

Transformation of approaches to audit in Russia

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Abstract: Analysis of audit evolution in the period from 2001 to date is performed; stages of audit development associated with changes in the concept of its advance are highlighted. Key revisions of the Law on Audit Activities and changes in the main issues of auditing are analyzed. As the key periods the following ones are allocated: validity period of Federal Law 119-FZ, term of validity of Federal Law 307-FZ, period of changes made by Federal Law 403-FZ, interval of modifications resulting from Federal Law 359-FZ. Analysis of transformation of approaches to audit is considered in the context of six parameters: subject of audit, requirements for audit organizations, mandatory audit criteria, tendering procedures, audit standards and control of audit organizations. Particular attention is paid to the changes in audit activities envisaged in the new concept of its development and in the current version of the Law on Audit Activities. Keywords: audit activity, normative and legal regulation, the concept of development of audit activity, analysis of legislation.

1 Introduction

Considering the history of audit development in Russia, most experts distinguish the period of its emergence and spontaneous regulation (1989-1993), which is followed by the stage of establishment of audit as a professional activity and the formation of regulatory frameworks (1993-2001) and, finally, comes the period of normative and legal regulation of audit, adoption of regulatory framework (from 2001 to date)

There is no doubt that audit is an important component of the market economy, ensuring the right of citizens and legal entities to obtain information [2]. Being part of the market economy, audit, however, experiences significant influence from the state, since it is precisely this institution that the state delegates the right to make decisions on the reliability of accounting (financial) statements of business entities, based on verification of compliance of such statements with the legislation of the Russian Federation and international standards.

The change in the concepts of auditing reflects the economic and political processes in the Russian state, in particular the transition from a spontaneously developing economy to

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its liberal model, partly imitating the Western approach, and after that to a model with a clear hierarchy of power and fairly tight control and supervision by the state.

2 Materials and Methods

The following sources made the basis for the study: scientific publications on the development of auditing in the context of its legal regulation; regulatory legal acts on audit, including Federal Laws and their editions; resolutions of the Government of the Russian Federation and the Ministry of Finance; federal and international auditing standards; codes of ethics for auditors at various levels.

When performing the study, general scientific methods, such as the method of analysis, were used. In particular, audit activity was examined in the context of the subject matter (accounts of the entity audited), the subject of audit activity (audit organization), the criteria for mandatory audit and other essential components of audit activity. The application of historical method made it possible to trace the processes of transformation of the main approaches to auditing against the background of historical events. The empirical method of studying legislation and scientific publications was also made use of.

3 Results and Discussion

3.1 Stages of audit development in the period of legal regulation

Conventionally, the period of legal regulation (from 2001 to date) can be divided into 4 stages, each of which is characterized by its own concept of audit activity (Figure 1).

Stage 1: adoption of the first in the history of Russia Federal Law On Audit Activity 119-FZ (2001), which enshrined the principles of auditing and ceased to have effect in 2008. The principal points characterizing this stage are the formation of certification and licensing system, further work on formulation of rules (standards) for audit activity by the Government of the Russian Federation, and later by the Council for Auditing under the RF Ministry of Finance, adoption of the first Code of Ethics of Russia's Auditors [3].

Stage 2: adoption of the new Federal Law On Audit Activities 307-FZ (January 2009) that led to liberalization of auditing regulation, transition from licensing to self-regulation in the field of audit, creation of the first self-regulatory auditing organizations (SRO), adoption of new federal standards based on international auditing standards, introduction of the new Code of Ethics for Auditors and the Russian Rules for the Independence of Auditors and Audit Organizations, involvement of self-regulatory organizations in audit certification [4].

