully adapted the requirements of European legislation to the national realities of accounting and auditing practice.

Meanwhile, a significant part of the European Union countries organized special professional associations. With their help, they can exchange information at the international level in the field of their professional activities and adapt domestic accounting and auditing practices to the requirements of today.

Given the rapid development of globalization processes and its super-fast spread, the problem of attracting innovations in accounting and auditing is especially acute. It should be recognized that the global economy's digitalization processes have reached significant heights. As a result, the development of IT technologies is intensifying, and existing software products are constantly being updated, and new ones are being created, which are widely used for accounting, financial reporting, and auditing. In this context, it would be advisable to standardize software for accounting processes and audit activities and to use clearly defined and regulated software products within the European Union member states.

## CONCLUSION

Thus, the study of theoretical and applied principles to identify the peculiarities of accounting and auditing in the EU countries gives grounds to conclude that accounting is standardized and conducted under International Accounting Standards in the countries of this group. The financial statements are prepared following the International Financial Reporting Standards. International Standards regulate the implementation of audit activities on auditing. As a result of the study, it has been found that in the European Union countries, considerable attention is paid to the quality of accounting and auditing services. The main requirements for its provision are regulated at the legislative level in all EU countries except Denmark, Spain, Malta, and Slovakia. The article has proven the importance and practicality of organizing particular professional associations of accountants and auditors in the EU member states. Such associations contribute to obtaining additional opportunities for the international exchange of information in the field of professional activity and adaptation of domestic accounting and auditing practices to the requirements of modernity. Among them, a prominent place is the use of innovative technologies in accounting and auditing. Prospects for further research may be the standardization of software used for accounting, financial reporting, and auditing, which is proposed to be carried out by clearly defining and regulating the use of specific software products.

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