



AUDITING | ING.
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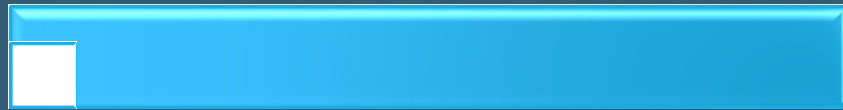
INTRODUCTION

- ❑ OAO Gazprom is the largest energy producer in Russia. During the 1990s, Gazprom was arguably the most important Russian company, which accounted for nearly 10% of Russia's gross domestic product and 20% of its exports and tax revenues.
- ❑ The audit firm is PricewaterhouseCoopers (PwC)
- ❑ The scandal burst out at 2001, caused by so called "Itara transactions"

BACKDROP

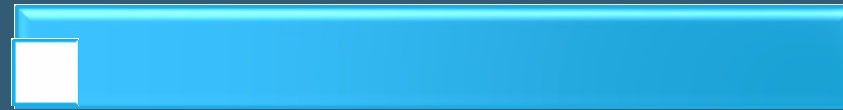
Privatization programme

Advantages



free market economy

Drawbacks



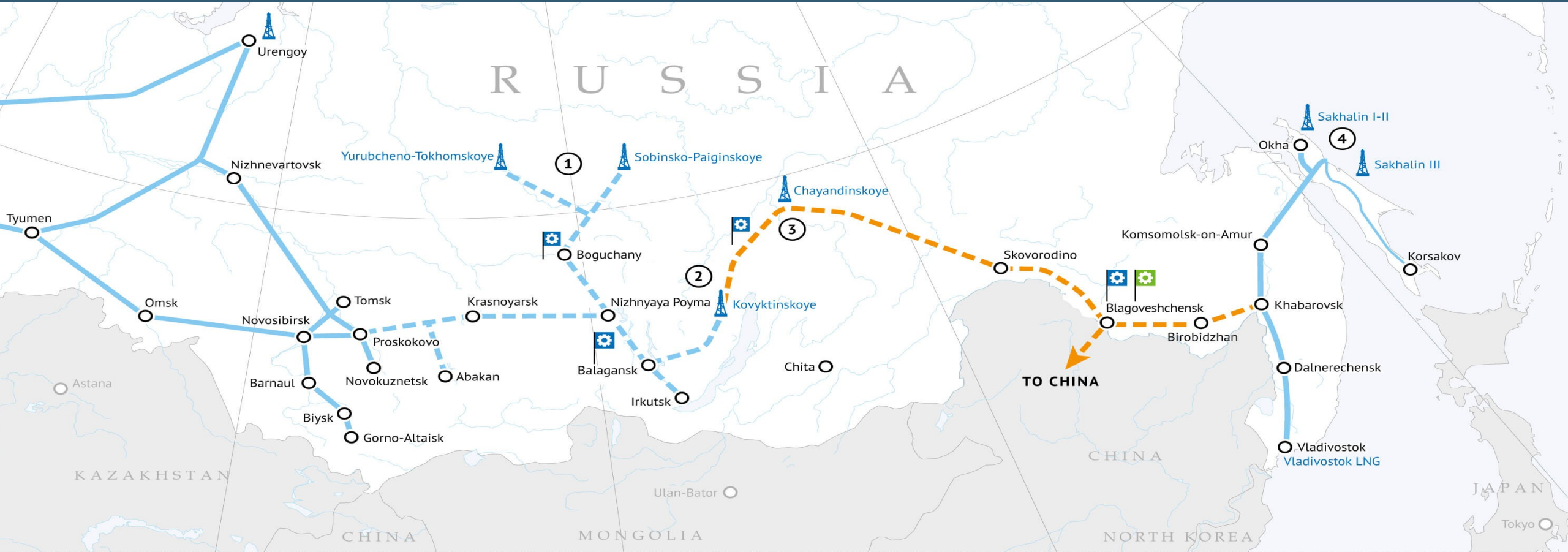
Survival only with subsidies

“Red directors”

“Rogue Capitalism”

BACKDROP

The company's most important assets are enormous natural gas reserves discovered in Siberia following World War II. Gazprom was one of the first publicly owned firms created by Russia's privatization program.