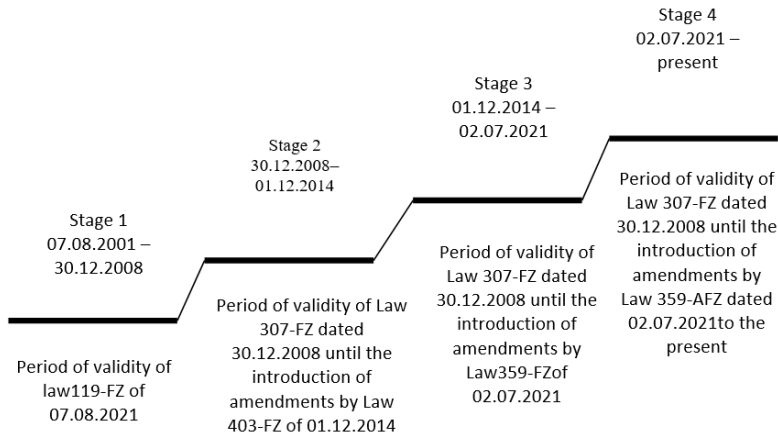


Fig. 1. Development Stages of Legal Regulation of Audit activities.

Stage 3: Introduction of significant changes to the Federal Law On Audit Activities 307-FZ by Law 403-FZ of 02.12.2014. The prerequisites of these changes are aggravation of the personnel issue, reduction of number of auditors and decrease of number of audit organizations. The latter is explained, on the one hand, by increase in requirements to audit quality, strengthening of external control, on the other hand, by monopolization of the audit services market by the Big Four - the largest foreign audit companies. The main changes in the audit activity are the transition to international standards of auditing, strengthening of external control [5].

Stage 4: amendments to the Federal Law On Audit Activities 307-FZ made by Law 359-FZ of 02.07.2021. Large-scale modifications were introduced to audit activities, aimed at implementing the Concept of Development of Audit Activity approved by the Government of the Russian Federation. The Law introduces new terminology and concepts, changes the system of external control of auditing activities [6].

3.2 Analysis of transformation of audit approaches

To analyze the transformation of audit approaches, several key issues have been identified, namely:

1. Subject of audit.
2. Audit organization. Requirements for audit organization.
3. Mandatory audit.
4. Procedure for bidding for the procurement of audit services.
5. Audit standards.
6. Monitoring of audit organizations.

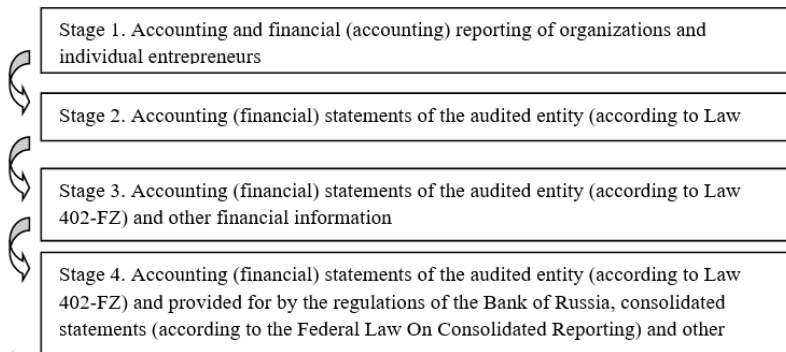


Fig. 2. Transformation of Approach to the Subject of Audit.

Along with the development of auditing the concept of the subject of auditing expanded. With the advent of a new regulatory and supervisory audit body, which is the Bank of Russia, verification is carried out for compliance with the Bank's regulatory acts (Figure 2).

Figure 3 shows the transformation of the requirements for the audit organization, which is the main subject of the audit.

The transformation of the definition of an audit organization and the requirements for it at the second and third stages reflect a gradual transition from state regulation of audit activities (among other things through licensing) to self-regulation. At the same time, the requirements for restricting the participation of foreign nationals in the management of the audit organization are no longer part of the law, while the required minimum number of auditors in the staff is reduced to three. Liberalization of audit activity leads to monopolization of the market of audit services by company members of the Big Four complicates the entry into the market for Russian audit organizations that are subjects of small and medium-sized entrepreneurship.

