

## DEVELOPMENT OF AUDITING IN RUSSIA

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### ABSTRACT

This article discusses the importance of auditing in general, and the formation and development of audit in the Russian Federation in particular. It also examines the process of creation of the Russian auditing standards on the basis of International Standards on Auditing (ISA) and the gradual transition to ISA in post-Soviet Russia.

In general, the audit in Russia has some controversial issues. Any problem always has more than one side. The problem of the development of audit in Russia is not an exception. Disputable issues occur not due to ignorance or a lack of understanding of the essence of the audit by theoretical scientists. They occur due to the controversy in the history of the emergence and the initial stages of development of audit (Danilevsky, Yu.A., 1995). The specifics of the audit in Russia is due, first of all, to the fact that it became a common phenomenon during the period of economic reforms in the 90s of the twentieth century.

The development of economic relations in Russia, which subsequently led to the establishment of the audit in its modern sense, was associated with the emergence of joint-stock companies and realization of banking reforms aimed at reviving the credit capital and activating the stock market. In Russia at that time, most of the joint-stock companies were founded with the involvement of foreign capital, primarily French and German. This fact greatly affected the approach to the formation and organization of audit. Foreign audit organizations were often invited to conduct audits of joint-stock companies which were established in Russia during that period.

Despite the fact that the audit in Russia did not receive an extensive development at the beginning of the twentieth century, many guidelines, accepted in other countries, were actively applied in Russia. Russian accountants contributed to the development of the methodology and methods of audit,

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which was reflected in the Russian accounting literature and laws. Since 2018, International Standards on Auditing have been implemented in Russia.

**Keywords:** Auditing, International Standards on Auditing (ISA), Russian Standards on Auditing, provisional regulations.

**Jel Code:** M41, M42

## 1. INTRODUCTION

Auditing has already had quite a long history. The first independent auditors appeared in the 19th century in joint-stock companies in Europe. The word “audit” in different translations means “he hears” or “listening”. The word was used in schools of theology to refer to academically successful pupils, who, at the request of a teacher, conducted an inspection of other pupils regarding their assimilation of the recently covered material. Such confidential relations exist in auditing activities as well.

Any business activity has two goals: to get a maximum profit and to develop trust in the name of the company. Both goals complement each other, although at first sight they are of a different nature: the first is purely commercial, the second is moral and ethical. These objectives are based on a rigid system of control. Monitoring is effective if it is conducted by institutions that do not depend on the organization being audited. Such control can be conducted only by audit firms. (Bychkova, S.M., 2007).

What is this control system and when did it emerge? The profession of auditor is known from ancient times. Even about 200 BC questors (officials in charge of financial and judicial affairs) of the Roman Empire conducted an inspection of state accountants in the field. The records of the questors were sent to Rome and were heard by the examiners. This practice gave the term “auditor”, which means “to listen” in Latin (Kamyshanov P.I., 2006). In addition, according to Y. V. Sokolov, a special tax police was established in the Roman Empire, the officers of which used tortures of women and children in order to obtain information about the income and the property, which were concealed from taxation (Sokolov, Y.V., 2008).

Audit activity is as old as accounting itself. It was present in Babylon and Ancient Egypt in assessing the correctness of tax collection, as well as in the middle ages in the process of trade.

In a worldwide popular book on audit – Montgomery’s Auditing, the authors claim that “even the Bible (referring to the period between 1800 B.C. and A.D. 95) explains the basic rationale for instituting controls rather straightforwardly: “...if employees have an opportunity

to steal they may take advantage of it.” The Bible also contains examples of internal controls such as the dangers of dual custody of assets, the need for competent and honest employees, restricted access, and segregation of duties” (Montgomery, R. H., & O’Reilly, V. M. ,1998).

One famous Russian auditor, A. A. Terekhov, writes that “many fundamental economic processes and mechanisms with an explicit recognition of the importance of accounting and control were considered by scientists of the antiquity: Plato, Aristotle, etc. Aristotle in his work “Politics” provides a clear demarcation between the accounting and control functions, with a direct indication that checks (audit, inspection) are a part of control”. Among other things, A. Terekhov concludes that “...ever since the ancient philosophers’ times there is an understanding of the fact that an examiner should be equal to the chief accountant (equal in status) of the company being audited, and besides that he has no right to fall into dependence on the audited faces” (Terekhov A. A., 2008).

In the medieval period, owing to the introduction of the accounting principles based on a double-entry bookkeeping, which the Franciscan friar Luca Pacioli managed to systematically give a detailed account of in his fundamental work published in 1494 – Summary of Arithmetic, Geometry, Proportions and Proportionality. Part One unit 9 is Treatise XI Accounting Books and Records (Pacioli, L., 2001).

The lucidity, the logic of the presentation, as well as the need for systematization, which was becoming imminent in accounting practice, promoted the applying of the methods of the double-entry bookkeeping, which have spread across many countries. This spread was caused by the development of trade and industry, a broad development of debt capital markets, the complexity of account management with customs and excise officials, the increase in the amount of accounting work, as well as the need to monitor the accounting process and its correctness and reliability. In Chapter 17 How to Keep Accounts with Public Offices, and Why. The Camera De L’impresi (Municipal Loan Bank) in Venice, which is Managed by Sestieri (Districts) Pacioli writes: “If the broker should not do that he would be fined and dismissed. And justly the glorious republic of Venice punishes them and their clerks who should misbehave. I know of many who in the past years have been heavily punished, and right they are in having one officer whose only duty is to oversee all these officers and their books whether they are well kept or not, etc.” (Pacioli, L., 2001). Thus, Pacioli gives us account on the fact that the control functions have existed before and emphasizes the benefit of them.

Emergence of audit is connected with the development of a large-scale production, a transport system, the emergence of capitalistic relations, division of interests of those who are directly engaged in business management (administration, managers), and those who invest money in its activity (owners, shareholders, investors). The last could not and did not want to rely only on the financial information which was provided by the managers and accountants of the enterprise subordinated to them. Rather frequent bankruptcies of the enterprises and

deception from administration significantly increased risks of financial investments. Shareholders wanted to be sure that they are not deceived by the administration, that the reports submitted by them fully reflect the valid financial state of the enterprise. For a check on the correctness of financial information and confirmation of financial statements people who, according to shareholders' opinion, could be trusted, were invited. The main requirements to the auditor were his faultless honesty and independence. Knowledge of accounting had at first no major importance, however, with accounting complication a good professional training of an auditor becomes a necessary requirement as well.

England, where since 1844 a series of companies acts operate, according to which boards of joint-stock companies are obliged to invite a special person for a check on business accounts and reports at least once a year, is considered to be the historical homeland of audit. It is argued that the nature of British capital markets exaggerated the significance of the audit, thus establishing a power-base for the profession from which it was able to sponsor its own preferred modes of internal control and so strengthen its position in management structures. The mode of wartime state intervention in this country favoured "external" accounting controls as a means of avoiding more directive forms of industrial mobilisation, in line with the policy of maintaining the operation of *laissez-faire* capitalism as far as possible. The profession has played some part in the successive waves of merger which have occurred in British industry and has proposed on the basis of offering financial solutions to the control problems of the resulting large organisations. (Armstrong, P., 1987).

