

Overview of amendments to Russian legislation

Accounting, financial reporting and audit



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Financial Reporting

Russian Ministry of Finance's recommendations on the audit of 2013 financial statements were published

Regulatory framework:

Recommendations to audit firms, individual auditors and auditors on the audit of annual financial statements for 2013 year (appendix to Letter of the Ministry of Finance of the Russian Federation (hereinafter, Russian Ministry of Finance) dated 29.01.2014 No. 07-04-18/01).

Summary:

Every year, the Russian Ministry of Finance prepares recommendations for the auditors on the audit of annual financial statements.

The document includes two parts: the first part is dedicated to various aspects of the performance of audit procedures and the second part is directed at specific issues in the preparation of financial statements.

This year, the first part provides recommendations on ensuring independence and observing professional ethical norms of auditors and covers various issues on the audit planning and completion, including, assessment of the risks of material misstatement of financial information, performance of alternative audit procedures where responses on auditor's requests are not received from the counterparties, observation of anti-money laundering, anti-corruption and anti-bribery legislation, and the preparation of an audit report.

The second part of the recommendations clarifies possible approaches to the accounting for and disclosure in the financial statements of certain transactions:

- disclosure of information on beneficiary owners in the financial statements should make it possible to definitely identify the ultimate controlling shareholder of a company. In accordance with Federal Law dated 07.08.2001 No. 115-FZ "On Anti-Money Laundering and Counter-Terrorist Financing", such an owner is an individual, who ultimately, directly or indirectly, owns (has a majority interest of over

25% equity) or has the power to control the activities of an entity. Furthermore, the recommendations stipulate that an unclear or incomplete disclosure of this information forms a basis for the modification of the audit report;

- when presenting a copy of annual financial statements subject to mandatory audit to state statistics authorities, the audit report on these financial statements is presented along with the statements, or no later than ten business days from the day following the date of the audit report, but no later than 31 December of the year following the reporting year;
- revaluation of property, plant and equipment is recognized as at 31 December of the year; comparative data for preceding periods are not restated;
- where property, plant and equipment are contributed to share capital, they are valued at an amount agreed by the shareholders; furthermore, when assets that have already been used are transferred, the receiver shall not recognize the accumulated depreciation balances on the transferred items accrued by the previous owner;
- raw materials, inventories and other similar assets used in the construction of non-current assets are presented in the balance sheet as a part of non-current assets and not as a part of inventories;
- where a contract for the sale of final products is concluded by an entity for a price lower than their cost, an allowance for inventory obsolescence must be accrued;
- in the balance sheet or appendices thereto, information is to be disclosed on the composition of prepaid expenses where there is a material difference in the nature of these expenses recognized in account 97;
- interest expenses accrued on the borrowed funds received for the refinancing of loans previously raised for the acquisition or construction of an investment asset may be capitalized within the cost of this asset;
- an increase in the remaining useful life of a property, plant and equipment item where all other indicators of its functionality remain unchanged (capacity, quality in use etc.) provides sufficient grounds

for the capitalization of expenses on its modernization and reconstruction;

- payroll-related payments should be presented in the statement of cash flows gross of amounts subject to withholding (for example, amounts of personal income tax accrued, writ of execution payments etc.).

Comments:

The full text of the document is located on the [website](#) of the Russian Ministry of Finance.

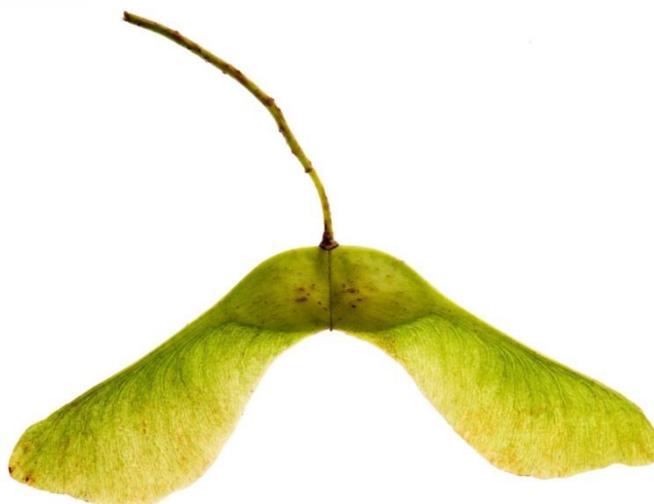
An updated version of IFRSs was published in the Russian language

