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Financial Reporting: Control Over Auditors in the Mirror of Hermeneutics

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ABSTRACT

The reliability of financial reporting is based on the audit institution, which means it depends on the current state of it. What do the facts say? In 2024, one of the largest Russian audit firms was deprived of the right to conduct audits of socially important organizations. Sometime earlier, during a series of bankruptcies of a number of large Russian banks, the Bank of Russia discovered huge "holes" in their balance sheets, about which there was no information either in the financial statements of these organizations or in the audit reports prepared on them (including by audit firms in the top ten in terms of volume of services provided). All this indicates that this institute is not in the best situation. In this regard, the following questions legitimately arise. Are the mechanisms for monitoring its activities in place? Are the procedures developed in this area adequate to the theoretical concepts and provisions on which they are based? This article is devoted to answering these questions. The object of research is one of the bodies performing control and supervisory functions, and the subject is the tool used to increase the reliability of financial reporting in terms of control over auditing activities. To achieve this goal, the article proposes to use an approach developed within hermeneutics (the method of hermeneutic analysis). Its use made it possible to identify a number of contradictions in the methodology for assessing risks and planning external audits of the activities of audit organizations, contained in one of the basic regulatory documents in this area. The basis of these contradictions, as shown in the article, is an unacceptable combination of elements of a one- and two-factor risk assessment model, allowed by the developers of this regulatory act. The suggested methods for addressing these contradictions enhance both the reliability of the methodology's results and its clarity for all stakeholders involved. They also make it possible to resolve a number of problems revealed during the recent heated debate in the audit community about the effectiveness of the existing system of regulation of auditing activities as an institution for improving the quality of financial reporting.

Keywords: financial reporting; control; hermeneutic analysis; risk-based approach; risk level assessment model; risk of harm; socially significant organization; audit quality

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> "And only a single method
> of interpretation — hermeneutics
> provides all the conditions
> for a comprehensive and balanced
> interpretation"
>
> *Jörg Baetge [1, p. 49–50]*

INTRODUCTION

As is known, four organizational mechanisms for regulating auditing have developed worldwide: liberalism, legalism, associationalism, and corporatism [2, p. 5]. The scandal involving Enron and WorldCom, whose audited reports were found to be unreliable, shifted the balance between proponents of associationalism (USA, Canada, UK) and adherents of legalism and corporatism (continental Europe) in favor of the latter. In practice, this led to unprecedented strengthening of regulation worldwide (it's enough to recall the famous Sarbanes-Oxley Act (USA, 2002), the Statutory Audit Directive (European Union, 2006)).

Following this, the question of the quality of auditing activities as a whole became acute [3, 4], in the context of the factors influencing it [5–7] and the role of regulators in increasing the reliability of financial reporting through the control of audit quality [8, 9, p. 58]. The latter, as Robert Knechel writes, allows us to "identify specific institutional features that are fundamental drivers of audit quality worldwide" [8].

Another research program, within which a significant number of authors are working, has focused on studying the relationship between regulatory stringency and audit quality, using empirical data and quantitative assessments [10–12].

Our research also focusses on the interaction between the regulator and audit firms. It is based on an ideographic methodology: it belongs to the category of "case study research" and is intended to reveal the irrationality in the organization of certain procedures related to the assessment of audit firm activities by the supervisory authority. We consider it is particularly relevant in light of the ongoing sharp debate within the audit community about the effectiveness of the current system of audit regulation as an institution for improving the quality of financial reporting [13].

THE ART OF INTERPRETATION AND OVERSIGHT OF AUDITORS

The term "hermeneutics" comes from the Greek word "to explain" and refers to the art of interpreting text. It is trying to answer the questions:

- What was the author's purpose in creating this text?
- What were his intentions and fears?
- What stereotypes did he adhere to and what prejudices did he fail to avoid?

We will apply a hermeneutical approach to the study of the methodology for assessing risks and planning external audits of the activities of audit organizations providing audit services to public interest entities (hereinafter — Methodology). It is contained in the text of the Regulation on External Control of the Activities of Audit Organizations, approved by the Government of the Russian Federation on 25 June 2021[1] (hereinafter — Regulation).

We were forced to apply this approach because upon first acquaintance with the Methodology, we got the impression that its content contradicts a number of conceptual provisions of risk management theory. This determined our desire to understand (reconstruct) the logic that guided the authors of the Methodology during its development. However, the difficulty lies in the fact that any finished text is, using Roland Barthes' useful analogy, a machine whose workings are hidden from the public. Only the use of special "reverse engineering techniques"

[1] Resolution of the Government of the Russian Federation No. 1009 of 25 June 2021 (amended from 23 December 2021) "On the Approval of the Regulations on External Control of the Activities of Audit Organizations Providing Audit Services to Public Interest Entities (Federal State Control (Supervision))". URL: https://www.consultant.ru/document/cons_doc_LAW_388762/d46fd756698b4658ec0cb4c14afa918507935219/ (accessed on 28.02.2024).