Within a span of a couple of centuries, the European systems of bookkeeping and auditing were introduced into the United States. Management needed some means of evaluating not only the efficiency of work performed for the business but also the honesty of its employees. Around the turn of the 20th century, the establishment of a formal internal audit function to which these responsibilities could be delegated was seen as the logical answer. In due course, the internal audit function became responsible for "careful collection and interpretive reporting of selected business facts" to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions (Mautz, 1964). Companies in the railroad, defense, and retail industries had long recognized the value of internal audit services, going far beyond financial statement auditing and devoted to furnishing reliable operating reports containing nonfinancial data such as "quantities of parts in short supply, adherence to schedules, and quality of the product" (Whittington & Pany, 1998).

In Russia the rank of the auditor was introduced by Peter the Great. The post combined the duties of a clerk, a secretary and a prosecutor. Auditors in Russia were called jury accountants. In 1889 the attempt to create an institute of auditors was made, but it would be possible if there were qualified staff and public requirement, and in Russia in that period there was no sufficient number of the qualified accountants. Besides, accountants were afraid of

examinations. Everyone also demanded a permission for membership in an institute and an operating license on the basis of a diploma of an educational institution, or a length of service, and besides that, the adherence to the moral ethics was demanded from the auditors. The attempts to create the institute of audit in Russia were also made in 1912 and 1928, but they remained unrealized (Soloviev, S. M., 2008).

The world economic crisis of 1929-1933 increased the need for services of accountants-auditors. At that time the requirements to the quality of an audit inspection and its obligation steeply became tougher, and the demand for such services increased. After the end of crisis practically all countries began to introduce mandatory requirements to the volume of information which should be presented in annual reports, and obligations for the publication of these reports and audit reports. Audit becomes a powerful weapon against fraud.

Till the end of the 40s, audit mostly consisted of verification of documentation confirming the monetary operations and the correct grouping of these operations in financial statements. It was the so-called confirming audit. After 1949 independent auditors began to pay more attention to questions of internal control in the companies, assuming that with an effective system of internal control the probability of mistakes is insignificant and financial data is rather full and exact. Audit firms began to be engaged in consulting activity more, rather than directly audit inspections. Such audit received the name of the system-oriented audit.

The next stage of the audit development was characterized by its orientation to possible risks when conducting checks or consultations, risk prevention and avoidance. That is audit at which an inspection is conducted selectively, usually where a risk of making a mistake or fraud is the highest, according to the conditions of a client's business. At the beginning of the 70s the development of audit standards began. In England any experts in the field of control of financial statements' reliability, including those who worked in public authorities were called auditors. In France two professional organizations worked in independent financial control sphere: chartered accountants who were involved directly in conducting accounting, drawing up the reports and rendering consulting services in this sphere, and commissioners (representatives) for accounts, who provided control of reliability of financial statements. In the USA a check on reliability of financial statements was conducted by a CPA (Certified Public Accountant).

For those, who are wishing to obtain a profession of an accountant-auditor, in all developed countries numerous examinations, many years of study and practical activities lay ahead. Representatives of Chamber of Auditors, the organization uniting the people of this profession, regularly check their work, and an exclusion from Chamber of Auditors means prohibition of further activity.

Auditing activity per se is generated by the market economy and is a component of the mechanism of this economy. The auditing service in Russia is in its initial stage of development

(especially such kind of audit as bank audit). The very first auditing firm in our country – “INAUDIT” was founded in 1987 in accordance with the act of Council of Ministers of the USSR (retrieved from <http://inaudit.group>). The foundation of the firm as well as many other auditing companies is connected with the formation of joint ventures in various branches of the national economy. Foreign investors had a meaningful effect on the emergence and the development of audit in our country, which has existed in economically developed countries longer than one and a half centuries and earned the trust of enterprises of these countries. Despite the recent fast growth in numbers of auditing firms in Russia, the development of audit in our country was significantly late due to the lack of a proper legal base.

## **2. EMERGENCE AND DEVELOPMENT OF THE RUSSIAN AUDITING**

The first bill on auditing activity was drafted in 1992, but was not accepted in the result of the political crisis in our country. The Decree of the President of Russia dated 22.12.1993 No. 2263 introduced the provisional regulations of audit in the Russian Federation. It was the first legislative document regulating auditing activity in Russia, it acted on the legitimate rights, but even its name “Provisional regulations” emphasized that it was the document of a transition period. It was supposed that this document would be temporary and would not exist for long, however, these Regulations existed for nearly eight years without any amendments and changes. Before that, during the period from 1987 to 1993, the audit in Russia underwent a formation stage without the legislative base in Russia. The law “About auditing activity”, regulating activity of audit firms emerged on August 7th, 2001.

The development and formation of audit underwent several stages in Russia (Podol's'kyi, V.I., Savin, A.A., & Sotnikova, L.V., 2010).

The first stage (1987-1993) was characterized, on the one hand, by the directive nature of foundation of audit organizations (1987 – foundation of the first audit organization “Interaudit”), on the other hand – by a spontaneous nature of the auditing activity’s origin (personnel training, the disordered issue of the first certificates and licenses during 1990-1993).

The second stage (December, 1993 - August, 2001) can be characterized as the period of the formation of the Russian audit, during which a significant role was played by the provisional regulations and the first rules (standards) of audit in the Russian Federation, which were developed by the Central Attestation and Licensing Auditing Commission (CALAC) of the Ministry of Finance of the Russian Federation (38 rules (standards) of auditing activity and also a method of conducting audit were developed and approved, which founded the methodological basis of the Russian audit), alongside with some other documents.

During this period an active work on certification of auditors and licensing of auditing activity began, auditing public associations and auditor firms were founded, the work on conducting obligatory audit inspections and rendering the services accompanying audit began.

The third stage of auditing activity in Russia began after the enactment of the law on auditing activity in 2001. Its enactment confirmed the final formation of audit in Russia, allowed to introduce a number of normative legal acts on the regulation of auditing activity, allowed to take a step on the way to integration of the Russian audit into the international system of audit.

Audit and control in the USSR and in the Russian Federation, many years and decades were tightly in-built in the administrative-command system. At the same time, considering the objective need in the subsequent control of activity of any socio-economic systems there was a big practice of control and auditing activity and forensic accounting.

The Soviet and Russian audit per se was absent till the times of reforms of the Gorbachev's and Yeltsin's boards. It happened that way, despite several attempts of developing the Russian audit (in 1888-1889 — Institute of Jury Accountants, 1907-1914 — Institute of Accountants and 1928-1930 — Institute of the State Chartered Accountants), the procedure of qualification examination, etc.

Of course, some specific elements of this sphere of activity of specialists in account, the control and the analysis, considering their objective relevance, has always been in the USSR and Russia, though in most cases such elements were unsystematic and did not represent the whole structure — audit as the integral element of the market infrastructure. They were also not called “Audit”.

