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# 2019 Inspection

# AO Deloitte & Touche CIS

(Headquartered in Moscow, Russian Federation)

April 8, 2021

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# 2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of AO Deloitte & Touche CIS (formerly ZAO Deloitte & Touche CIS), we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm’s system of quality control.

## 2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations we may select all of the firm’s issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer’s financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm’s total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm’s audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

# Overview of the 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm’s issuer audits as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm’s business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Reviewed

	2019	2016
<b>Firm Data</b>		
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	1	2
<b>Total issuer audits in which the firm was not the principal auditor</b>	10	19
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	9	13
<b>Audits Reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	3	3
<b>Audits in which the firm was the principal auditor</b>	1	2
<b>Audits in which the firm was not the principal auditor</b>	2	1
<b>Integrated audits of financial statements and internal control over financial reporting (“ICFR”)</b>	3	3
<b>Audits with Part I.A deficiencies</b>	0	1

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of persons who provide professional services on behalf of the firm who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm’s role in an issuer audit during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019		2016	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	2	Revenue and related accounts	3
Cash and cash equivalents	2	Cash and cash equivalents	2
Long-lived assets	1	Long-lived assets	2
Inventory	1	Inventory	1
Leases	1	Goodwill and intangible assets	1

## Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("the Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

### Part I.A: Audits with Unsupported Opinions

In the 2019 inspection, we did not identify any deficiencies that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

### Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

In the 2019 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

## Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

### Policies for Financial Holdings Disclosures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with the firm's policies and procedures with respect to independence-related regulatory requirements. (QC 20.04, .09, and.10)

The firm conducts periodic audits of a sample of its personnel to monitor compliance with certain of its independence policies. In the audits conducted, the firm identified that 24 percent of partners who were audited in 2017 and 30 percent of partners who were audited in 2018 had not reported, as of the dates of their confirmations of compliance with firm policy, financial relationships that were required to be reported in accordance with the firm's policies. These high rates of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provide cause for concern, especially considering that these individuals are required to certify on an annual basis that they have complied with the firm's independence policies and procedures.

# Appendix A: Firm's Response to the Draft Inspection Report

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.





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20 February 2021

Mr. *George Botic*

Director

Division of Registration and Inspections

Public Company Accounting Oversight Board

1666 K Street NW

Washington, DC 20006

Re: AO Deloitte & Touche CIS Response to Part I of the Draft Report on 2019 Inspection

Dear Mr. Botic

AO Deloitte & Touche CIS (“Deloitte” or the “Firm”) is pleased to submit this response to the draft Report on the 2019 Inspection of the Firm (the Draft Report) of the Public Company Accounting Oversight Board (the PCAOB or the Board). We believe that the PCAOB’s inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We are pleased that the Draft Report contains no findings in the audits reviewed by the Board’s inspection team.

Executing high quality audits is our number one priority. In order to drive continuous improvements in quality, we are transforming the audit to leverage innovative technologies, along with enhancing the skillsets of our talent to prepare them for a digitally driven future. We are confident that our ongoing digital transformation, along with the investments we continue to make in our audit processes, policies, and quality controls, are resulting in significant enhancements to our audit quality.

Sincerely,

**Ian Colebourne**  
Chief Executive Officer  
AO Deloitte & Touche CIS

**Igor Tokarev**  
Managing Partner, Audit and Assurance  
AO Deloitte & Touche CIS

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20 February 2021

Mr. *George Botic*

Director

Division of Registration and Inspections

Public Company Accounting Oversight Board

1666 K Street NW

Washington, DC 20006

Re: AO Deloitte & Touche CIS – Response to Part II of the Draft Report

Dear Mr. Botic:

AO Deloitte & Touche CIS (“Deloitte” or the “Firm”) is pleased to submit this response to Part II of the draft Report on the 2019 Inspection of the Firm (the Draft Report) of the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”). We believe that the PCAOB’s inspection process serves investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We appreciate the professionalism exhibited by the inspection staff throughout the inspection and hope the inspection staff found our support and responsiveness to be consistent with our commitment to continuous improvement.

We will continue, in good faith, to design and execute actions that address and remediate the deficiencies cited by the Board. We welcome the opportunity to advise the inspection staff and the Board of our progress during the remediation period.

Sincerely,

**Ian Colebourne**  
Chief Executive Officer  
AO Deloitte & Touche CIS

**Igor Tokarev**  
Managing Partner, Audit and Assurance  
AO Deloitte & Touche CIS

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