allows us to uncover the strategy, tactics, and other mechanisms of this device.[2] Hermeneutic analysis is one of them. Let's turn to its capabilities to clarify the authors' position on the aforementioned issue, which is particularly relevant in light of the landmark results obtained during the application of the Regulation under consideration, which were recently reported in the media.[3]

Among the most important conceptual ideas of the approach under consideration is the concept of the "hermeneutic circle". It claims that it's impossible to understand the whole without understanding its individual parts, but understanding the meaning of the individual parts already requires understanding the meaning of the whole. How do you break out of this vicious cycle? One of the most well-known representatives of modern hermeneutics, Hans-Georg Gadamer, stated: "Anyone who wants to understand a text is constantly sketching out meaning. As soon as some meaning begins to emerge in the text, he makes a preliminary draft of the entire text as a whole. But this first meaning is clarified in turn only because we read the text from the beginning expecting to find a particular meaning in it" [14, p. 318]. Following this principle, we will try not to break the circle of the Regulation's text by dividing it into semantic blocks, but rather to enter it by repeatedly implementing a sequence of steps consisting of "brainstorming meaning", analyzing it, combining it, and enriching it.

TWO MODELS FOR ONE METHODOLOGY. INTENTIONS AND ACTIONS

The Regulation under consideration was adopted with the aim of "establishing the procedure for organizing and conducting external control of the activities of audit organizations providing audit services to public interest entities".[4] As for the Methodology we are analyzing, which is implicitly present in the text of the Regulation, it was intended to become the main tool for planning external audits of the activities of audit organizations providing audit services to public interest entities. As the authors of the Regulation note, it is based on the concept of "managing the risks of harm (damage) to legally protected values",[5] which means, more broadly, risk management theory [15].[6]

From the perspective of this theory, risk-oriented methodologies are typically based on a two-factor model for assessing the level of risk:

$$R = f \times C, \qquad (1)$$

where R — risk level; f – frequency of undesirable events (or probability); C – average size of consequences / specific damage.

The resulting numerical value is graded on a "risk aversion" scale. One part of this scale is designated as the "unacceptable risk" zone, and the other as the "intolerable risk" zone. Intolerable risk is a risk that is unacceptable. Accordingly, the undesirable risk is acceptable under these circumstances "based on the current values of society".[7] The boundary between them is the "Critical Risk" — the threshold value of risk beyond which the risk becomes intolerable. Thus, the zone of undesirable risk can be designated as the zone

[2] We find confirmation of this in legislative activities as well. For example, when draft laws are passed through parliament, explanatory notes are attached to them. This makes it easier for lawmakers to understand not only the letter but also the spirit of the legislative act proposed for consideration (adoption).

[3] "Kommersant" has learnt that RosEkspertiza has been excluded from the register of audit firms. URL: https://www.rbc.ru/finances/18/01/2024/65a879699a7947e9c453746f?from=copy (accessed on 28.02.2024).

[4] Regulation of the Government of the Russian Federation on the approval of the regulation on external control of activities … P. 1

[5] Federal Law No. 307 from 30 December 2008 (amended from 30 December 2021) "On Auditing Activities", paragraph 5, Article 10.2. URL: https://www.consultant.ru/document/cons_doc_LAW_83311/ (accessed on 28.02.2024).

[6] GOST R 51897–2021 (ISO Guide 73:2009). Risk Management. Terms and Definitions. M: Russian Institute for Standardisation, 2021. URL: https://www.consultant.ru/document/cons_doc_LAW_400848/ (accessed on 04.03.2024).

[7] GOST R 54505–2011. Functional safety. Risk Management in Railway Transport M. Standartinform, 2012, p. 3.7. URL: https://docs.cntd.ru/document/1200094215 (accessed on 04.03.2024).