Those separate researches and practical studies which are usually conducted in the international practice by audit organizations, and are followed by specific recommendations in the field of accounting management and analysis of economic activity, mechanization and automation of registration and analytical works for the administration of clients, has become necessary in a new Russia. During the years of reorganization, the auditors of Kazakhstan and Estonia were the first who used these terms (and respectively — changed the content of their activity). From the middle of the 80s the audit began to develop in other large cities of the USSR, and at first on a cooperative basis. It was unsystematic attempts to align arising supply and demand on the function of certification of auditors, which became especially relevant in the process of the transition to the market relations in economy (Toropova, I. S., 2017).

In 1987 the joint-stock company called “Inaudit” was founded. Its initial capital accounted for 800 000 rubles (in the prices of those years), and was divided into 80 shares (retrieved from <http://inaudit.group>). There were the following shareholders back then:

Ministry of Finance of the USSR; the National Bank and some other banks of the USSR (including those which actively participated in foreign economic activity); some ministries, large enterprises and the external economic systems conducting operations with the involvement of the foreign capital. It is distinctive that later, in 1991, “Inaudit” was privatized, several dozens of natural persons became its co-owners. Some strategic tasks of the development of “Inaudit” were still not realized. At the same time many high-class experts who had worked in “Inaudit” and got acquainted with the western technology of audit soon "gemmed" from the head structure and created independent audit organizations, many of which has been developing quite successfully.

### **3. AUDITING AND FINANCIAL MANAGEMENT IN RUSSIA IN 1990S**

In 1989 Ministry of Finance of the USSR, Chamber of Commerce and Industry of the USSR and the United Nations Centre on Transnational Corporations held a seminar on the problems of accounting, audit and financial management at cooperation management enterprises in Moscow (Antonov, A.S., 2004). The matter was that the problems of accounting and audit which arose in connection with the differences in the international accounting systems and the former USSR countries’ systems (some of these problems still remain relevant for the countries of Eastern Europe, Russia and the CIS) were quite significant. In former socialist countries, where a bit different principle of accounting were usually applied, a different practice of monitoring procedures and audits formed. In this regard our western partners and participants of multinational cooperation management enterprises faced various problems in certain cases.

After this seminar (since 1989) in several higher education institutes of the USSR, including Kiev State University, Plekhanov Moscow Institute of the National Economy and Engels Leningrad Institute of the Soviet Trade, the system of training of auditors and specialists in accounting in accordance with the international standards was introduced. The process of study was organized with participation of the UN (the United Nations Centre on Transnational Corporations), the British Council in Moscow and the major audit companies (“Cooper and Laybrand”, KPMG, etc.).

At the same time in 1989-1991 in Moscow and Leningrad the first audit organizations were founded. There were the following companies among them: self-sustained audit organizations “Contact”, “Rufaudit”, “Lenaudit” and “Mosaudit” (the last one had several branches), the St. Petersburg branch of AKG JSC Inaudit (which later acquired the status of the independent legal entity), JSC Baltiysky audit, the St. Petersburg firms “MCD” and “Piterkonto”, cooperative “Auditor”, Lenbankaudit LLP, “Informaudit”, etc. (Terekhov, A.A., 2001).



In 1990 in Moscow the first joint venture company in the field of audit – “Ernst and Young” external audit of the “Big Five” was registered (retrieved from <https://www.ey.com/ru/ru/about-us/our-people-and-culture/our-history/our-history---ernst---young-in-russia>). In the first half of the 90s there were branches and representatives of other major international audit companies in Moscow and St. Petersburg. Most of the time they were founded in the form of joint venture entities where representatives of Ministry of Finance of the Russian Federation, various external economic departments, Russian audit organizations or just eminent (and not so eminent) specialists in accounting, control and analysis of economic activity acted on the Russian side.

It is necessary to acknowledge that the beginning of the implementation of internationally recognized experience in audit happened in the USSR not because of, but in many respects – even contrary to the desire of many heads of the high level (Terekhov, A.A., Terekhov, M.A., 1998). Pragmatic audit was steadily developing, proceeding from the internal logic of economic transformations, on the natural base of a supply-and-demand balance.

The matter is that, in the conditions of emergence and development of plurality of forms of ownership, a new type of deficit arose and began to accrue promptly. In various regions of the country it suddenly became clear that there was no reliable information about business reputation of this or that particular enterprise: whether its aspiration to be a founder of new commercial banks, stock exchanges and other market structures was legislative; whether the reporting data submitted by its administration was authentic; whether it had recovered from the shock and whether it was not plundered already; whether it was viable or not, after all.

The fact that a spontaneous origin and the development (albeit controversial) of the Russian audit helped to overcome unhealthy moods which began to appear in the opinions of the experts who are most qualified in this aspect, which demonstrated their disbelief in the importance and efficiency of performance of so important and scrupulous works. It allowed to take urgent and relevant measures for elimination of sources of the deepening disproportion between the hard-responsible work demanding special accounting and auditor knowledge and inadequate remuneration, a public role of auditors.

Meanwhile, relying on the recommendations of the International Monetary Fund, the Government of the Russian Federation “unfroze the prices” in 1992, and the country began to look for acceptable ways of structural transformations in the fields of economy and construction of the civilized market relations. It was an extremely difficult period, even in the estimation of the former representatives of the Russian government.

Consequently, the beginning of functioning of audit organizations, firms, cooperatives was though weak, but in general effective and was characterized (which is especially important) by the countrywide steps of the most qualified specialists in the field of management, account,

the analysis and financial management, which were aimed at the formation of legal economy and the construction of civil society.

Therefore, at the different levels and sectors of economy the demand for certification of auditors began to reveal. The reason is that the necessity of audit is objective, it is caused by development of economy on some new principles. The efforts of auditors have already promoted the solution of certain problems in many large cities of the country, for example, during the foundation of joint companies and absolutely foreign enterprises, the formation of an essentially new credit banking system, the main institutes of the stock market, etc. They were aimed at protection of the rights and freedoms of those economic subjects, which fitted into new, more severe and cruel, conditions of the capitalized Russia more successfully.

Later some other effects came to light. The development of audit helped to save considerable funds for labor compensation of regular auditors of the industry, trade, construction, agricultural and other important sectors of activities of regions. Besides, audit also promoted differentiation of spheres of business of independent auditors and internal auditors of this and other fields i.e. departmental controllers-auditors working there. It allowed to maintain, strengthen and to qualitatively renew the staff of professional auditors, and also created effective additional room for maneuvers in such a major function of management as control. Moreover, audit organizations, without receiving any money on their development from the budget, became a reliable source of the budgetary receipts, "pumping over" almost all the value added tax received from clients, a considerable part of profit, etc. The economic systems functioning on the principles of independence, autonomy and self-financing were gradually given the opportunity to choose and carefully adjust the control forms, which were most acceptable for them.

