

MINISTRY OF FINANCE OF RUSSIAN FEDERATION

**FEDERAL AUDITING STANDARD
(FAS 4/2010)**

**PRINCIPLES OF THE MAINTAINING THE EXTERNAL QUALITY ASSURANCE OF
WORK OF AUDIT FIRMS, INDIVIDUAL AUDITORS AND THE REQUIREMENTS TO
THE DESIGN OF THE MENTIONED ASSURANCE SYSTEM**

(Approved by the Order № 16n of 24 February 2010)

1. General provisions

1. This federal auditing standard establishes the principles of the maintaining the external quality assurance of work of audit firms, individual auditors and the requirements to the design of the mentioned assurance system.

2. This federal auditing standard is applied in maintaining the external quality assurance of work of audit firms, individual auditors by self-regulating organizations of auditors and federal authority responsible for the external quality assurance of work of audit firms (hereinafter – authorized agency).

For the purposes of this federal auditing standard the self-regulating organizations of auditors and the authorized agency are called subjects of the external quality assurance of work of audit firms, individual auditors.

3. The principles of the maintaining of the external quality assurance of work and the requirements to the design of the mentioned assurance system established by this federal auditing standard can be applied by the self-regulating organizations of auditors in the setting up the rules concerning the design and maintaining the quality assurance of work of members-auditors which are not individual auditors along in line with the rules of design and maintaining the quality assurance of work of its members.

4. Main principles of the maintaining external quality assurance of work of audit firms, individual auditors (hereinafter – EQAW) are:

- a) maintaining of EQAW in relation to all audit firms, individual auditors (hereinafter – object of EQAW);
- b) independence of EQAW;
- c) adequacy of the financial, material and human resources;
- d) due level of professional competence of staff conducting EQAW (hereinafter – reviewers);
- e) transparency of the reviewers appointment procedure to conduct the external reviews of the quality of work of the EQAW object (hereinafter – external review);
- f) reporting on the overall situation with and the results of EQAW;
- g) public accessibility of the outcomes of EQAW;
- h) ensuring of the elimination by the reviewed object of EQAW of violations and deficiencies found upon the results of the external review;
- i) accountability of the subjects of EQAW activities in the maintaining of EQAW to the Audit Council established in accordance with the Article 16 of the Federal Law “*On Auditing*”.

5. In the process of EQAW the reviewer is guided by the code of professional ethics of auditors, particularly by the requirement of independence, professional competence, due care.

6. The independence of the reviewer means that in the process of reviews he is independent from the EQAW object including:

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a) in accordance with family legislation of Russian Federation has no marital, family or legal relationship neither has adopter or adoptive nor tutor or tutorship relations with the owners and/or officials of the EQAW object;

b) was not in the reviewed period and is not in the period of the review owner, official and/or other employee of the EQAW object;

c) was not connected in the reviewed period and is not connected in the period of the review through financial relationships with the EQAW object.

The reviewer shall take measures to prevent the conflict of interests with the reviewed EQAW object in the process of the external review.

7. The professional competence of the reviewer means that:

a) in the process of EQAW he has the necessary professional knowledge in the area of auditing, accounting, financial reporting and skills of execution of external reviews;

b) he maintains continually the mentioned knowledge and skills at a due level.

8. Due care of the reviewer means the timely and precise execution of his duties provided by this federal auditing standard, program of external review and also the rules of the self-regulating organization of auditors.

2. Requirements to the design of EQAW

9. In the process of EQAW design the EQAW subject shall provide:

a) systematic performance of external reviews of EQAW objects;

b) necessary authority of the reviewers;

c) EQAW independence from the EQAW object under review, particularly in the following areas of EQAW organization and maintaining: establishing of the rules of EQAW organization and maintaining, EQAW financing, appointment of reviewers and the decision making upon the results on the external review;

d) independence of reviewers, prevention of conflict of interests between the reviewers and the EQAW object under review, observance of the confidentiality of information of EQAW;

e) training of reviewers in the methods of conducting external reviews, control over knowledge and skills of reviewers;

f) EQAW object informing of the conclusions and recommendations upon the results of the external reviews;

g) monitoring of actions undertaken by the EQAW object to eliminate violations and deficiencies found upon the results of the external review;

h) disciplinary actions in relation to those EQAW objects which refuse to undergo through EQAW, particularly to present all necessary documentation and information for review, and do not undertake necessary actions to eliminate violations and deficiencies found upon the results of external reviews and also to those EQAW objects in the work of which are found serious violations and deficiencies.