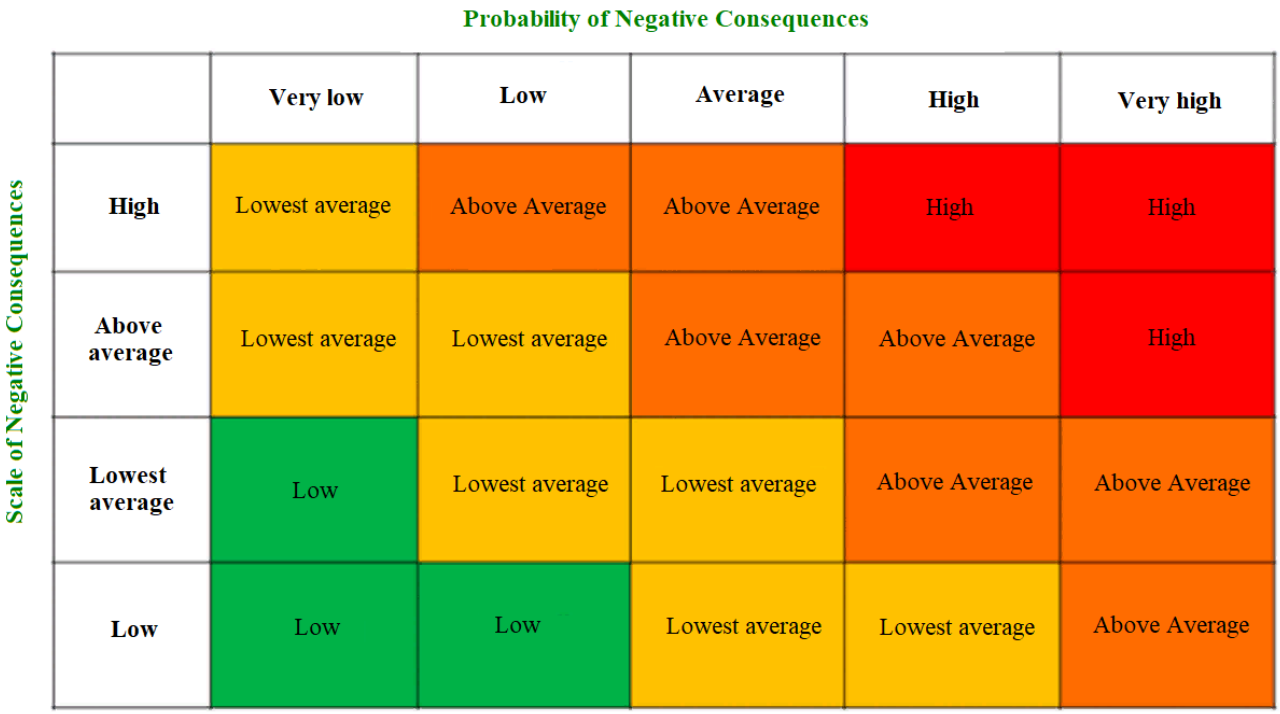

Fig. 1. **Traditional Risk Matrix**

Source: Clarified by the authors based on [4, p. 86].

of acceptable risk. It identifies the following risk levels:

- negligible;
- minor;
- significant;
- critical.

If we imagine the gradations of undesirable risk as the result of combining consequences and the probability of their occurrence, we can create a risk matrix. According to GOST "Risk Management. Terms and Definitions", this is a tool for ranking and presenting risks by defining consequence and probability ranges.[8]

The traditional risk matrix with four levels of consequence severity and five levels of likelihood is presented in *Fig. 1*.[9]

Considering that the Regulation, following the logic of the two-factor model, introduces the following risk gradation (in the mentioned Regulation, it is designated by the term "categories of the risk of harm (damage) to legally protected values"):

- extremely high risk;
- high risk;
- medium risk;
- low risk, let's replace "high risk" with "extremely high risk"; "above average" with "high"; and "lowest average" with "average".

Taking into account the changes made, the risk matrix will take the following form in *Fig. 2*.

However, our attempt to interpret the methodology in terms of a two-factor risk assessment model does not clarify the situation but raises new questions.

How can the risk category of an audit organization change? According to the Regulation, "the Federal Treasury changes the risk category to which the control object is assigned... if there is at least one negative event in the audit organization's activities that indicates a possible failure to comply with mandatory requirements".[10] In the context of

[8] GOST R 51897–2021. P. 4.6.1.6.

[9] The matrix can be constructed to give additional weight to consequences or probabilities, or it can be symmetrical, depending on its application. GOST R 58771–2019. Risk Management. Risk assessment technologies. M: Standartinform, 2020. P. B 9.3.1. URL: https://docs.cntd.ru/document/1200170253 (accessed on 04.03.2024).

[10] See ibid. Resolution of the Government of the Russian Federation on the approval of the regulations on external control of the activities... Paragraph 10, p. 2.