Gas pipelines in operation
Gas pipelines under design

Power of Siberia, gas trunkline system from Yakutia and Irkutsk Region to Khabarovsk

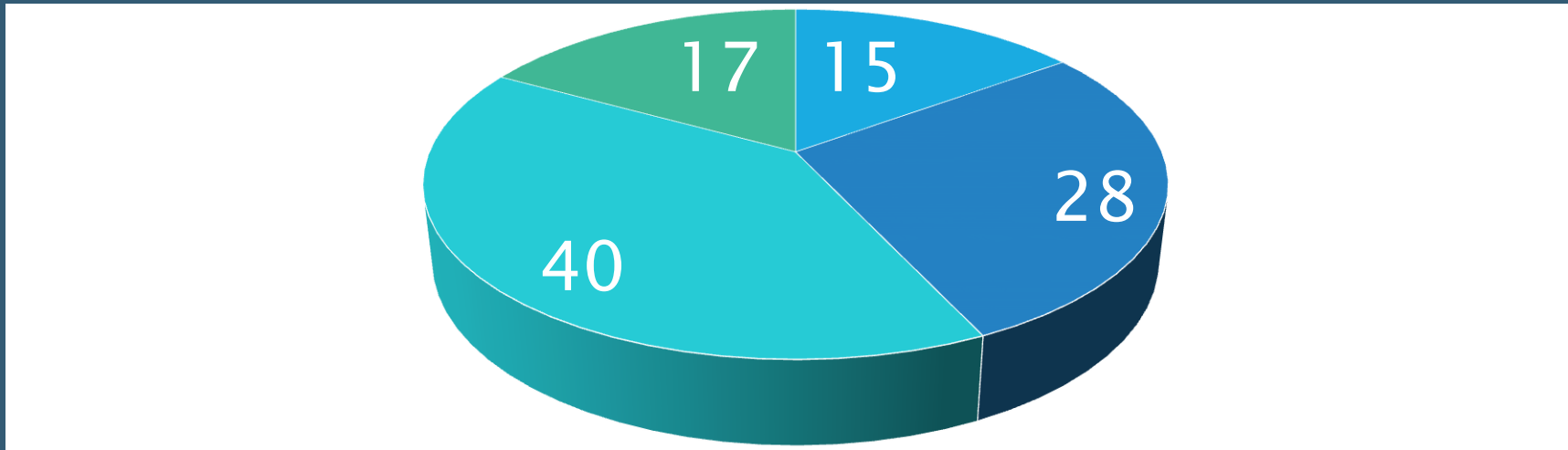
Gas production centers
① Krasnoyarsk
② Irkutsk
③ Yakutia
④ Sakhalin

Planned gas processing plants and gas chemical facilities

Fields

GAZPROM'S MAIN SHAREHOLDERS

Fraction of company's stock %



■ Employees

■ Customers

■ Government

■ Foreign investors

ACCOUNTING MANIPULATIONS

- In December 1992, when Boris Yeltsin, the Russian President appointed Chernomyrdin, Gazprom's Chairman, his Prime Minister, the company's political influence increased.
- Rem Viakhirev took the chairmanship of Gazprom's Board of Directors and Managing Committee.

ACCOUNTING MANIPULATIONS

ITERA TRANSACTIONS

- ❑ Gazprom sold a large volume of natural gas to Itera for \$2 per cubic meter, which Itera then resold to European customers for more than \$40 per cubic meter.
- ❑ Gazprom sold its 32 percent ownership interest in a gas-producing subsidiary, Purgas, to Itera for \$1,200. Industry insiders estimated that the market price of that ownership interest was approximately \$400 million.
- ❑ Itera became the world's seventh largest natural gas company in a span of only seven years during the 1990s.
- ❑ Gazprom was losing the equivalent of \$2 billion to \$3 billion each year due to "corruption, nepotism, and simple theft."

INVESTIGATION

- ❑ William Browder started investigation of Gazprom stock in the mid-1990s.
- ❑ In January 2001 “special audit” of the Gazprom-Itera transactions-PwC (audit itself)
- ❑ PwC had failed to even require Gazprom to disclose Itera as a related party in the footnotes.
- ❑ Deloitte & Touche -parallel investigation of those same transactions.

NO SMOKING GUNS

- ❑ PwC did not identify any “deals in which Itera benefited at the expense of Gazprom
- ❑ PwC purchased fullpage ads in major Russian newspapers which suggested that PwC had been singled out for criticism based on “an inaccurate understanding of the roles and responsibilities of auditors.
- ❑ The court resolved allegations in the lawsuits were “completely unfounded” and that the firm’s audits had “met all applicable legal and professional standards”.

QUESTIONS

No1

List the challenges that a major accounting firm faces when it establishes its first practice office in a foreign country. Identify the key factors that accounting firms should consider when deciding whether to establish a practice office in a new market.

Political (P):- Political situation in the country *accounting firm* plans to take its business to is highly critical. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.

Economical (E):- This include factors like inflation, interest and exchange rates, tax rates economic growth, the unemployment rate and policies.

Social (S):- Concerning performance of accounting firms I think it is related mostly to ethics in accounting and auditing. Each culture may

QUESTIONS

No1

In addition

Attracting & Developing New Business

Attracting and developing new business is the top challenge for accounting and financial services firms. Today, it's growing more and more challenging to generate new clients. The competition is fierce. Specifically, international companies suffer from competition with the local auditing firms.

Finding & Keeping Good People

A firm's brand plays a crucial role in this process, and part of a firm's brand is its reputation for employing and cultivating leaders.