Summary:

An updated version of the International Financial Reporting Standards includes all IFRSs adopted in the Russian Federation with all amendments issued in 2013 year. The document is for reference purposes only and should be used to simplify work with IFRS documents in Russia.

Comments:

The updated version of IFRSs in Russian is located on the [website](#) of the Russian Ministry of Finance.



Accounting and financial reporting of banking sector organizations

The Bank of Russia clarified requirements for the accounting on deferred taxes by credit institutions

Regulatory framework:

Letter of the Bank of Russia dated 28.03.2014 No. 50-T "On the specific procedures of recognition by credit institutions of deferred tax liabilities and deferred tax assets in the financial account".

Summary:

In the context of the adoption of the Bank's of Russia Regulation dated 25.11.2013 No. 409-P "On the accounting on deferred tax liabilities and deferred tax assets" and the Bank's of Russia Instruction dated 25.11.2013 No. 3121-U "On the introduction of amendments to the Bank's of Russia Regulation dated 16.07.2012 No. 385-P "On accounting in credit institutions located in the Russian Federation", the regulator clarifies the accounting for deferred tax assets and liabilities by credit institutions.

In accordance with the document deferred tax assets and liabilities are to be recognized in the credit institutions' accounts based on the calculations made with reference to the special register (as introduced by paragraph 4.2 of Regulation No. 409-P) that summarizes information on taxable and deductible timing differences.

Movements on deferred tax assets and liabilities are to be accounted in financial results or additional paid-in capital – the typical bookkeeping entries are presented in the document.

Comments:

The full text of the document is located on the [website](#) of the Bank of Russia.

In accordance with paragraph 4.1 of Regulation No. 409 credit institutions shall apply the mentioned provisions no later than 45 calendar days from the day following the end of 1st quarter 2014.



Audit

New requirements on conducting tenders on the auditors' appointment for entities with a state ownership entered into effect

Regulatory framework:

Federal Law dated 28.12.2013 No. 396-FZ "On amending certain legislative acts of the Russian Federation".

Summary:

Starting from 1 January 2014, article 34 of Federal Law No. 396-FZ entered into effect, stipulating that "a contract for the provision of a mandatory financial statements audit of an entity whose share capital includes a state interest of no less than 25 percent [...] is concluded with an audit firm or an individual auditor determined through an open tender at least once every five years in accordance with the procedures established by Russian Federation legislation on the contractual system for the procurement of goods, work and services for government and municipal needs; requirement for collateral payments is not mandatory".

In line with the new regulations, the conduction of a tender for the auditors of the above mentioned entities is to be performed in accordance with Federal Law dated 05.04.2013 No. 44-FZ "On the contractual system for the procurement of goods, work and services for government and municipal needs" no less than once every five years (and not annually, as was previously required).

Proposed laws and regulations

A negative conclusion was received from the Russian Ministry of Justice on the proposal to adopt IFRS document “Conceptual Framework for Financial Reporting” in Russia

Regulatory framework:

Draft Order of the Russian Ministry of Finance “On the adoptment of an International Financial Reporting Standards document on the territory of the Russian Federation”.

Summary:

In February 2014, the Russian Ministry of Finance prepared a draft order on the adoptment of IFRS document “Conceptual Framework for Financial Reporting” in Russia.

In April 2014, after the review of the draft at the Ministry of Justice of the Russian Federation, its negative conclusion was received resulting in termination of the further development of the document.



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