By the middle of the 90s auditing activity was already prescribed in charters of more than 2000 new specialized enterprises of Russia, though in most cases audit was developing spontaneously, with certain costs, which it was possible and necessary to get rid of (Terekhov A.A., 2001). Nowadays there are several thousands of new audit organizations operating in the Russian Federation. The leading Moscow and St. Petersburg audit organizations have branches in regions, they have clients in Ukraine, in Siberia, in the Far East, and in other places. Departures of experts to other cities are a usual practice. The leading organizations of Russia participate in scientific and practical conferences where they discuss issues of the organization and improvement of the methodology of the Russian audit, practice joint conferences (including Russian-American ones), establish interregional professional connection between audit organizations.

Thus, domestic audit, in fact, at that time took the first steps, without having either a long experience of foreign auditing firms, or a proper legislative base.

Generalization of the first steps of auditing activity from the perspective of the reforms undertaken, is executed in various reference books, study guides and original papers, in researches of the Russian scientists. In fact, the Russian audit in the 90s really emerged (unlike after the three previous attempts); it is possible to reasonably claim that Moscow and St. Petersburg schools of sciences of audit were appearing, etc.

With emergence and development of regional audit chambers in Russia, republican chambers of auditors in the CIS, and Association of Accountants and Auditors of the Commonwealth, the country did not avoid some lack of consistency in requirements to independent auditors and to auditors who are typical for other federal states. Therefore, the experience of the USA is valuable, due to the fact that there are differences in approaches of individual states to this question, but also a single conceptual approach to the organization of auditing activity is verified.

The purpose of these requirements in Russia were not different from their purpose in other countries, particularly in western; these purposes assume a certain protection of proper users of accounting reports against those auditors who have qualification below the minimum level, but nevertheless try to practice in this prestigious sphere of the market.

Through the next years a certain order in this field was approved, regarding the admission of competent experts, who were able to defend the independence of a personal position in the relationship with clients, to the work in this sphere.

The first to conduct the structural adaptation to the market conditions in Russia (since the boundary of the 80-90ss) was the credit system. The market banking system was formed literally for several years: in many state organizations, including yet not privatized ones. The enterprises of a so-called alternative economy still had available some working capital financed by owner's equity, which was necessary for establishment of new commercial banks. Some audit organizations, which already existed at that time, participated in this process, confirming the fact in their conclusions or eliminating economic subjects, interested, but not having right to participate in the formation of the network of commercial banks.

The network of new specialized financial and credit institutes was rather quickly formed, there were some basic changes in the insurance system. In the context of a rapid inflation, the credit system of Russia was able to distinguish itself by a high initial level of profitability. As a consequence, transformations in the system of banking supervision and independent economic control of credit system' activity were required (Mamonova I.D., 1995). For a certain period of time commercial banks were developing in quite preferential terms: at first on the basis of cheap centralized loans, and then by means of large-scale currency speculations. However, by the middle of the 90s these surface enrichment sources gradually ran low, and the signs of a competitive market quickly appeared in the credit system of Russia,

therefore the audit risk for banks sharply increased. Especially it affected the banks in 1995-1996 and in 1998 when alongside with many banks the state treasury bills pyramid, which was feeding them, collapsed (Krotkov A.P., 2009).

While advancing towards the capitalism, the administration of, once for rent, and then privatized enterprises (mostly it was representatives of the former body politic, the notorious nomenclature) gradually entered the competitive struggle with the enterprises of the alternative economy, which were functioning here before. All of them had to react to changes of the current environment extremely quickly. They, alongside with the joint venture enterprises, first felt the necessity of auditing services for their changing structures. Only after that some market features appeared in the organization of industrial production, transport, communication, social sector, which began to feel the need for auditing services as well.

From the middle of the 90s the statements of Russian theorists and public agents claimed that in the second half of the 90s the large national capital finished the stage of concentration and started the formation of financial and industrial groups, and began to control the economy on the basis of the specified groups. Such statements are still devoid of substance by the beginning of the 21st century, though the fact of the emergence of financial and industrial groups can indeed create the prospects of strengthening of new horizontal communication instead of the lost, destroyed vertical one.

The share of the enterprises which were under control of the state (rather administrative, than financial) to the middle of the 90s was not lower than 60-70%. The partial privatization, chosen by many former state and municipal enterprises promoted it. Not more than 30-40% of authorized share capital of the reincorporated enterprise were offered for an auction in most cases, and the rest remained state-owned.

Market transformations of economy continued, though in a very controversial way, in addition to the conditions of absence of a civil society, a constitutional state. Only in the second half of the 90s, when millions of enterprises and citizens invested the money and vouchers in stocks of investment funds, equity joint ventures, commercial banks, the economically active population of Russia felt a compelling need in audit reports concerning the results of activity of these structures (Krotkov A.P., 2009).

The need for an effective audit became even more clear after the default of 1998. Requirements regarding reliability of accounting information sharply became more aggravated. Indeed, the managing director and the accountant of a commercial or financial structure can be interested in hiding from the shareholders, the owners of this enterprise miscalculations or even possible abuses. The auditor thereby gives the assurance of the present state of affairs at their enterprise.

In these conditions it is necessary to acknowledge that in Russia even of a boundary of 2000 the real demand for auditing services was poorly defined. If to estimate the economic branch profile, nearly a half of all clients of audit organizations in the 90s was compounded by trade enterprises. The share of industrial and large agricultural enterprises in turnover of audit organizations hardly reached one third. Banks accounted for, approximately, one sixth part of clients, and almost the same share in the turnover; the shares of investment institutes and insurance companies were not big as well.

If to estimate the clients of audit organization by other parameters, it turns out that not less than a half of the checked economic subjects are those enterprises which are obliged to have an audit report under the law. They were the most constant clients of audit organizations. To such economic subjects, the subjects of audit, can be subsumed the following: commercial banks, insurance companies, the enterprises with foreign investments, foreign legal entities, specialized investment funds, etc.; security issuers and all other large enterprises publishing their annual accounting reports about the results of their economic activity, their property and financial state, etc.

In Russia of the beginning of 2000, investment institutes, share funds and the financial market in general, services to which are supposed to compose the lion's share of auditing activity are developing. But before this time, as it is known, many pyramids and banks had collapsed. The largest share of it was of the structure, working at the basis of aggressive advertisement and attraction of quickly depreciating cash of the population.

A sharp spike of mutual non-payments of enterprises and organizations, evolved from superinflation and provocative tax policy, developed into a big debt of large and medium-sized enterprises to the budget, and gave the main increase of unemployment, inadmissible reduction of Russian investments. The need for improvement of economy, including by a thorough legal regulation of audit, raised doubts of few experts. At that time, the Provisional regulations appeared at first, and later – various versions of bills on auditing activity.

#### **4. THE PRESIDENTIAL DECREE OF THE RUSSIAN FEDERATION AND THE ENACTMENT OF PROVISIONAL REGULATIONS**

The global idea of the Russian audit is Russian audit itself. It is still far to its embodiment, though the Bill is quite a serious step in this direction. Yet if auditing activity in Russia has already happened on the basis of the Presidential decree of the Russian Federation and will indeed develop in the 21st century, it then should be assumed, that many other well-intentioned purposes of reforms will receive a chance to yield some long-awaited positive

results. In order to understand these processes of standard ensuring of the Russian audit it is important to examine its history.

