

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. These recommendations are intended to supplement and support existing strategies and projects. This study concludes that, with some exceptions, much remains to be done to align Azerbaijan accounting and auditing arrangements with international practices and with the needs of the mixed market economy.

These changes include developing a supportive and appropriate legislative and institutional environment, reforming accounting standards and strengthening the accounting and auditing profession—internationally-compatible arrangements can only be successfully implemented with the support of a strong profession comprising skilled accountancy professionals.

Azerbaijan is in a position to examine the reform experiences of other FSU countries and, by doing so, to develop a cohesive road map for accountancy reform that (hopefully) will enable it to avoid the errors made by other countries. To this end, this DSAA recommends that a coordination group be established to: (i) develop a strategic plan for accountancy reform; and (ii) design and agree to a legislative and institutional framework that will support implementation of the strategic plan.

The issues and recommendations are divided into two parts as follows.

- Part One: Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. Establish Coordination Group, Develop Strategic Plan and Review Framework

In addition to conflicts between governing legislation, some laws will impede development of accounting arrangements. Moreover, assignments of institutional responsibilities are inappropriate in some cases. Finally, there is much to be done regarding accountant certification and general accounting training.

Although the MOF has prepared the draft *Accounting Reform Plan* covering legislation, management accounting, internal auditing and external auditing, it has done so within its limited resources. In general, the development of financial management arrangements is fragmented with several organizations taking initiatives. A high-level, representative coordination group could do much to ensure that these efforts are mutually supportive and do not overlap or conflict.

It is **recommended** that assistance be provided to support financial management developments, through establishment of a Coordination Group.

It is also **recommended** that assistance be provided to assist the Coordination Group to prepare a strategic plan for the development of Azeri accounting and auditing. The project would involve: (i) researching Azerbaijan accounting and auditing arrangements; (ii) identifying and analyzing existing problems; (iii) examining and drawing useful lessons from regional and international experience in terms of developing financial management arrangements; and (iv) using this information and the associated analyses to formulate a medium- to long-term development plan for Azerbaijan financial management.

It is further **recommended** that assistance be provided to assist the Coordination Group to review the legislative, regulatory and institutional framework and to identify necessary changes to this framework.

2. Amend Laws and Regulations

Among other things, the prescriptive provisions of the *Civil Code 1999* conflict with the adoption of international accounting practices. Several laws are currently under revision including the *Accounting Law 1995* and the *Banking Law 1996*.

It is **recommended** that assistance be provided to develop a legislative base that is conducive to the adoption of international accounting and auditing practices.

3. Clarify Accounting Standard-Setting Arrangements

The MOF and ANB both promulgate Azeri accounting standards in accordance with a Presidential Decree.

It is **recommended** that the *Accounting Law 1995* be revised to support the development of accounting standard-setting arrangements.

4. Clarify Legal Status of Auditing Standards

Relevant Azeri laws are largely silent regarding auditing standard requirements.

It is **recommended** that all laws requiring audited financial statements be amended to stipulate that these audits must be conducted in compliance with Azeri auditing standards and practices.

5. Clarify Auditing Standard-Setting Arrangements

COAA sets Azeri auditing standards. However, the standard-setting process is not enshrined in law. For instance, the composition of the standard-setting body should be legally established (regulators and financial statement users should be strongly represented).

It is **recommended** that the *Accounting Law 1995* be revised to provide for the development of auditing standard-setting arrangements.

6. Broaden and Strengthen Accounting Qualifications

COAA issues audit licenses to individuals and to auditing firms. The licensing process could be strengthened significantly. The revised accounting law, prepared by the MOF, envisages that this responsibility would be assigned to the MOF. Furthermore, while the Chamber has one membership category (licensed auditor), it is common international practice for professional bodies to have a range of membership categories with differing qualification criteria including Accounting Technicians, Management Accountants, Government Accountants and CPAs. The establishment of additional membership categories, with appropriate qualification criteria, would strengthen the Azeri accounting profession and broaden the Chamber's membership and revenue base.

It is **recommended** that assistance be provided to establish additional accounting qualifications including Accounting Technician, Management Accountant, Internal Auditor, Government Accountant and CPA.

It is also **recommended** that assistance be provided to: (i) review existing licensing procedures and requirements (e.g., education, practical experience and professional examinations); (ii) develop improved licensing procedures and requirements, and (iii) implement these new licensing procedures.

It is further **recommended** that individuals already holding audit licenses be required to re-qualify under the improved qualifications when their existing licenses expire.

7. Develop Training Materials

The COAA has developed training materials with EU-TACIS assistance. However, the rapidly changing environment and need for professional development present major challenges. Multimedia and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment and can easily be distributed to far-flung regions.

It is **recommended** that assistance be provided to develop training materials for accountant continuing professional education. Similar ongoing ADB-supported initiatives for the People's Republic of China, Nepal and the Philippines are directly relevant. The project would involve: (i) studying options for preparing and providing training materials to CPAs; (ii) developing a medium- to long-term plan for developing continuing professional education; (iii) studying options for developing and delivering training materials using modern technology, and (iii) developing training materials and training trainers.

8. Develop Accounting Curriculum and Materials

The move towards Azeri-language instruction combined with the rapidly changing accounting environment means that quality accounting educational materials are not generally available. Moreover, the academic curriculum has not kept pace with environmental changes.

It is **recommended** that assistance be provided to: (i) review the accounting curriculum; (ii) revise the accounting curriculum; (iii) prepare suitable accounting textbooks and other training materials, and (iv) implement the new curriculum in universities.

9. Provide Continuing Training to Professors and Lecturers

Azerbaijan has extremely competent accounting professors and lecturers due to the country's legacy of high educational standards. However, not all these professors and lecturers are conversant with the changes in the accounting environment.

It is **recommended** that assistance be provided to design and implement a continuing education program for accounting lecturers and professors.

10. Establish Government Accountant and Auditor Certifications

As described above, professional qualifications for government accountants should be established. Furthermore, the recently established AAC intends to develop certification procedures and associated training programs for its auditors.

It is **recommended** that assistance be provided to develop certification procedures and associated training programs for government accountants and auditors.

Part Two. Where External Assistance is Not Required

All recommendations would best be implemented with external assistance.