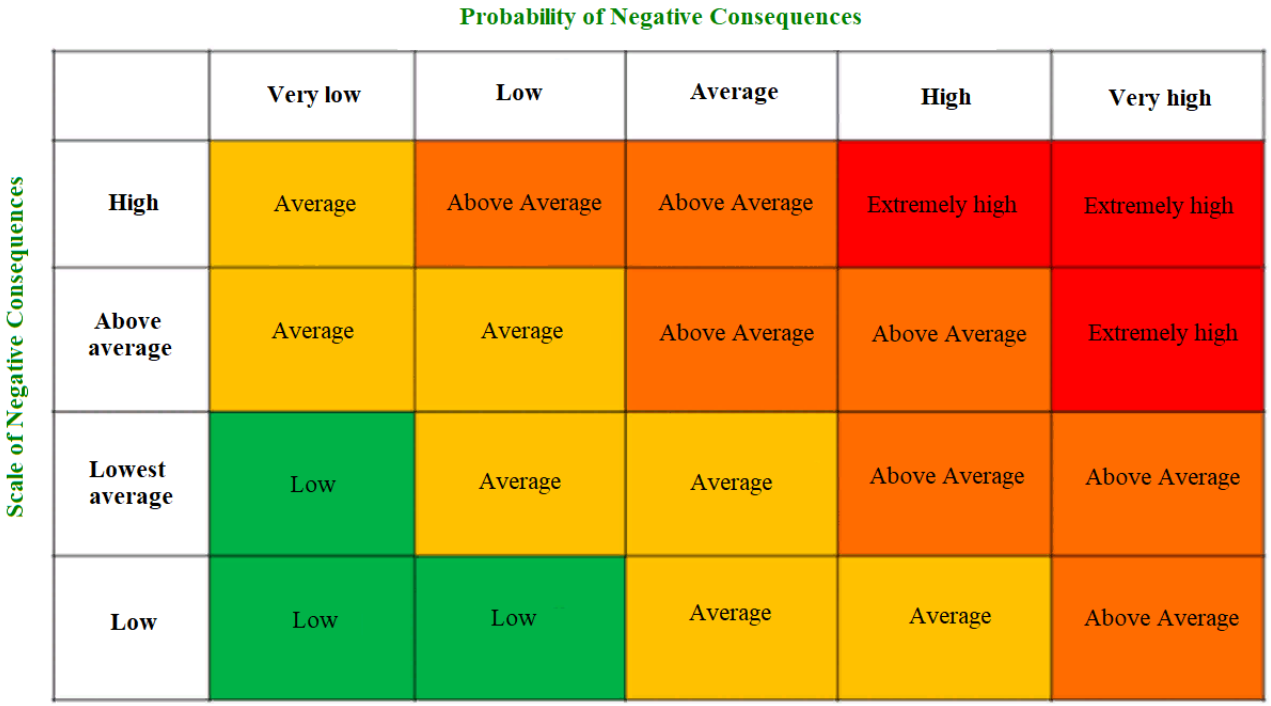

Fig. 2. **Adapted Risk Matrix**

Source: Clarified by the authors based on [4, p. 86].

using a two-factor model, this condition of "the presence of...negative events" obviously corresponds to an increase in the value of the "probability" factor.

Note that in ISO Guide 73:2009 "Risk Management. Terms and Definitions", the English version of which is the basis for the corresponding GOST, uses the term "likelihood" instead of "probability" to denote the category "probability", which can be translated into Russian not only as "probability" but also as "promising future". The specified GOST notes in this regard: "The English term "likelihood" does not have a direct translation into some languages; instead, the translation of the word "probability" is often used". However, in English, the term "probability" is often understood in a narrow mathematical sense (i.e., as a measure of the likelihood of an event occurring, expressed as a real number between 0 and 1, where 0 corresponds to an impossible event and 1 corresponds to a certain event). Therefore, in risk management terminology, the term "likelihood" is used to give it as broad a meaning as the word "probability" has in many languages other than English.[11] In other words: "In risk management, the term "probability" has means the chance that something might happen, regardless of whether it is established, measured, or defined objectively or subjectively, qualitatively or quantitatively, and is described using general concepts or mathematically (as frequency over a set period of time)".[12] Then, according to the logic of the two-factor model, an increase in the value of the "likelihood" factor, with the "consequences" factor remaining unchanged, will be characterized by a horizontal shift in the position of the assessed audit firm on the risk matrix. However, according to the Methodology, under the influence of this factor, two options for the audit firm's "movement" along the risk matrix are possible, depending on the type of negative events that occurred: "High, medium, and low-risk categories change to extremely high-risk category... The medium and low-risk categories are changed accordingly to

[11] GOST R 51897–2021. P. 4.6.1.1.
[12] See ibid.