In August, 1993, in the Russian Federation there was a question of acceptance of one of two versions of the law on auditing activity (so-called “presidential” and “parliamentary” law) (Arzumanova L.L., 2016). At their assessment as a matter of experience of the audit development abroad, it is possible to rely on the two main existing approaches to elaboration of the legislative base of auditing activity regulation:

1. The state initiation of bills and state regulation (the conditional and Eurasian approach typical for Germany, France, some other countries of continental Europe and Asia, including the People's Republic of China and Japan);
2. An initiation of bills by professional public institutes and regulation in cooperation with the state (the United Kingdom, and some other English-speaking countries).

The “presidential” project could have been considered closer to the first approach. However, considering some guidelines of the project it is possible to assume that it was aimed at transformation of audit into another powerful control parastatal structure in addition to absolutely government agencies (tax inspection and tax police, Federal Service for Currency and Export Control, etc.)

The “parliamentary” project, developed with the assistance of Russian and foreign auditors, was perhaps closer to the second approach. It seemed much more democratic and civilized (Konstantinov K., Rubchenko M., & Shmarov A., 1993).

At that time there was a discussion of the choice of the Russian solution of this problem among the experts. By that time certain experts and scientists, who relied on Anglo-American, created the first professional public organizations of auditors in Moscow, St. Petersburg and some other regions. These organizations, could, technically, be allocated with some legislation for regulation of questions of development of domestic audit alongside with the state.

For example, scientists and auditors of St. Petersburg as natural persons at the beginning of 1992, i.e. long before the “war of laws”, formed a public non-profit organization – Chamber of Auditor of St. Petersburg. These firms and the chamber supported the enactment of such a law of the Russian Federation “About auditing activity” which would be based on the second (Anglo-American) approach, i.e. on the following principles:

1. Independence of audit from the state, its various ministries and departments (including the independence from Ministry of Finance of the Russian Federation and Russian Insurance Supervision Service, from the State Tax Administration and from the Central Bank of Russia).

2. Providing a system where experts themselves can estimate the level of training and moral qualities of other experts:
  - a) with an issue of a permit to be engaged in auditing activity only to those persons who are able to confirm their qualification;
  - b) with ensuring professional security of auditors.
3. Financial independence of an auditor:
  - a) sufficient size of authorized share capital and net assets;
  - b) self-insurance;
  - c) full compliance with both their own independence and commercial interests of the clients by auditors;
  - d) the payment incoming from other sources as well as the payment incoming from each client has to have insignificant share in the general flow of income from the fee of auditors;
  - e) the organization limits rendering other services to the client to avoid the conflicts of interests.
4. Rotation of auditors: each several years a change of the auditor occurs which gives a chance to avoid a deep dependence of auditors on the client.
5. Existence of quite a developed audit technique for working with hi-tech systems of clients.
6. Providing a system of checking the quality of audit by an equal (a third party, similar audit organization, etc.).
7. Implementation of standards of auditing activity with adaptation of the international experience to the Russian economic reality of that time for these purposes.

Eventually Council of the Republic of the Supreme Soviet of RSFSR adopted the Law (the parliamentary version of it) in the first reading on May 13, 1993, and in the second reading – on July 21, 1993. However, the Russian President did not agree with the text of the law assumed for adoption: after May 13, his letter to the Supreme Soviet of June 16, and after July 21 – his new letter of August 10, 1993 followed. In these letters the Russian President drew the attention of legislators to the fact that he will be able to sign the Law “About auditing activity” only after fundamentally amending it. Thus, though the bill was twice approved by the Supreme

Soviet of RSFSR, owing to the known tragic events of October 1993, it was not fated to become the law.

Then in the “Kommersant” newspaper (1993. No. 46) the original project of Provisional regulations was published. By estimates of experts this project was even tougher, than the initial “presidential” bill.

In case of signing and approving of this draft of Provisional regulations by the President, the Russian auditors would face an unfortunate choice: either to work for free for law enforcement agencies and to go bankrupt, or to lose their clients and eventually go bankrupt anyway.

Some audit organizations tried to evade conducting such checks, at the pretext of being busy (responsibility for refusal was not prescribed). However, any conflicts of an audit organization with agencies of inquiry, investigators, prosecutors, judges of court and arbitration tribunal could lead into “special attention” from the last. At the same time large enterprises and corporations, taking into account a possibility of such “compulsory” checks with participation of auditors from the middle of the 90s, preferred to organize a powerful accounting service and financial management, involving the same former auditors. In the result many third parties (including numerous investors) and the state lost because of clumsiness of the legislator.

Expecting such prospect, the Russian auditors tried to advocate their professional interests for the first time before the Presidential decree of the Russian Federation. By the means of the “Kommersant” newspaper they actively protested against the aspects of “compulsory” checks stated above. Some other negative sides of the draft of Provisional regulations were likewise publicly discussed. Leading audit organizations actively stated the point of view on the development of audit in the system of accountant and legal relations in Russia.

Thus, at the end of 1993, the presidential decree of the Russian Federation predetermined not the second, but the first (i.e. Eurasian) of the two approaches to regulation of audit stated above in Russia: Provisional regulations were approved, and in 1994 the Commission was created. It played a special role in the process of management of auditing activity as it was the first official government institution under the President of the Russian Federation. For creation of the Commission the Russian President published a special order (of 04.02.94 No. 54-rp) “About the organization of work of the Commission on auditing activity under the President of the Russian Federation” by which he approved the Provision on the Commission, and then made some changes to this document as well. The main areas of concern of the Commission determined by this Provisions were quite wide:

- a) development of drafts, regulating auditing activity in the Russian Federation on the basis of the legislation of Russia;



- b) assistance in implementation of Provisional regulations, aggregation of practice of their application, and preparation of suggestions for improvement of legal regulation of auditing activity for the Russian President and the Government of the Russian Federation;
- c) delivery of explanations concerning application of Provisional regulations upon the request of economic subjects, federal organs of the executive authority, and executive authorities of territorial subjects of the Russian Federation;
- d) issue of full licenses for implementation of licensing of auditing activity;
- e) organization of maintaining the state registers of auditors, auditing firms and their associations;
- f) the organization of publications of data on issue (revocation) of licenses for implementation of auditing activity, and also about the registered associations of auditors and auditing firms, in the mass media;
- g) fulfillment of business contacts with international organizations, operating in the sphere of audit, in accordance with the established procedure, participation in preparation of drafts of international treaties and agreements on auditing activity, representation of interests of the Russian Federation concerning audit abroad (Terekhov A.A., 2001).