The fourth stage is characterized by large-scale changes in the Law on Audit Activities, aimed at implementing a new concept for the development of audit, approved by the order of the RF Government at the end of 2020 [2]. The principal change is related to the separation of groups of audit subjects, and, consequently, the audit organizations that carry out their audit.

A separate group includes socially significant organizations, including PJSCs (public joint stock companies), organizations whose securities are traded at organized auctions or whose reports fall into the prospectus of securities, almost all participants in the securities market, credit and insurance organizations, state corporations and companies. It should be noted that at the third stage of the development of legal audit, the state unitary enterprises and municipal unitary enterprises were removed from the list of companies subject to mandatory audit, which negatively affected the "purity" of their activities. The allocation of socially significant organizations as a subject of the verification entailed the need to allocate audit companies with the right to audit them [7].

Another separate group of companies includes the ones operating in the financial market. The new version of the Law transferred the function of auditing such companies to "audit organizations in the financial market", which are under close supervision by the Bank of Russia.

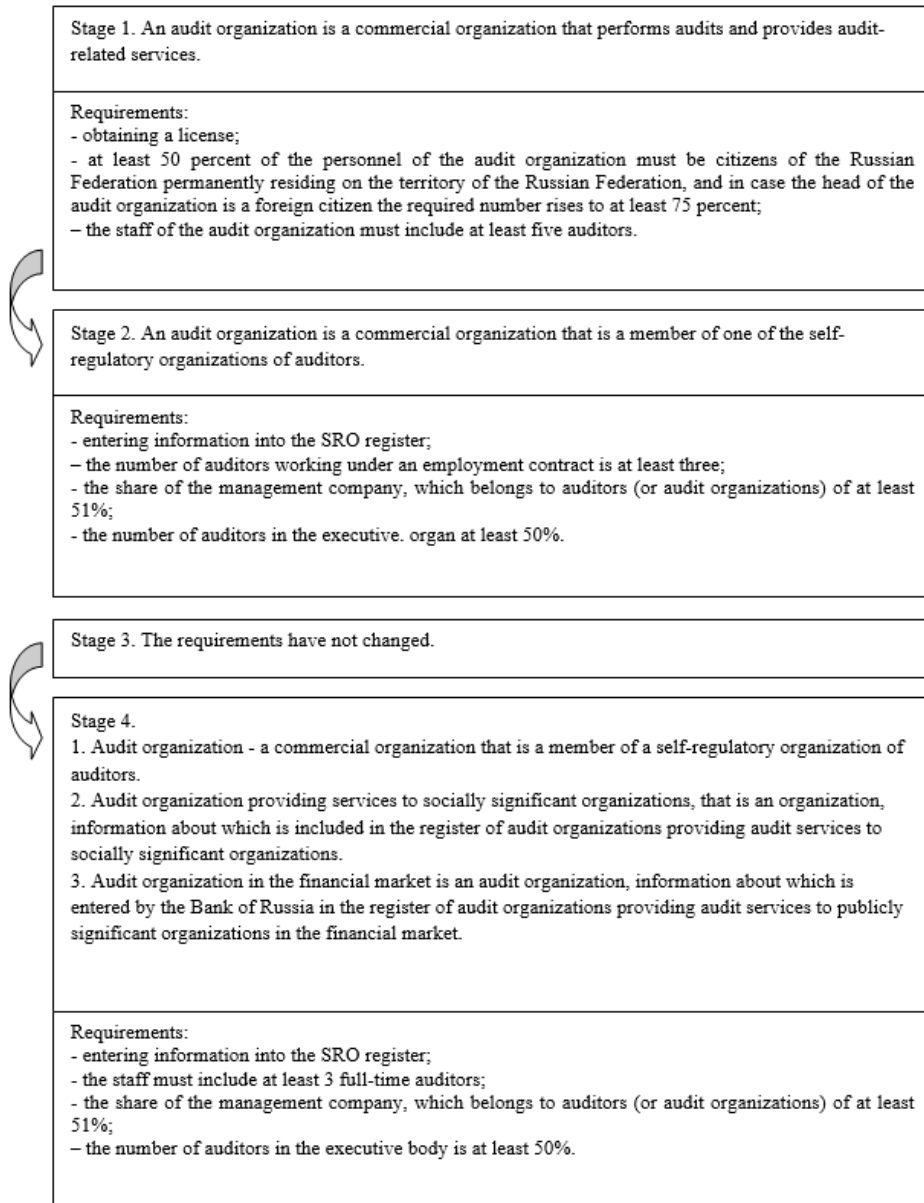


Fig. 3. Transformation of Requirements to Audit Organization.