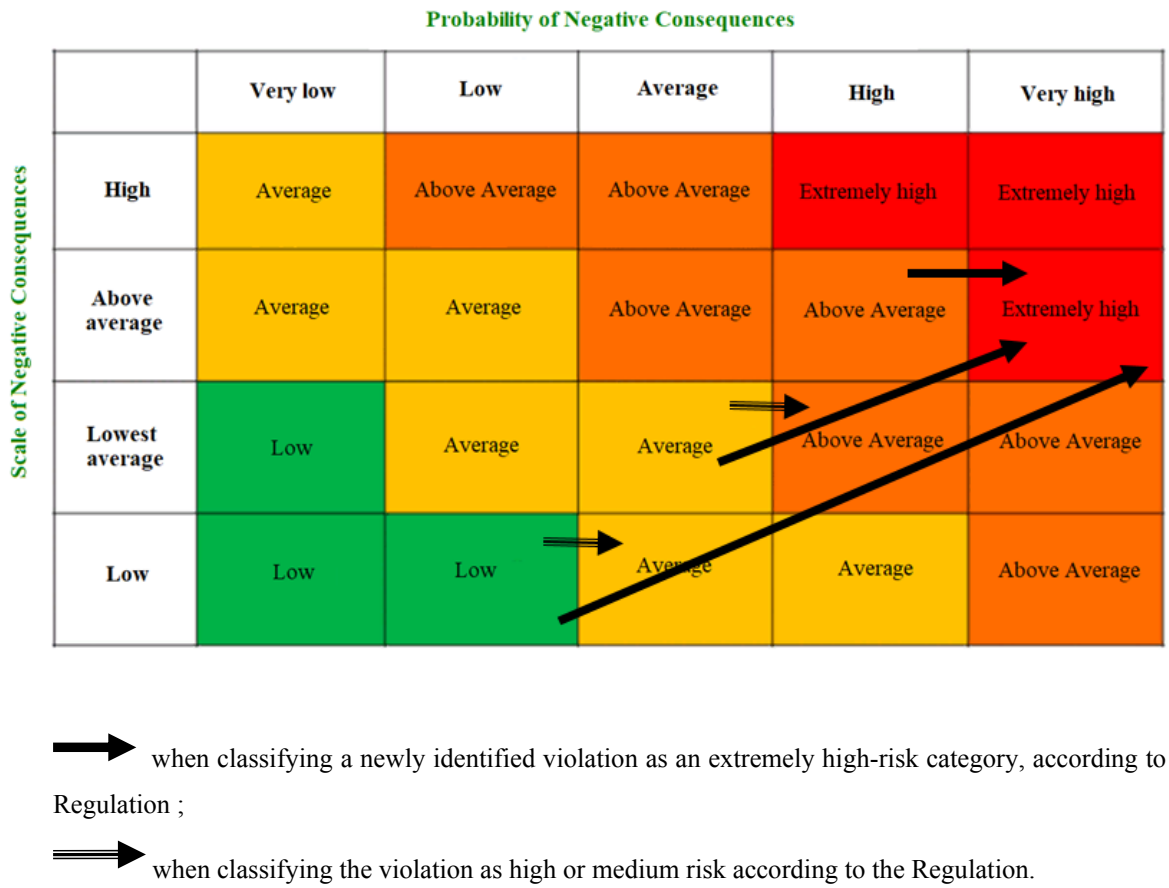

Fig 3. **Adapted Risk Matrix: Some Possible Options for Relocating An Audit Organization**

Source: Adapted by the authors based on [16, p. 86].

the high and medium-risk categories".[13] This means that the audit firm's position should change diagonally in two out of five cases, which contradicts the logic of the two-factor model (*Fig. 3*).

One could argue that the Methodology doesn't use the concept of "risk level", but only the concept of "risk". However, this concept should be recognized as identical to the concept of "risk level". Indeed, the standard "Risk Management. Risk Assessment Methods" states: Risk level: the magnitude of a risk or combination of risks, characterized by consequences and their probability.[14] All of this strengthens the assumption that the authors of the Methodology made a number of mistakes if they applied a two-factor model.

We didn't use the word "if" in the previous sentence by chance. The fact is that the definitions and concepts of "risk level" and "risk" present in the GOST are always accompanied by the following clarifications: "In some cases, the risk level can only be expressed by the probability (frequency) of certain types of consequences occurring or by the severity of the consequences, rather than a combination of both".[15] "Risk analysis typically involves assessing the range of possible consequences of an event, situation, or circumstance and their corresponding probabilities to determine the level of risk. However, in some cases... research on just one parameter may be sufficient for decision-making".[16] For example, the Basel Committee

[13] See ibid. Resolution of the Government of the Russian Federation on the approval of the regulations on external control of the activities... Appendix 1.

[14] GOST R 51897–2021. P. 4.6.1.7.

[15] GOST R 54505–2011. Paragraph 6.3.1.1. Note.

[16] GOST R ISO/IEC 31010–2011 Risk Management. Risk assessment methods. M., Standartinform, 2012, 2012. Paragraph 5.3.1. URL: https://docs.cntd.ru/document/1200090083 (accessed on 28.02.2024).

on Banking Supervision proposes using a single-factor risk model for determining risk-weighted assets for corporate loans (ASRF).[17]

All of this suggests that the authors of the Methodology may have applied a single-factor model for risk level assessment. Then, in analytical form, this model can be expressed as follows:

$$R = F(f), \quad (2)$$

where R — risk level (resultant factor); f – frequency of undesirable events / probability (sign-factor); F — functional, or:

$$R = F(C), \quad (3)$$

where R — risk level (resultative factor); C – average size of consequences / specific damage (feature-factor); F — functional.

Which version of the single-factor model did the authors of the Methodology choose? The text of the Regulation states: "The criterion for assigning a control object to a specific risk category is the public significance of the organizations to which the audit firm has provided (or is providing) services for conducting mandatory audits of accounting (financial) statements (hereinafter referred to as auditees)".[18] In this regard, the question posed above can be rephrased as follows: is public significance, according to the authors of the Regulation, a criterion for the frequency of consequences or their magnitude?

Let's assume the first one. Then let's analyses the principles for classifying audit organizations into one or another category of harm (damage) risk, as presented in the Regulation (Appendix No. 1). To do this, let's identify and compare the circumstances under which the same control object is assigned to different risk categories by the authors of the Regulation (*Table*).