Thus the Commission was created for full accounting of all opinions, in order to accumulate the proposals of practicing auditors and theory experts, including those working under the President of the Russian Federation, as well as the opinion of the Government of the Russian Federation, for more effective cooperation with the Russian President Administration and the State Duma. The authors of the document stated above provided for the creation of the Advisory board at the Commission in the Provision on the Commission. Originally determined regulations on this Council generally outlined the main prospects of its functioning:

*The advisory board, formed of the representatives of academic institutes and higher educational institutions, the auditors who are engaged in auditing activity independently, the representatives of auditing firms and their associations, works for the Commission. The structure of the advisory board is approved by the Commission.*

*The chairman of the board and his deputies, elected from among the members of the Commission, direct the activity of the advisory board. The operating procedure of the advisory board is defined by the regulations approved by the Commission. (Retrieved from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_3080/](http://www.consultant.ru/document/cons_doc_LAW_3080/))*

It is quite obvious that formation of regional bodies of independent (external) auditors was still realized, mainly, on account of the experts having sufficient experience in the field of accounting and internal control. However, a specific scientific and legislative basis is necessary for the Russian audit in the post-soviet period.

Let us return to the question of the “compulsory” audit inspections of economic subjects (audited entities) raised above, and track the evolution of the norm in the Bill. The Russian President, having enacted Provisional regulations in 1993, took into consideration the public opinion of auditors expressed in the press and made certain concessions on the matter. Instead of the wording “can” or “has the right”, a wider, more compromise clauses were used in the act (Retrieved from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_2868/#dst100\\_019](http://www.consultant.ru/document/cons_doc_LAW_2868/#dst100_019)).

However, the Bill gives no clauses on this subject. Though, of course, conducting an examination by an auditor at the request of an authorized body of the government is not forbidden: this service, obviously, is meant as a part of *related services* (Chapter 1 “The concept of auditing activity”). Nobody forbids this service to auditors, but will not impose it either. An auditor can act, for example, as a contractor when conducting examination on the basis of special contracts. Voluntarily signing such contracts with courts, arbitration tribunals, bodies of prosecutor's and internal affairs' offices, customs authorities and other public authorities, the auditor can fulfill their assignments. The rights and duties of the performer, determined by the contracts should not contradict the standards of the relevant procedural legislation of the Russian Federation.

Taking into account extremely conflicting interests during such checks, and crime situation in Russia by the middle of the 90s, the President of the Russian Federation specified more or less acceptable term of the audit, as a rule – up to two months: *the term of an audit inspection on such an assignment determines by agreement with the auditor (auditing firm) and, as a rule, should not exceed two months*. There is also no such norm in the Bill, though, apparently, now it is possible to consider that it turned into directly called in Chapter 5 of the existing Civil Code of the Russian Federation customary business practices, to which we will come back in Chapter 3.

In Provisional regulations, besides, it was specified that the interested public authorities are obliged to create necessary conditions for such check (up to works of auditors on withdrawn documents), and, if necessary, to ensure personal security not only auditors, but the members of their families as well. Taking into account the high rates of crime in the Russian business of the 90s, when, according to the government law enforcement agencies, about 3000 separate criminal groups, 70 ethnic factions and 365 interregional groups operated, such measures did not look excessive.

We know that so far public authorities were obliged to ensure safety and create proper conditions for independent auditors, and civil officers at first place. Provided that it is not only about the list of persons who are involved in the three powers, but also those in mass media, and those who work as a part of the local (including local tax, control) organization. Nevertheless, criminal terror was anyway applied to many of them, and neither public authorities, nor private detectives could find those who were guilty.

At the same time, it would be possible to provide in contracts the norm which was prescribed by Provisional regulations, concerning the moment of reimbursement of the auditor or audit organization during conducting a check at the request of the interested bodies which are listed above. Fees of auditors in such cases had to be paid in advance on the expenses of the company being checked. As the matter of fact, the payment to the auditor on conducting the examination, which is conducted on the basis of contracts signed by it with authorized bodies of the government, can be made at the expense of the following sources of financing:

- a) in case the assignment on conducting examination was given in accordance with the procedural legislation of the Russian Federation in the presence of an opened (reopened) criminal case or a case of an administrative offense, a civil case, or a case, subordinated to arbitration tribunal, in authorized bodies of the government – at the expense of that person whose activity is subject to examination;
- b) in the absence of the bases for examination stated above – at the expense of the means provided on the maintenance of authorized bodies of the government;
- c) in the presence of the bases for conducting examination, but at absence of the person whose activity is subject to examination, or sufficient means for payment of work of the performer, – at the expense of means of authorized bodies of the government with the subsequent compensation of the specified means at the expense of the person whose activity is subject to examination.

In cases of conducting an examination by auditors at the request of authorized bodies of the government, the performer has the right to provide the reports, information papers and (or) other documents based on the results of examinations to the customers. Taking into account the principle of confidential information, obviously, it would be necessary to acknowledge the right not to provide any working documentation of examination to authorized bodies of the government.

Earlier, considering more frequent bankruptcies of the enterprises (some part of them could be deliberate bankrupts), the possibility of advance payment of auditor services at the expense of the republican budget of the Russian Federation was established. However, taking into account constant budgetary difficulties now in such cases payment for work of the

performer-auditor could be transferred at the expense of authorized bodies of the government. At the same time, it would be possible to provide the subsequent compensation of expenses of auditors at the expense of the person, whose activity was subject to examination.

All this shows that the efforts of auditors aimed at adoptions of the "rules of the game" acceptable for all parties were studied and, till a certain extent, considered by the authors of Provisional regulations and all the more by the authors of the Bill. Though still in the 90s the idea of "compulsory" (and almost free) checks, extremely rare in the international practice, was so attractive for the authors of Provisional regulations, noting the desire to give orders to independent auditors was so big, that many of the last had absolute chances to become bankrupts.

To counterbalance the divergences of interests in similar situations and to protect itself from possible surprises in similar cases, the legislator provided a possibility of repetitive audit inspections on the same bases and changed a source of their financing in the same way (Chapter 17 "Council on auditing activity under the Federal organ of state regulation of auditing activity", conscience clause 4) (Retrieved from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_2868/#dst100019](http://www.consultant.ru/document/cons_doc_LAW_2868/#dst100019)). Repetitive examinations of activities of the same person for the same bases are conducted with abidance by the following requirements:

- a) payment of work of the performer is made only at the expense of authorized bodies of the government;
- b) it is not allowed to involve the person who conducted the previous examination.

Let us note, however, that the specified paragraphs of Provisional regulations and corresponding paragraphs of the Bill (Chapter 19 "Responsibility of individual auditors, audit organizations and the audited entity") were fraught with essential increase of risk of leakage of confidential information of businessmen (Retrieved from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_2868/#dst100019](http://www.consultant.ru/document/cons_doc_LAW_2868/#dst100019)). Indeed, the circle of economic subjects (the audited entities) which are subjects of "compulsory" audit inspections if desired can be expanded to a maximum and include private businessmen and individuals working without formation of a legal entity.