10. EQAW is subject to planning. The EQAW planning is performed by way of working-out and approving by the EQAW subject of EQAW plan for the next calendar year.

11. EQAW plan is a list of external reviews which are planned to be conducted during the calendar year. The EQAW plan contains for each external review: EQAW object, reviewed period, term of the external review execution.

12. The EQAW plan is worked out on a base of a cyclic or risk-oriented approach.

13. Cyclic approach presumes the establishing on the base of the requirements of the Federal Law “*On auditing*” of a maximal period at the expiration of which the external review execution of the EQAW object is obligatory. At the same time for different groups of EQAW objects could be established different periodicity of external reviews.

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14. Risk-oriented approach presumes the selection of EQAW objects on the base of the analysis of their respective auditing activities. At the same time are taken into consideration in particular the following risks of the EQAW objects auditing activities:

- a) number of clients of EQAW object, the securities of which are admitted to the circulation at the exchanges and/or other trading organizers in the securities market;
- b) number of other clients of the EQAW object which are considered as public interest entities;
- c) results of previous external reviews, including found deficiencies in the design and maintaining the internal quality control of work of the EQAW object, breaches of the requirement of independence of auditors and audit firms, non-observance of the requirement of trainings according to the programs of auditors qualification level raising.

In using the risk oriented approach the EQAW subject shall provide the periodicity of external reviews of each EQAW object established by the Federal Law “*On auditing*”.

15. In EQAW planning is also taken into consideration the degree of provision with resources (human, material and financial), reality of external reviews terms, regularity of workload on the reviewers, availability of time reserve to perform extra-planned external reviews and other factors.

16. The EQAW maintaining is subject to systematic monitoring.

17. The object of EQAW maintaining monitoring is the observance of the Federal Law “*On auditing*”, of this federal auditing standard, of rules of the self-regulating organization of auditors of auditors as well as the realization of EQAW agenda.

18. The monitoring of the EQAW fulfillment is conducted by the EQAW subject which determines methods, periodicity and terms of such monitoring.

19. The EQAW subject provides systematic (quarterly, semiannually or annually) summary of monitoring of EQAW maintaining and communicates on it to reviewers.

20. The results of EQAW are summarized by the EQAW subject in the annual report of the EQAW condition. The annual report of the EQAW condition is to be published by the EQAW subject in particular at the official EQAW subject Internet-site. The annual report of the EQAW condition does not necessarily include the outcomes of external reviews disclosing the information of concrete EQAW objects or their clients.

21. The EQAW subject shall establish the criteria of the EQAW effectiveness assessment in general and also of the reviewers work.

22. In case if the external review is conducted by a team of reviewers it is directed by its leader appointed according to the order established by the EQAW subject. The leader of reviewers’ team:

- a) organizes the external review;
- b) performs himself and organizes the control over the work of reviewers forming the team and the outcomes of the external review;
- c) informs of the outcomes of the external review the EQAW subject;
- d) fulfills himself and organizes the interaction of the team of reviewers with the EQAW object;
- e) signs the report of the external review.

23. The team of reviewers shall include the sufficient number of reviewers to ensure the external review execution in the established terms.

24. The execution of each external review shall be prepared. The purpose of the external review preparation is to ensure its quality, effectiveness and timelessness.

25. In preparing the external review:

- a) is realized the gathering of information of the EQAW subject necessary to design the external review;
- b) is determined the scope of the external review including audit engagements to be reviewed;
- c) is considered in the preliminary order the general approach to the external review execution;
- d) are determined the stages of the external review execution;

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- e) are determined the requirements to the reviewers necessary for the conducting the external review, is formed the team of reviewers and are distributed the duties among members of this team;
- f) is formed the program of the external review;
- g) EQAW object is informed of the terms of execution, subject and scope of the external review.

26. The scope of the external review is determined by the list and the nature of the control procedures which are necessary to achieve the goal of the external review under given circumstances.

27. The program of the external review is formed and approved before the beginning of the external review.

28. The program of the external review shall contain in particular: topic of the external review; name of EQAW object; reviewed period; list of issues subject to the examination in the course of the external review.

29. The program of the external review shall be structured in such a way the reviewers receive sufficient assurance that:

- a) EQAW object has a due design of the internal quality control of work;
- b) EQAW object fulfills all the requirements of the internal control quality of work;
- c) EQAW object and his auditors have observed the Federal Law “*On Auditing*”, auditing standards, code of professional ethics of auditors, rules of auditors and audit firms independence.