If you analyze the data in the cell located at the intersection of the row corresponding to point 2 of *Table* and column 3, the criteria presented in its cells correspond to the factor attribute "frequency/probability" (f) of the single-factor model (see formula 2). Indeed, "revocation of a company's license for its activities or its declaration of bankruptcy"[19] strongly suggests that auditors may have committed violations in conducting the audit of such an organization, which have led or will lead to harm (damage). This is what determined the authors of the Methodology assigning this risk the category of "extremely high". The same logic applies, in our opinion, to assigning the category "extremely high" in the event of the organization being declared insolvent (bankrupt) (see this same cell, as well as the cells located at the intersection of points 4, 5, 6 and column 3). This conclusion is all the more valid because, as we mentioned earlier, the GOST standards concerning risk assessment draw attention to the specific usage of the term "probability" in this context compared to the mathematical concept of probability.

However, audit firms conducting mandatory audits of organizations whose securities are admitted to trading on organized markets do not fit into the described logic (*Table*, row corresponding to point 1). Such audit firms are already categorized as "extremely high" risk by the Methodology based on this fact alone. The same applies to audit firms providing mandatory audit services to systemically important credit institutions; state corporations; state companies.[20]

This contradicts the hypothesis put forward above (social significance is a factor characterizing the frequency/probability of consequences) and the classification of organizations "in whose statutory (share)

[17] International Convergence of Capital Measurement and Capital Standards: A Revised Framework. BCBS, Basels, 2005, items 270–272, pp. 59–60. URL: https://www.bis.org/publ/bcbs118.html (accessed on 28.02.2024).

[18] Resolution of the Government of the Russian Federation approving the regulations on external control of the activities… Paragraph 9.

[19] See ibid. Resolution of the Government of the Russian Federation on the approval of the regulations on external control of the activities… Appendix 1.

[20] See ibid.

Table

Objects of Control and Criteria for their Classification into Categories of Risk of Harm (Damage). Fragment

No.	The object of control (the activities of audit organizations providing services for the mandatory audit of the accounting (financial) statements of the organizations listed below)	Risk category			
		Extremely high	High	Average	Low
1	2	3	4	5	6
1	Organizations whose securities are admitted to trading on organized markets	All organizations listed in paragraph 1 (without exception)			
2	Credit institutions, non-credit financial institutions, insurance organizations, non-state pension funds	- Whose license to carry out the relevant type of activity has been revoked (annulled); – Declared insolvent (bankrupt)	Different from organizations listed in the extremely high-risk category of causing harm (damage)		
3	Organizations whose statutory (share) capital is at least 25 percent state-owned	– Included in the list of strategic enterprises and strategic joint-stock companies; – Declared insolvent (bankrupt)	Which are mining and processing organizations carrying out activities of strategic importance for ensuring national defense and state security, and for ensuring the functioning of infrastructure facilities (other than organizations listed in the extremely high risk category of harm (damage))	Different from organizations listed in the extremely high and high harm (damage) risk categories	
4	Organizations that have issued a securities prospectus	Declared insolvent (bankrupt)	–	Different from organizations listed in the extremely high-risk category of causing harm (damage)	
5	Organizations preparing consolidated financial statements	Declared insolvent (bankrupt)	Different from organizations listed in the extremely high-risk category of causing harm (damage)		
6	Public law companies	Declared insolvent (bankrupt)	Different from organizations listed in the extremely high-risk category of causing harm (damage)		

Source: Compiled by the author on the basis of data from: Decree of the Government of the Russian Federation on approval of the regulations on external control of activities...

capital the state ownership share is at least 25 percent"[21] into different risk categories (*Table*, row corresponding to point 3). Indeed, if an organization with the specified capital structure is included in the list of strategic enterprises and strategic joint-stock companies, it falls into the "extremely high" risk category, and if it "is engaged in extraction or processing activities of strategic importance for ensuring the country's defense and state security, for ensuring the functioning of infrastructure facilities",[22] but is not strategic, then into the "high" category. Finally, all other organizations with at least 25% state ownership fall into the "medium" category. It is evident that the grading of audit firms involved in the mandatory audit of these enterprises more closely corresponds to the single-factor risk model, where the average consequences / specific damage (C) of the single-factor model serves as the factor-attribute (see formula 3).

One could assume that in the last two cases, the following logic applies: organizations whose securities are admitted to trading on organized markets, as well as those included in the list of strategic enterprises and strategic joint-stock companies, are generally large companies, and therefore the most complexly organized. In turn, high complexity is associated with an increase in the frequency of violations. However, ISA 315 argues against using such linear logic, stating: "Although the size of an organization is an indicator of its complexity level, some small organizations may be more complex, while larger organizations may be less complex".[23]

So, which single-factor model did the method developers adhere to: a model where the factor-characteristic is frequency/probability, or the average size of consequences/damage?