Mandatory audit for the period of its development has also undergone significant changes. The most mobile is the article establishing the mandatory audit by the criterion of revenue and asset value, so for the period from December 30, 2008 to the present, the amount of the annual revenue of the audited entity, which is the minimum for a mandatory audit, has increased 16 times (from 50 million to 800 million rubles), and the amount of assets - 20 times (from 20 million to 400 million rubles). The overall picture of changing approaches to mandatory audit is shown in Figure 4.



Fig. 4. Criteria for Mandatory Audit and their Changes.

The requirements for companies that exercise the right to conduct a statutory audit are also changing. Thus, at the first stage, this right is assigned only to audit organizations, at the second and third stages this restriction is established only in regards to providing audit services to companies whose securities are admitted to trading, trade organizers, insurance and credit companies and non-state pension funds. In the latest edition of the Law again solely audit organizations are entitled to conduct mandatory audit.

The bidding process for the procurement of audit services also change at each stage (Figure 5).

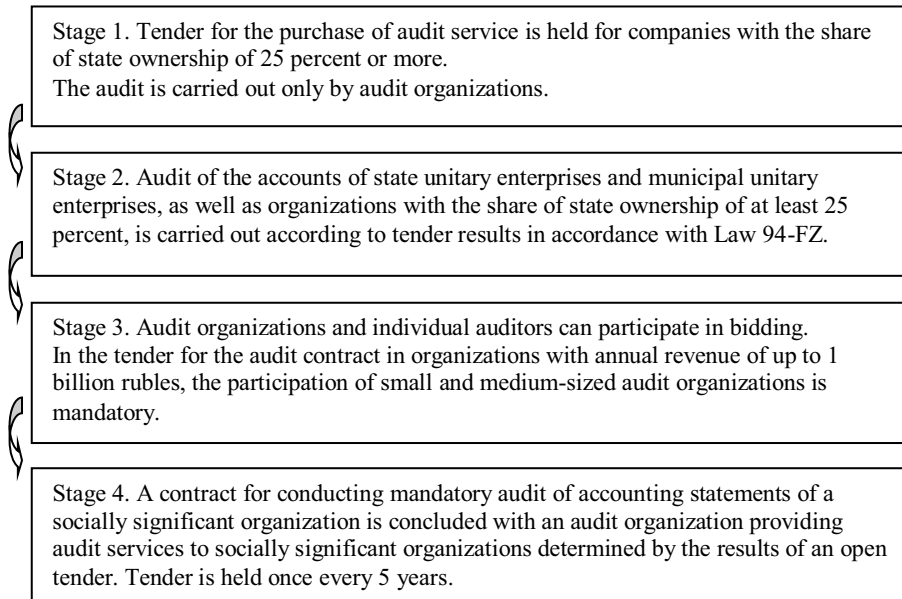


Fig. 5. Procedure for Holding a Tender the Purchase of Audit Services.

Auditing standards and the procedure for their application are probably the most variable part of the audit activity, although it is worth mentioning that the latest version of the Law (Stage 4) left in force the use of international standards introduced in Stage 3 (Figure 6).