30. In the course of the external review are fulfilled:

- a) assessment of the rules of the internal quality control of work of EQAW object;
- b) determination of the effectiveness of the internal control of quality of work of the EQAW object;
- c) assessment of the last in time reporting of EQAW object of auditing activities based upon the results of actions provided by the sub-points “a” and “b” of the present point.

31. The assessment of the rules of the internal quality control of work of the EQAW object is performed in particular in relation to the following issues:

- a) compliance of the EQAW object with the Federal Law “*On Auditing*”, auditing standards, code of professional ethics of auditors, rules of auditors and audit firms independence;
- b) the quantity and professional level of auditors of the EQAW object as well as the observance by the auditors of the requirements of continuing education;
- c) compliance with the requirements established in the part 2 of the Article 8 of the Federal Law “*On auditing*” as well as of the condition according to which the order of payment and the size of money remuneration in favor of the EQAW object for the audit services (including the mandatory audit) does not depend and is not determined by the provision to the audited person of other services.

32. Determination of the effectiveness of the design of the internal quality control of work of the EQAW object is performed by way of inspection of the compliance of the rules of the internal quality control of work of EQAW object as well as of audit files on concrete audit engagement of audit of the financial reporting (hereinafter – audit engagement).

The said review is performed at least in relation to the considerable part of audit engagements selected on the base of the analysis of risk of improper audit execution. For consideration in the course of the external review are selected as a rule audit engagements completed in the reviewed period.

33. The inspection of the audit files in relation to the concrete audit engagements shall provide the assessment of:

- a) availability and effectiveness of the internal quality control of the work of EQAW object and of the quality of audit engagements execution;
- b) observance of the Federal Law “*On auditing*”, auditing standards, code of professional ethics of auditors, rules of auditors and audit firms independence;

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- c) sufficiency, due character, reliability of auditor evidences contained in the audit files;
- d) validity of auditor opinion taking into consideration the circumstances of the audit engagement.

34. In the course of the external review is conducted the observance of the work of reviewers. The observance is fulfilled for the sake of achievement of the external review goal and maintaining of the quality of the work of reviewers.

35. Are subject to the observance in the course of the external review:

- a) work of each reviewer independently of the position, qualification and experience;
- b) work fulfilled at each stage of the external review.

36. The observance in the course of the external review is realized by the leader of reviewers' team and also by more experienced reviewers in relation to the work of less experienced reviewers.

37. The observance in the course of the external review is conducted upon the performance of the review until the external review report is finalized.

38. In the course of the observance is to be obtained the assurance of:

- a) reviewers have common clear comprehension of the program of external review;
- b) external review is conducted in accordance with the Federal Law "On Auditing", present federal auditing standard and also rules of the self-regulating organization of auditors;
- c) program of external review being conducted;
- d) working documentation contains the evidences confirming the conclusions made upon the results of the control procedures;
- e) all assessments and conclusions made in the course and upon the results of the execution of control procedures are grounded and confirmed by the evidences;
- f) all situations related to the faults, deficiencies and unusual circumstances have been appropriately found, documented and authorized or to them have been paid the attention of the reviewers' team leader and/or of more experienced reviewers;
- g) goal of the external review being achieved;
- h) report of the external review reflects appropriately the result of external review.

39. In conducting the external review shall be obtained the evidences confirming the outcomes of this review.

Are considered as evidences: description of the internal quality control system for work of EQAW object, working papers of auditor, reporting of EQAW object, results of the control procedures executed in the course of external review, written declarations of management of EQAW objects and also the documents and the data obtained from other reliable sources.

40. Evidences are obtained upon the results of the following control procedures:

- a) getting the information of: nature and scope of the auditing activities of the EQAW object and applied by it forms and methods of audit execution; system of internal quality control of work; procedures of observance of the professional ethics norms and independence of auditors and audit firms; procedures of continuing education;
- b) testing of the efficiency of monitoring procedures applied by the EQAW object during the reviewed period, and also assessment of how the reviewers could rely upon these procedures;
- c) inspection of the observance of the rules of internal quality control of execution of concrete audit engagements;
- d) second assessment of the sufficiency of scope of external review by way of analyzing the results of that review with a purpose to determine whether additional control procedures are necessary;
- e) discussion of the results of work, conclusions and recommendations of reviewers as well as of the report of external review with the representatives of the EQAW object;
- f) conducting alternative control procedures.