We consider that there are more arguments in favor of the first. This is further indicated by the list of cases in the Methodology where the Federal Treasury "changes the risk category to which the control object is assigned".[24] These include (referred to as "negative events" in the Regulations) violations of the requirements for "independence", "confidentiality", document retention periods, complaints received by the Federal Treasury regarding the actions/inaction of the audit organization, etc. They all belong more to the frequency/probability factor. The authors of the Methodology also draw attention to this, noting that the listed "negative events": "...indicate a possible failure by the audit organization to comply with mandatory requirements",[25] but not about the extent of the harm (damage) caused.

Now let's turn to the list of situations in the Methodology where, despite the need to revise the risk category upwards, as a result of the audit of activities, "the Federal Treasury does not change the risk category to which the control object is assigned... due to the presence of negative events in the audit organization's activities that indicate possible non-compliance with mandatory requirements".[26]

What are these reasons? Simultaneous fulfilment by the audit organization over the 5 consecutive calendar years preceding the year of risk assessment of the following conditions, which confirm the good faith of the audit organization:

a) no disciplinary measures were applied based on the results of external quality control of the audit organization's activities conducted by the self-regulatory organization of auditors;

b) insurance of the audit organization's liability for breach of the audit services

[21] See ibid.

[22] See ibid.

[23] International Standard on Auditing (ISA) 315 (Revised, 2019), "Identifying and Assessing the Risks of Material Misstatement", paragraph 9. URL: https://www.consultant.ru/document/cons_doc_LAW_404880/ (accessed on 28.02.2024).

[24] Resolution of the Government of the Russian Federation on the approval of the regulations on external control of the activities... Paragraph 10.

[25] See ibid.

[26] Resolution of the Government of the Russian Federation on the approval of the regulations on external control of the activities... Paragraph 11.

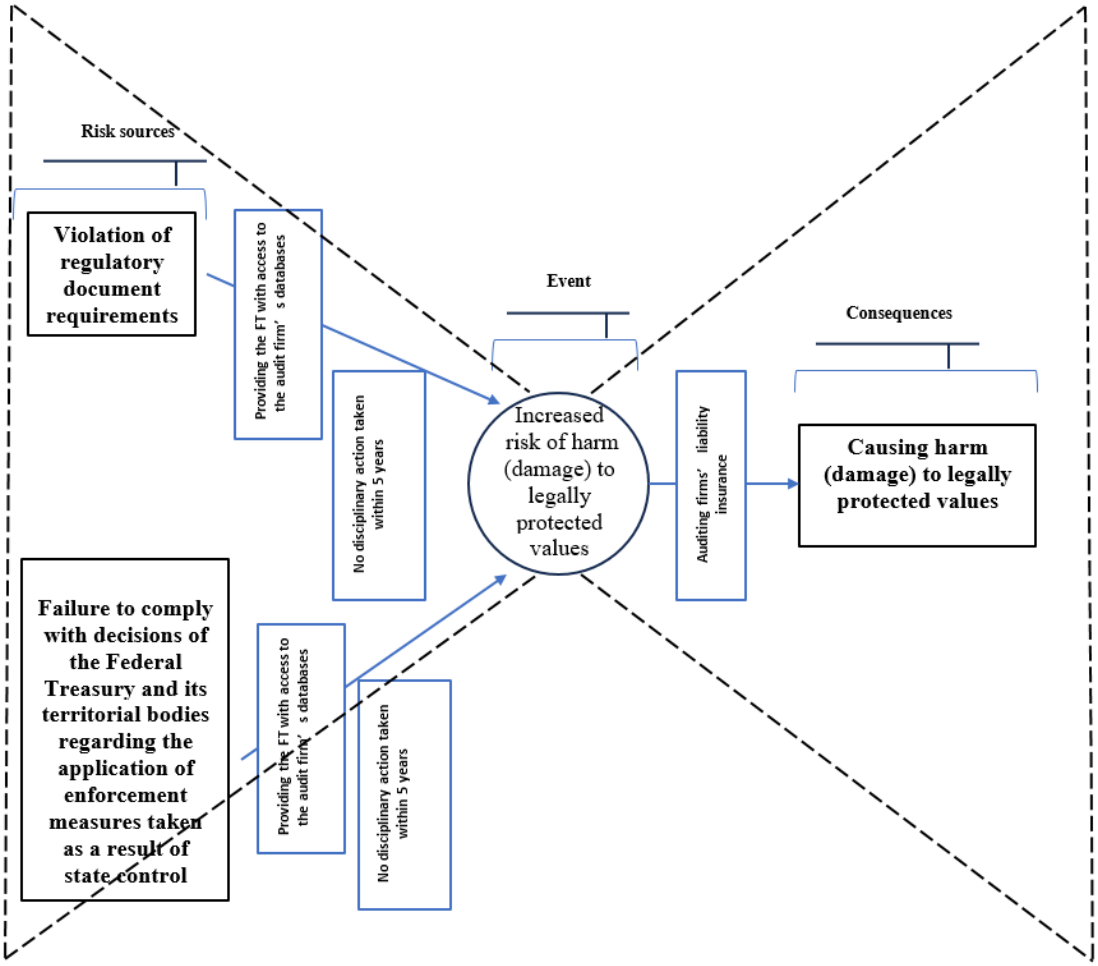

Fig. 4. **"Bow Tie" Diagram of Increasing Risk of Harm (Damage) to Legally Protected Values (Fragment)**

Source: Developed by the author.