QUESTIONS

No2

Suppose that a U.S.-based accounting firm has a major audit client in a foreign country that routinely engages in business practices that are considered legal in that country but that would qualify as both illegal and unethical in the United States. What specific moral or ethical obligations, if any, would these circumstances impose on this accounting firm? Explain.

If audit client's practices are considered to be illegal and unethical in the US it means that they do not meet the requirements of IFRS GAAP. Therefore, US accounting firm are not allowed to take this client, otherwise, it will break the law.

QUESTIONS

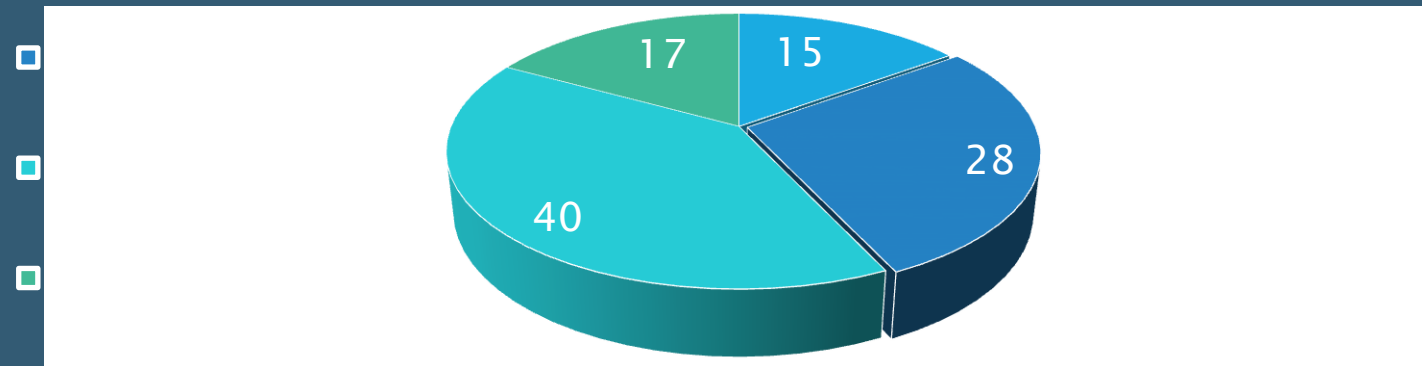
No3

What responsibilities, if any, do you believe PwC had to Gazprom's minority investors?

Minority investor is an equity holder of a firm who does not have the voting control of the firm.

Fraction of company's stock %

■ Employees



QUESTIONS

No3

- Ethnical
 - Credible
 - Disclosure
 - Independence
-
- disclosure itera as a related party
 - Itera transactions

QUESTIONS

No4

In your opinion, should PwC have agreed to perform the “special audit” of the Itera transactions? Defend your answer. In your answer, identify the specific ethical issues or challenges that the engagement posed for PwC.

No, it should not have agreed, because it meant that the company audited itself. It should disclose Itera as a related party in the footnotes to the company’s financial statements.

QUESTIONS

No4

PwC's special audit included the following:

- ❑ “self-review”
- ❑ crediability lost
- ❑ Deloitte and Touche which was appointed by the Boris Federov to perform a parallel investigation of those same transactions

QUESTIONS

No4

Challenges and ethical issues:

- ❑ “Fierce competition”
- ❑ Nature of the country’s auditing rules.

QUESTIONS

No5

In the United States, what responsibility do auditors have to determine whether or not “related parties” exist for a given audit client? Explain.

- Checking whether there was a fraud in the company to be audited
- Checking whether there were some illegal transactions

If auditing company realized it after making an agreement with its client than the disclaimer should be issued.

The disclaimer is issued when the auditor has been unable to satisfy himself or herself that the overall financial statements are fairly presented. It can arise only from a lack of knowledge by the auditor, whereas to express an adverse opinion, the auditor must have knowledge that the financial statements are not fairly stated.

QUESTIONS

No6

Explain how the British “true and fair” audit approach or strategy differs from the audit philosophy applied in the United States. In your opinion, which of the two audit approaches is better or, at least, more defensible?

American approach



litigious nature of corporate life



accountants to be very precise

British approach



precision in accounting is a dream



Rely on figures

QUESTIONS

No7

In recent years, there has been an ongoing debate in the accounting profession focusing on the quality of the accounting standards issued by the International Accounting Standards Board versus those issued by the Financial Accounting Standards Board. Research and briefly explain the key philosophical difference between those two important rule-making bodies that significantly affects the nature of the accounting standards promulgated by each.

- ❑ The International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Board (FASB), responsible for US Generally Accepted Accounting Principles (US GAAP).

QUESTIONS

No7

IFRS



principles based



future
benefits+realibility

GAAP



rules based



Fair value

QUESTIONS

No7

IFRS

LIFO is not allowed

Write downs can be reversed

GAAP

LIFO is allowed

Reversal is prohibited

THANK YOU FOR ATTENTION