## **5. DEVELOPMENT OF THE RUSSIAN STANDARDS OF AUDITING ACTIVITY ON THE BASIS OF THE INTERNATIONAL STANDARDS**

The work on modern version of system of the all-Russian audit standards began in our country in 1995. From the beginning this system was being created as a national analog of system of International Standards on Auditing developed by the Moscow Stock Exchange.

Before the adoption of the Law on auditing activity, during the period from 1996 to 2001, the Commission on auditing activity under the President of the Russian Federation, in accordance with Provisional regulations of auditing activity in the Russian Federation, approved by the Presidential decree of the Russian Federation of December 22, 1993 No. 2263, prepared and approved 39 audit rules (standards) 31 documents out of which were created on the basis of similar international standards of audit, and the others were developed taking into account the specifics of auditing activity in Russia (on the questions demanding an additional regulation or an isolated consideration). They also included the List of the terms and definitions used in the rules (standards) of auditing activity.

The rules (standards) of auditing activity, approved by the Commission on auditing activity under the President of the Russian Federation, were developed in accordance with the program of action, prepared by Ministry of Finance of the Russian Federation at the request of the Government of the Russian Federation, dated 04.01.1998, No. ACh-P13-00058 and enacted in April, 1998, for the period of 1998-1999 on conducting audit of accounting (financial) reports of economic entities on the basis of the audit standards, developed on the base of international standards. They were developed by the Financial Research Institute of the Ministry of Finance of the Russian Federation and played an essential role in formation and development of the Russian audit.

With adoption of the Federal Law “About Auditing activity” of August 7, 2001 No. 119-FZ the development of the Federal rules (standards) of auditing activity started in Russia. The department of the organization of auditing activity of the Ministry of Finance of the Russian Federation together with the Central Certification and Licensing Audit Commission of Russia created a working group on preparation of drafts of the Federal rules (standards) of auditing activity, in order to implement the Resolution of the Government of Russia No. 80 “About the questions of state regulations of auditing activity in the Russian Federation” in the contact with the TACIS project “Reform of the Russian audit”. The main goal of this project was to increase the level of reliability of auditor reports on financial activity of the Russian legal entities which were subjects to obligatory audit from both the private auditors having the license, and from auditing firms. The result of work was the list of Drafts of Federal rules (standards) of auditing activity for the top-priority development. The specified projects were considered by the Council for auditing activity at the Ministry of Finance of the Russian Federation and recommended to introduce for the approval by the Government of the Russian Federation.

In Russia the essence of audit standards is defined in Chapter 9 of the Law “About Auditing activity in the Russian Federation” according to which the rules (standards) of auditing activity are “standard requirements for a procedure of auditing activity, registration and assessment of quality of audit and the services accompanying it, as well as for training procedures of auditors and assessment of their qualification”.

It is established that all standards can be divided in:

- the federal standards obligatory for execution by auditors and their clients' firms. (Except for the provisions of standards concerning which an advisory nature is specified). They are enacted by Resolutions of the Government of the Russian Federation.
- the internal standards of auditing firms and professional organizations. They cannot contradict the federal standards, and their requirements cannot be below the requirements of the federal standards.

In 2002 the first package of the federal rules (standards) of auditing activity was approved. The resolution of the Government of the Russian Federation of September 23, 2002 No. 696 approved six federal rules (standards) of auditing activity: No. 1 “The purpose and basic principles of audit of financial (accounting) statements”, No. 2 “Audit documentation”, No. 3 “Audit planning”, No. 4 “Importance in audit”, No. 5 “Audit evidence”, No. 6 “The audit report on financial (accounting) statements”. These standards are developed in accordance with the international standards of audit, and are as close to them as possible.

From January, 2001 to March, 2003 within the TACIS project “Reform of the Russian audit” in March, 2001 the European Union declared granting 2 000 000 euros for professional development of the Russian auditors and support of serious reform of the system of audit aimed at making the data on the financial condition of the Russian companies more transparent; to achieve this goal the second set of federal rules (standards) of the Russian audit (FAS) was developed and later approved by the Resolution of the Government of the Russian Federation of July 4, 2003 No. 405 “About the expansion of the federal rules (standards) of auditing activity”:

No. 7 “Internal quality control of audit”,

No. 8 “Assessment of audit risks and the internal control performed by the audited entity”,

No. 9 “Affiliates”,

No. 10 “Post balance sheet events”,

No. 11 “Assumption of continuity of operations of the audited entity validity”.

The specified project was financed by TACIS and realized by auditing firm “FBK”, the English firm PKF2 and the Northern Irish firm “Helm Corporation” for the purpose of

approaching the Russian audit to the requirements of the international standards (Builov, M., Buza, V., 2001).

In 2004 the third set of documents regulating the work of the Russian auditors was accepted. The Government of the Russian Federation approved five new federal rules (standards) of auditing activity in addition to the previous federal standards by the Resolution of October 7, 2004 No. 532: No. 12 “Agreeing terms and conditions of conducting an audit”, No. 13 “Auditor's obligations for consideration of mistakes and unscrupulous practice during audit”, No. 14 “Incorporation of requirements of regulations of the Russian Federation during audit”, No. 15 “Understanding of activity of the audited entity”, No. 16 “Audit sampling”.

In 2005 the Resolution of the Government of the Russian Federation of April 16, 2005 No. 228 the federal rules (standards) were supplemented with seven new standards:

No. 17 “Obtaining audit evidence in particular cases”,

No. 18 “Obtaining confirming information by the auditor from external sources”,

No. 19 “Features of the first check of the audited entity”,

No. 20 “Analytical procedures”,

No. 21 “Features of audit of accounting estimate”,

No. 22 “Reporting of information, received in the results of the audit, to the management of the audited entity and the representatives of its owners”,

No. 23 “Statements and explanations to the management of the audited entity”.

This way, nowadays, 23 federal rules (standard) of auditing activity and 12 rules (standards) of auditing activity, approved by the Commission on Auditing Activities under the President of the Russian Federation, operate. In addition to standards, 6 methods of auditing activity are approved. Besides, in the Government of the Russian Federation 10 new drafts of the federal rules (standards) of auditing activity are being under consideration.

The rules (standards) of auditing activity, approved by the Commission on Auditing Activities, contain the following sections:

1. General principles of the rules (standards). This section presents the necessity of development of this standard, the subject of standardization, the scope of applying the standard and correlation with other standards.

2. The basic concepts and definitions used in the standard. In the section the definitions of terms and their brief characteristics are given.
3. The essence of the standard. In the section the problem is formulated, the methods of its solution are stated.
4. Practical appendices. It includes various appendices — schemes, tables, samples of documents, etc.

The structure of the federal rules (standards) is similar to the international standards of audit and contains the following sections:

1. Introduction. The purpose of the standard and the main terms used in the standard are defined in introduction.
2. The paragraphs revealing the essence of the standard.
3. Appendices, in which examples of procedures, tables, etc. are given.

Statement on Auditing Standards are federal rules (standards) of auditing activity, approved by the Commission on Auditing Activities under the President of the Russian Federation, — define the rules of conducting audit in general. Taking into account the fact that the international standards of audit are their cornerstone, these standards allow to perform an audit in accordance with both the Russian standards and IFRS.