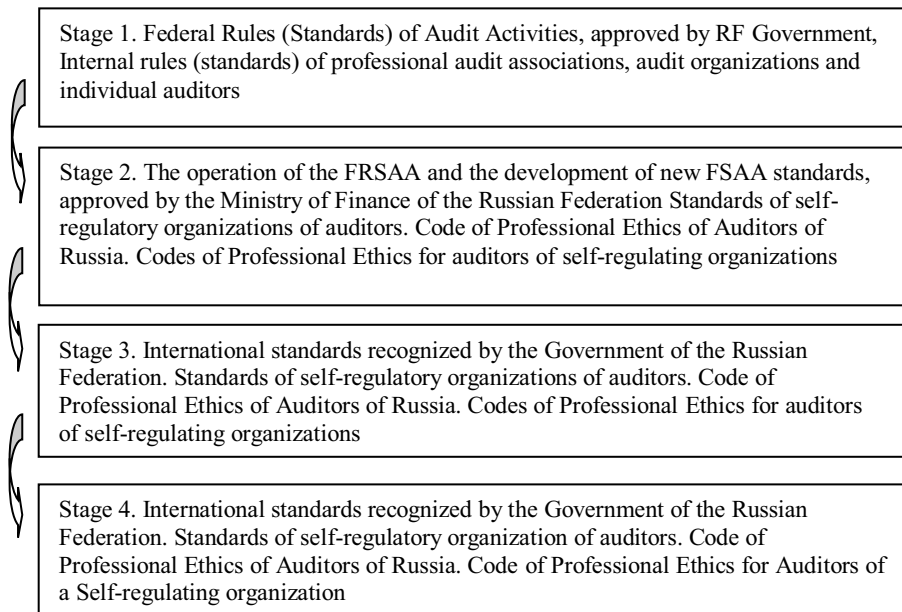


Fig. 6. The System of Standards and Rules of Audit Activity and its Transformation.

Since 2001, external audit quality control has been carried out by the authorized federal executive body - the Ministry of Finance of the Russian Federation and the Audit Council

under the Ministry. During the period when the audit was subject to mandatory licensing, the functions of checking the quality of the work of auditors could be delegated to accredited professional audit associations, which in this case had the right to conduct checks in relation to their participants (Figure 7, stage 1).

