

## Russian Legislation Update

### Accounting, financial reporting and audit



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# Financial Reporting

## Russian Ministry of Finance's recommendations on FY13 audits published

Every year, the Russian Ministry of Finance issues recommendations for auditors on audits of annual financial statements. The first part of the document discusses various aspects of audit procedures and the second is directed at financial reporting matters.

This year, the first part includes recommendations on maintaining independence and professional ethics and covers various audit planning and execution matters, including risk assessment, alternative audit procedures if no confirmations from the counterparties are received, compliance with anti-money laundering, anti-corruption and anti-bribery legislation, and audit reports.

The second part discusses accounting and disclosure for the following:

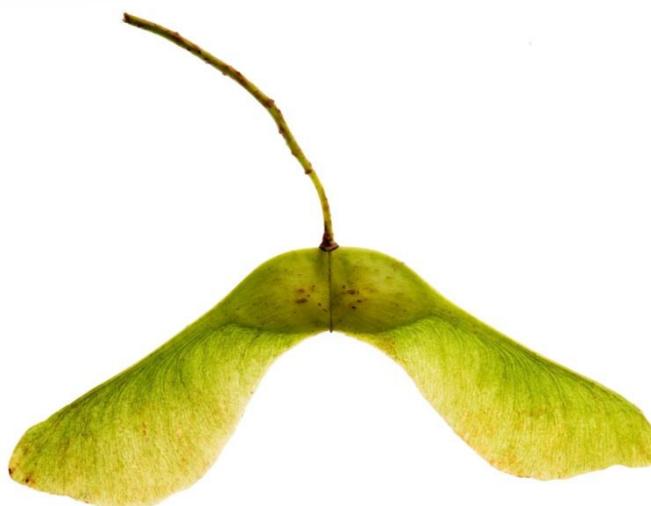
- disclosure of beneficiary owners in the financial statements should be sufficient to identify the entity's ultimate beneficiary owner (UBO). In accordance with the Russian Anti-Money Laundering Law, a UBO is an individual, who directly or indirectly owns 'majority interest of over 25% of equity' or has the power to control the entity. Furthermore, the recommendations indicate that insufficient UBO disclosure should result in a modification of the audit opinion;
- when annual financial statements of an entity subject to mandatory audit are submitted to state statistics bodies, the audit report should be either attached to the statements, or presented within ten business days after the audit report date, but in any case no later than 12 months after the year end;
- revaluation of property, plant and equipment is recognized as at 31 December of the reporting year; comparatives are not restated;
- property, plant and equipment contributed into share capital are recorded at the value agreed by the shareholders; if used assets are contributed, the receiver shall not recognize accumulated depreciation accrued by the previous owner as of the transfer date;

- inventories to be used in construction of non-current assets are presented as non-current assets;
- where a contract price for sale of finished goods is lower than their cost, an inventory obsolescence provision must be accrued;
- breakdown of prepaid expenses should be provided in the balance sheet or in the notes if this line item (account 97) contains items of a differing nature;
- borrowing costs on new borrowings raised to refinance loans obtained for acquisition or construction of qualifying assets are eligible for capitalization;
- an increase in the remaining useful life of a property, plant and equipment item where all other indicators of the asset functionality remain unchanged (capacity, quality, etc.) provides sufficient grounds for capitalization of the costs incurred;
- payments to employees should not be offset in the cash flow statement with the amounts subject to withholding (e.g., personal income tax, writ of execution payments, etc.).

The full text of the document can be downloaded at the [Ministry of Finance website](#).

### **An updated version of IFRSs published in Russian**

An updated version of the International Financial Reporting Standards comprises all IFRSs adopted in the Russian Federation including FY13 amendments. The document is for reference purposes only and can be downloaded at the [Ministry's website](#).



# Accounting and financial reporting - banks

## The Bank of Russia clarified requirements for deferred taxes accounting

The regulator clarified accounting for deferred taxes 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 in a special register summarizing taxable and deductible temporary differences.

Changes in deferred tax assets and liabilities should be accounted in profit or loss or in the additional paid-in capital – the typical bookkeeping entries are presented in the document.

Credit institutions shall start applying the regulation no later than 15 May 2014. The full text of the document is located on the [Bank of Russia website](#).



# Audit

## **New requirements on audit tenders for entities with state ownership**

Starting from 1 January 2014, “a contract for mandatory audit of entities with state ownership 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 the Russian Federation state procurement legislation; contractor’s collateral is not mandatory”.

Therefore, audit tenders for state-owned entities are now conducted in accordance with the Federal State Procurement Law dated 05.04.2013 No. 44-FZ at least every five years (not annually, as was previously required).

# Draft laws and regulations

## Proposal to endorse IFRS “Conceptual Framework for Financial Reporting” in Russia abandoned

In February 2014, the Russian Ministry of Finance prepared a draft order on endorsement of IFRS “Conceptual Framework for Financial Reporting” in Russia. In April 2014, after the review of the draft by the Ministry of Justice, the proposal was abandoned.



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