

# Reporting of Audit Supervisory Authorities in Azerbaijan

Chamber of Auditors of the Republic of Azerbaijan

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**CFRR** >>>

**Centre for Financial Reporting Reform**




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# 1. Status of improved legislation in the field of audit and public oversight

## 1.1. More than 40 regulatory acts on audit have been enacted in 2016-2017:

Relevant Decrees of the President of the Republic of Azerbaijan established public law entities that are subject to mandatory audit:

- Financial Markets Supervision Chamber of the Republic of Azerbaijan;
- State Examination Center;
- Public law entity 'The State Inspectorate for Safety of Flights in Civil Aviation' subordinate to the State Civil Aviation Administration of the Republic of Azerbaijan;
- Public law entity 'Baku Engineering University' subordinate to the Ministry of Education of the Republic of Azerbaijan;
- Public law entity 'ABAD' subordinate to the State Agency on Public Services and Social Innovations under the President of the Republic of Azerbaijan

# 1. Status of improved legislation in the field of audit and public oversight

## 1.2. Legislative amendments for improvement of audit have been adopted or incorporated

- \* 'Civil Code'
- \* 'Mandatory Professional Indemnity Insurance of Auditors'
- \* 'On Securities Market'
- \* 'On Licenses and Permits'
- \* 'On Combating Money Laundering and Terrorism Financing'
- \* 'On Investment Funds'
- \* 'On Insurance Activities'
- \* 'On Credit Bureaus'
- \* 'On Accounting'
- \* 'On Banks'
- \* 'On Some Government Assistance Measures for Ensuring the Access of Entrepreneurs to Financial Resources'
- \* 'On Financial Basis of Municipalities'
- \* 'On Agricultural Cooperation'
- \* 'On Certain Issues of Mortgage Lending in the Republic of Azerbaijan', etc.

# Amendment to the Law 'On Banks' dated March 9, 2016

'Information that constitutes a **bank secret** is disclosed only to clients and their representatives, as well as **external (*independent*) auditors and the Financial Markets Supervision Chamber**'

# Amendment to the Law 'On Securities Market' dated March 9, 2016

'The issuer's annual report includes:

1. Financial statement;
- 2. Independent auditor's opinion'**

**'The decision to enter into a transaction exceeding twenty five percent of the value of the Company's net assets (significant transaction), as well as – upon conclusion of an independent auditor – a transaction with affiliated person in the amount of five percent or more of the Company's assets'**

**State Oil Company  
State Television and Radio  
Azerbaijan Airlines  
Azerbaijan Railways  
Baku Metropolitan  
National Nuclear Research Center  
Caspian Shipping Company  
Baku International Sea Commercial Port  
Steel Production Complex  
AzerKosmos  
AzerGold  
Investment funds  
Banks and non-bank credit institutions with a state-owned shareholding  
Water, electricity, heat supply organizations  
'Procurement and Supply of Food Products' JSC  
And others...**

# 1. Status of improved legislation in the field of audit and public oversight

## 1.3 Making some legislative amendments is expected in order to improve audit, regarding:

- ISA application,
- organization of public oversight of the Chamber's activities,
- expansion of the list of persons to obtain a special permit for provision of audit services,
- increased responsibility of auditors for the audit quality,
- enhancing public confidence in audit.

# 1. Status of improved legislation in the field of audit and public oversight

## 1.4. Quality control

- \* Audit quality control system was established and implemented to ensure the compliance with ISA requirements.
- \* A system of investigations and punishments for non-compliance with ISA requirements and violation of ethical principles was established



# The function of overseeing external auditors

- \* The function of overseeing external auditors (quality control of audits and related audit services provided) is performed by the Quality Control Committee under the Council of the Chamber of Auditors.
- \* The Committee is a collegiate body, where:
  - \* Chamber of Supervision of Financial Markets,
  - \* The Central Bank,
  - \* The Ministry of Taxes, as well as
  - \* representatives of audit organizations and independent auditors.

## 2. Three main strengths of recent audit reforms

- \* Expansion of the scope of mandatory audit (public law entities, mandatory audit in execution of contracts with affiliated persons, etc.)
- \* Improvement of audit regulation to combat audit evasion (by Decree of the President of the Republic of Azerbaijan of May 3, 2017, the Chamber of Auditors has the right to draw up a violation notice and take it to the court for application of administrative punishment)
- \* The Chamber of Auditors regularly participates in implementation of state programs for fighting corruption and the legalization of crime proceeds

- \* ‘State Program on the Development of the Securities Market of the Republic of Azerbaijan in 2011-2020’ endorsed by the Decree of the President of the Republic of Azerbaijan No.1504 dated 16 May 2011; ‘Open Government Initiative National Action Plan 2012-2015’ and ‘National Action Plan for Combating Money Laundering and Corruption for 2017-2019’.
- \* Note: in 2014-2015 the Chamber of Auditors participated in 5 State Programs and fulfilled all imposed obligations.

### 3. Key issues impeding the adoption of improved legislation and enforcement of audit oversight principles

- \* The Chamber of Auditors has drafted a new Law on Auditing, which incorporates provisions on ISA application, organization of public oversight of the Chamber's activities, etc. However, statutory enactment procedures, in particular delays in receipt of conclusions from various ministries and agencies, preclude the timely submission of this draft law to the Parliament.
- \* Difficulties with introduction of changes proposed by the Chamber of Auditors to improve reporting and transparency in the Tax Code and the Law on Accounting

## 4. Potential support of CFRR in solving these problems.

- \* CFRR may support the Chamber of Auditors' initiative to adopt new Law 'On Auditing' by submitting a review of this law;
- \* It is desirable that CFRR organizes trainings and professional development sessions for specialists from quality control units;
- \* Support in strengthening of the institutional base of the Chamber of Auditors (the Chamber of Auditors of Azerbaijan is the only organization in STAREP and CIS countries responsible for development of audit, which has not received any assistance from the World Bank and its units).



**THANK YOU FOR YOUR  
ATTENTION!**