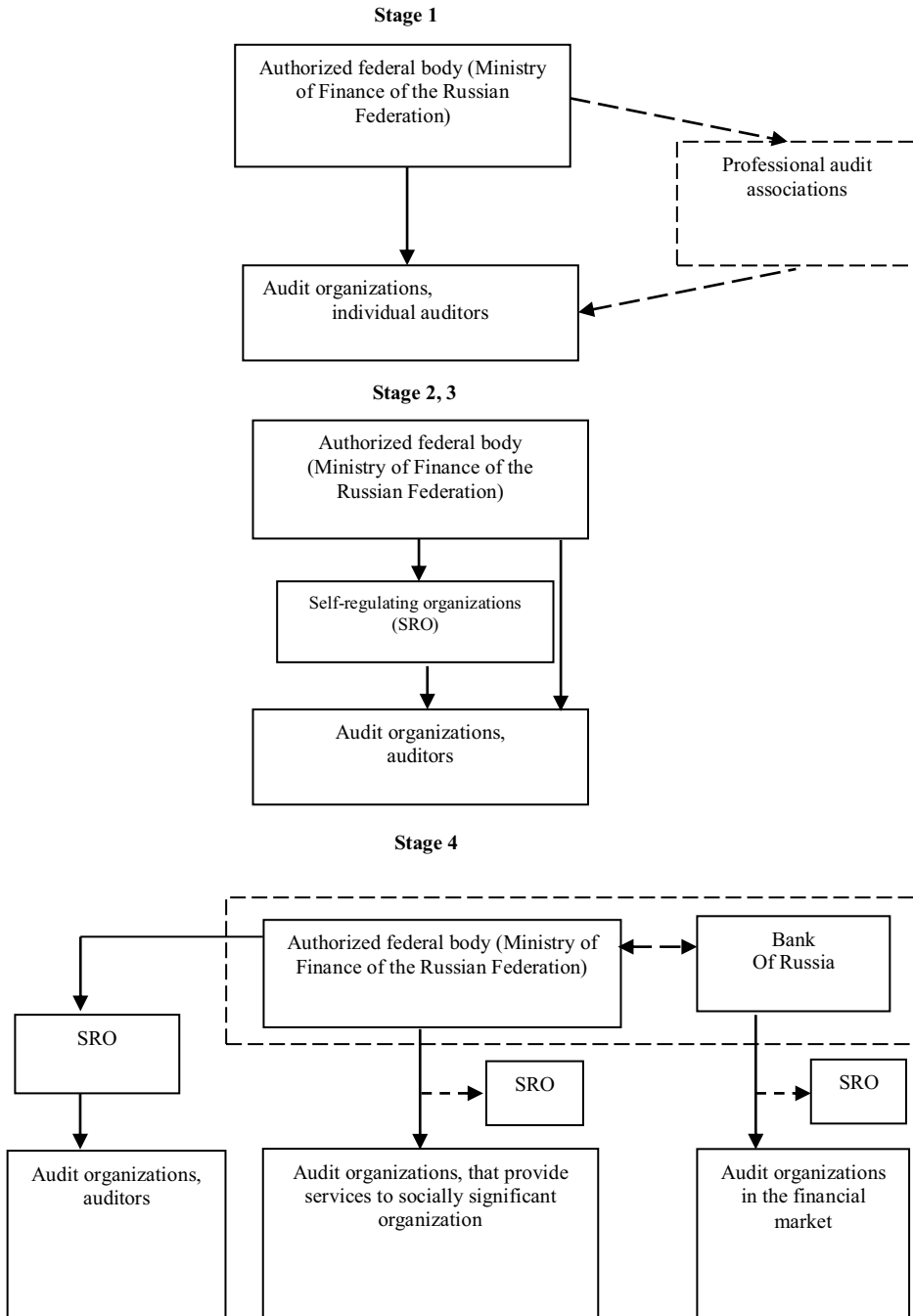


Fig. 7. External Quality Audit Control.

With the transition to self-regulation, the function of monitoring the quality of work was transferred to self-regulatory organizations of auditors, however, the authorized federal body retained the right (and obligation) to conduct inspection in relation to audit organizations performing mandatory audit (stages 2 and 3).

Currently, the law on audit activity differentiates control procedures depending on the type of audit organization. Thus, the quality of work of audit organizations in the financial market is controlled directly by the Bank of Russia, which informs self-regulatory organizations about the results of the audit.

External quality control of audit organizations that serve socially significant entities is carried out by the authorized federal body. The manner of control is determined by Law 248-FZ, which shows an increase in the measure of responsibility that the state takes at the current stage for the quality of verification of large public companies and companies with state participation. As in the previous case, based on the results of the check, information is sent to the self-regulatory organization (SRO).

For other audit companies and auditors, the SRO remains a direct control body.

4 Conclusions

Thus, it has been established that the period of legal regulation of audit activity is divided into four stages, each of which is characterized by an approach that reflects the change in the state concept of regulation of audit activity: from centralized regulation to self-regulation, and to strengthening state control at the present stage.

Changes are clearly visible in such matters as:

1. The subject of audit activity: the content of reporting becomes more complicated, it includes a wider range of financial information, consolidated financial statements are currently should be audited;

2. Requirements for an audit organization: requirements for qualifications, experience of auditors are becoming more stringent, audit organizations operating in different segments of the audit services market undergo differentiation;

3. Criteria for the mandatory audit: the range of organizations subject to audit is expanding, the concept of socially significant organizations is introduced;

4. The procedure for holding tenders for the purchase of audit services: the procedure for participation in the tender for audit companies providing services to publicly significant organizations is determined;

5. Auditing standards: transition from the system of national standards to international auditing standards takes place;

6. External audit quality control: there is a division of control functions between the authorized federal body and the Bank of Russia, depending on the type of audit organizations.

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