Note: Vertical rectangles located on the "risk source-event" or "event-consequence" arrows represent, in the first case, barriers, and in the second, control measures. Rectangles that only touch the specified arrows are called factor barriers. They are warning of the escalation of the relevant sources of risk. The diagram has been reconstructed based on information regarding the content of the Methodology, as outlined in the Decree of the Government of the Russian Federation approving the regulations on external control of the activities... Paragraphs 3, 8, 11.

agreement and liability for damage to the property of other persons as a result of the audit activities;

c) providing the audit organization with access to databases contained in documents obtained or prepared during the provision of audit and other services related to audit activities, as well as to other information resources of the audit organization to the Federal Treasury (its territorial body).[27]

If points (a) and (c) describe barriers in the terminology of the bow-tie risk assessment method,[28] then point (b) is a control measure (*Fig. 4*). A barrier is understood as an obstacle that prevents an undesirable consequence from occurring or escalating.[29] Barriers are depicted on the left side of the diagram, while tools aimed at mitigating undesirable consequences (controls) are shown on the right side.

[27] See ibid.

[28] This method is most suitable for the situation under study, as it is recommended for use when the research is primarily aimed at formulating "measures that can be taken after an event has occurred to eliminate it, ... control measures that should be established" (GOST R 58771–2019). pp. 4.2.4, 4.2.5).

[29] GOST R 58771–2019. P. 4.2.1.

Note: Vertical rectangles located on the "risk source-event" or "event-consequence" arrows represent, in the first case, barriers, and in the second, control measures. Rectangles that only touch the specified arrows are called factor barriers. They are warning of the escalation of the relevant sources of risk. The diagram has been reconstructed based on information regarding the content of the Methodology, as outlined in the Decree of the Government of the Russian Federation approving the regulations on external control of the activities... Paragraphs 3, 8, 11.

It is also evident that point (a) is more indicative of the state of affairs regarding the likelihood of process requirement violations. Point "b" about the average amount of damage (as it reduces the potential amount of damage by "transferring the risk" to the insurance company). By the way, "transfer" is a way to reduce risks that are significant in size but have a low frequency [17, p. 103]. Point "c" indicates both the extent of the damage and the probability. That is, again, as shown above, a contradictory impression is formed about the intentions and actions of the authors of the Methodology. They, as is now clear, abandoned the use of a two-factor risk assessment model in favor of a single-factor one, but their cognitive biases [18, 19] in favor of the two-factor methodology "smuggled" their way into the version developed and approved.

CONCLUSION

Based on the results of the analysis, we believe it is necessary to make the following changes to the text of the Regulation concerning the content of the Methodology:

- re-analyze the feasibility of relying on a single-factor risk model in constructing the Methodology. As mentioned above, GOST standards allow for the use of a single-factor model. However, they also state that such a model can only be applied "when the consequences are insignificant or the probability of the event is extremely low".[30] We consider that when considering the problem we are examining, one should proceed from the following. The analyzed Regulation, as well as the concept of "public interest entities" in general, as we know, did not arise because violations in the activities of audit firms were frequent, however the consequences of these violations turned out to be insignificant. Instead, claims against the activities of audit firms have become quite frequent[31] and the damage caused by them, as shown primarily by the Bank of Russia's inspections, has been recognized as colossal in scale[32];
- to more clearly define the author's position, based on the finally selected risk assessment model;
- to consistently adhere to it: not selectively, only in some points of the Regulation, but in all of them. Then its meaning will become clearer for both the employees involved in state activity control and for the audit firms themselves subject to such control, and overall, the methodology will not only fully align with established conceptual ideas in science but also meet the requirements of GOST "Risk Management. Risk Assessment Methods": "When choosing a risk assessment method, it is necessary to consider that the method should... provide results in a form that promotes awareness of the type of risk..., ensure traceability, reproducibility, and verification of the process and results".[33]

This perspective is offered on one of the basic normative acts in the field of external control of the activities of audit organizations from a hermeneutical point of view. The viewpoints that clarify the position of its authors: the subjective

[30] GOST R ISO/IEC 31010. P. 5.3.1.

[31] Romanova N., Dubrovskaya A. Grief-stricken: almost 90% of banks whose licenses were revoked had positive audit reports. URL: https://www.banki.ru/news/lenta/?id=9345601 (accessed on 28.02.2024).

[32] Infographic: How many regional budgets fit into the bank's "hole"? URL: https://www.banki.ru/news/lenta/?id=9801533 (accessed on 28.02.2024).

[33] GOST R ISO/IEC 31010.

attitudes they brought to this text. They precisely predetermined the limitations of both the Methodology and the Regulation as a whole, thus complicating the solution to the problem of maintaining high reliability of financial reporting.

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