41. Performance of external review is subject to the documentation.

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42. Working documentation (working documents), e.g. documents and other materials worked-out or obtained in relation to the performance of external review are formed in the course of preparation and performance of the external review and also in the process of observance in the course of this review.

43. Working documents shall reflect the grounding of all relevant issues on which the reviewer has to express his professional judgment. In cases where the reviewer considered complicated principal issues or expressed professional judgment on any relevant issues, the description of all relevant facts known to the reviewer at the moment of forming such judgment shall be included into the working documents.

44. Working documents shall be formed with such a degree of completeness and details which is necessary and sufficient to provide the comprehension of the conducted external review and its results.

45. The volume of working documentation for each external review is determined by the reviewers who are guided by their professional judgment. The inclusion into the working documentation of any considered in the course of the external review document or the reflection in the working document of any considered issue is not obligatory. However the volume of the working documentation shall be such to provide in case if there is a necessity to transfer the work to another reviewer who has no experience of work on this external review, the new reviewer could exclusively on a base of the received working documentation understand the work done and the background of the conclusions of previous reviewer.

46. The form and the content of working documents are determined by the reviewer taking into consideration the following factors:

- a) subject and scope of external review;
- b) requirements to the report of external review;
- c) scope, nature and complexity of the activity of EQAW object;
- d) level of assurance provided by certain documents;
- e) condition of the system of internal quality control of work of EQAW object;
- f) necessity of instructions to the members of reviewers' team and fulfillment of observance after them;
- g) control procedures applied in the course of external review.

47. In including into the working documentation the documents and other materials prepared by the EQAW object the reviewer shall be certain that such documents are appropriately prepared.

48. The working documentation on each external review shall include:

- a) documents reflecting the preparation of the external review including the program of external review;
- b) data of the terms of execution and scope of external review and also of its results;
- c) documents of the execution of certain control procedures together with indication of the name of executing person and of the time of execution;
- d) copies of documents of the EQAW object including those confirming the found violations and deficiencies;
- e) written declarations obtained from the officials and other employees of the EQAW objects;
- f) copies of requests directed to other EQAW subjects, experts, third persons and the data received from them;
- g) documents confirming that the work done by the reviewers was conducted under the observance of the leader of reviewers' team and/or of more experienced reviewers.

49. Working documents shall be systematized in a way to respond to the circumstances of the concrete external review.

50. To prepare and perform the external review could be applied the forms of working documentation approved by the EQAW subject (question list, standard letters, requests and so on) and also the uniform structure of the files of working documents.

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51. EQAW subject establishes appropriate procedures of the provision of confidentiality and of safety of working documents.

52. Working documentation shall be kept by the EQAW subject.

The terms of the working documentation keeping after the completion of the external review is established by the EQAW subject. This term shall be such to provide the EQAW subject and the authority in-charge of the statutory control (oversight) over the activities of the self-regulating organizations of auditors the possibility to fulfill the control over the external reviews performance.

The working documentation as well as the reports of the external review are completed, accounted and kept in the order established by the EQAW subject.

53. The outcomes of the external review are subject to the documentation in a form of a written report (act, opinion and so on).

54. The report shall contain in particular:

a) title;

b) information about the EQAW subject: name, registration number of the self-regulating organization of auditors in the state register of the self-regulating organizations of auditors;

c) information about the EQAW object: name, registration number in the register of auditors and audit firms of the self-regulating organization of auditors;

d) reason for the external review;

e) description of the subject of external review;

f) indication showing in accordance with which requirements (standards, rules, other documents) the external review has been conducted;

g) description of the outcomes of external review confirmed by the evidences;

h) opinion on the quality of work of EQAW object including the conclusion of the compliance of the rules of internal quality control of work of the EQAW object with the established requirements and also of the EQAW compliance with these rules;

i) signature of the leader of the reviewers' team or of the reviewers;

j) date of the report signature.

55. The form of the report and also the accepted types of the opinion in it (unqualified, qualified etc.) are established by the EQAW subject.

56. Objectivity, grounding, system approach, clearness and laconism (without prejudice for the content) of expression shall be provided in preparing the report.

57. The report shall be presented in time before the completion of all review procedures provided by the program of external review.

58. The report is communicated to the EQAW object and to the body which ordered the external review.

The EQAW object has to present in time to the body which ordered the external review the written response to the report and in particular to inform of the planned actions in case of revealed breaches and defaults and of the timing to take these actions.

The body which ordered the external review shall consider in time the report and the written response of the EQAW object to it and if necessary to take appropriate decisions.

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