## **6. TRANSITION TO THE INTERNATIONAL AUDITING STANDARDS**

Since December 2, 2014, the changes, enshrined in Federal law of 30.12.2008 No. 307-FZ “About audit activity”, came into force, according to which auditing activity is conducted in accordance with the international standards of audit. These standards are validated for application in the territory of the Russian Federation by the orders of the Ministry of Finance of the Russian Federation dated 24.10.2016, No. 192n and dated 09.11.2016 No. 207n. in which it is stated that the international standards are to be applied, since the following year after their enactment in the territory of the Russian Federation. However, in clause No 3 of the orders stated above, it is enshrined that in 2017, in case the contract for conducting an audit of accounting (financial) reports of the organization was signed before January 1, 2017, the audit can be conducted in accordance with the previously valid Russian standards of auditing activity.



Thus, since January, 1, 2017, the International Standards on Auditing (ISA) became mandatory for all audit agencies and auditors, with the exception of audits of the "transitional period".

On the one hand, it is commonly believed that the adoption of the ISA contributes to the development of communication between auditors and businesses, to improvement of the quality of audit services, to building of trust to audit among the users of financial statements in the context of globalization of the economy.

On the other hand, in any audit textbook, one can find two main ways for standardization of audit activities in different countries: when ISA are used as national and when countries apply their own standards (oriented to ISA). The countries that apply their own standards include the United States, Great Britain, Australia, Holland, Brazil, India, and the countries which do not have their own standards include Cyprus, Malaysia, Fiji, Nigeria, Sri Lanka, etc. Until recently, Russia has held an intermediate position in terms of self-sufficiency, and, perhaps, that should be something to be proud of. (Ustinova, Ya. I., 2017).

The International standards of audit are obligatory for all:

- auditors;
- audit organizations;
- self-regulatory organizations of auditors and employees of such SROs. However, at the time of introduction of the changes specified above, there were no International standards, acknowledged in the legislation of Russia yet, and the adoption of standards system was not approved as well.

In 2015 the work on the transition from domestic standards to international ones was continued: the resolution of the government of 11.06.2015 No. 576 approved the provision on the adoption of ISA to be a subject to application in the territory of the Russian Federation.

In 2016 the following orders were published by the Ministry of Finance of the Russian Federation:

- order of 09.11.2016 No. 207n;
- order of 24.10.2016 No. 192n.

They enacted all ISA in the territory of the Russian Federation (they are published on the official site of the department).

In 2017 there was the final stage of the transition to ISA: the resolution of the Government of the Russian Federation of 23.10.2017 No. 1289 invalidate the domestic rules (Federal Auditing Standards (FAS), which were entered by the resolution of the government of 23.06.2002 No. 696) starting since 2018. Thus, since 2018, only International Standards on Auditing have been in force in Russia.

## **7. CONCLUSION**

The Russian standards of audit are formed on the basis of the international standards. Their use pursues such aims as:

- to help the development of the audit and accountant professions within the country;
- to make the process of audit unified for all countries of the world.

The federal law “About Auditing activity” entitles the auditor standards “uniform requirements” for performing the work of auditors and for providing additional services. Under this act, the standards can be divided into the following groups:

- the federal standards;
- the internal standards, which can be applied in associations of auditors;
- the intra-corporate standards, which are applied in the organizations of auditors, or to certain experts.

The implementation of the federal standards is obligatory for all types of the auditing companies or individual auditors. Only those provisions which are advisory rather than mandatory can be considered an exception.

In the most developed countries of the world ISA has been being used for quite a long time already. The importance of introduction of these standards in Russia cannot be overestimated, as the Russian Federation needs to be completely integrated into the world economic community. For this purpose, it is necessary to increase the level of the quality of work of auditors.

The introduction of ISA in Russia causes the following problems:

- big corporations and the enterprises do not understand the importance of conducting audit inspections;

- the market of auditing services is constantly growing, which leads to violations of ethical standards;
- the introduction of ISA leads to growing prices on services of auditors;
- not all auditors still fully understand the basic principles of ISA, which leads to frequent mistakes;
- lack of understanding of the necessity to introduce international standards in Russia.

ISA are uniform rules, which are developed to improve the quality of auditing activity, whereas the Russian federal standards are rather a set of rules about standards of behavior of auditors.

Nowadays, a current problem of modern audit in Russia, in connection with a legislative innovation, is application of the international standards of audit. On November 29, 2016 the Order of the Ministry of Finance of the Russian Federation of 09.11.2016 No. 207n “About enforcement of the international standards of audit in the territory of the Russian Federation” came into force.

This document introduces 30 International standards of audit (ISA), which are obligatory in the territories of the Russian Federation since January 1, 2017. The international standards have a number of features.

First, ISA is a method of a process control. The requirement to auditors is to ensure an appropriate execution in formations of faultless opinion on financial statements. It means that the whole process has to be administered in detail by the standard in all cases of ambiguous understanding of what should be undertaken and in what cases. As it is about the control of reliability of the statements, the standards represent the control instructions. The task of an extremely concrete character is assigned to auditors.

Secondly, Russia is moving to the next level of economic development, where it makes economic sense to use the international audit standards. ISA offers more freedom of action during the process of report preparation and the following audit of it. The specified features justify the applicability of ISA in the Russian audit practice.

The transition to application of ISA is accompanied by a number of the reasons. The key problem of introduction of the international standards in practice consists in necessity of a high-quality translation of ISA into Russian. There were many attempts to translate ISA into Russian, but the standard acts, based on the translations, has not gained credence among the Russian auditors.

One more problem of application of the international standards of audit in the Russian practice of accounting is about the Russian auditors' poor understanding of what the international standards of audit are, as not all auditors were even informed of the rules (standards).

To conduct an audit, it is important, according to ISA, to create a mechanism, which would provide audit organizations with standards, on the basis of which audit reports on the results of obligatory audit inspections are formed. Along with the reasons, auditors and organizations also met such difficulties as:

- the contents and their structure;
- a frequency and volume of changes made to the standards;
- a shortage of the Russian experts (Varenya, O.A., 2017).

In order to make the application of ISA successful, harmonious work of many bodies, such as the Ministry of Finance of the Russian Federation, professional organizations and directly participants of the market, is required. The ministry of the Russian Federation and self-regulatory organizations of auditors provide the performance of the following key tasks:

- 1) to unify the terminology, i.e. to give a strict translation of ISA, to prepare the glossary of terms;
- 2) ISA, performing the monitoring of changes in ISA and making corresponding adjustments;
- 3) and consulting, i.e. to control ISA, give clarifications on questions.

Harmonious interaction of everyone involved in these tasks will lead to the fact that ISA will smoothly be entered into the Russian practice of accounting and audit, without any shocks for their clients. Thus, the acceptance of ISA is one of the key factors for development of the foundation of the world economy. In the article the reasons and possible difficulties for Russia on the way to the introduction of ISA are revealed and examined.

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