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Appendix 1. Useful Internet Sites

1. General Information on Azerbaijan

Azerbaijan Internet Links	http://resources.net.az
Azerbaijan Online	http://azerbaijan-online.com
Azerbaijan Yellow Pages	www.yellowpages.top.az
United States-Azerbaijan Chamber of Commerce (USACC)	www.usacc.com

2. Regulatory and Standard-Setting Bodies

Bank for International Settlements (BIS)	www.bis.org
International Accounting Standards Board (IASB)	www.iasc.org.uk
International Federation of Accountants (IFAC)	www.ifac.org

3. Professional Bodies

Association of Certified Accountants of Azerbaijan (ACAAz)	www.acaaz.org
Confederation of Asian and Pacific Accountants (CAPA)	www.capa.com.my
Georgian Federation of Professional Accountants and Auditors	www.gfpaa.kheta.ge
International Regional Federation of Accountants and Auditors Eurasia (IRFAA Eurasia)	www.irfaa-eurasia.org
Chamber of Auditors of the Republic of Kazakhstan	www.audit.freenet.kz
Association of Professional Accountants and Auditors of the Republic of Moldova	www.acap.ngo.moldnet.md
Russian College of Auditors	www.rka.org.ru
Union of Accountants and Auditors of Kyrgyzstan	www.oba.kg
Ukrainian Federation of Professional Accountants and Auditors	www.ufpaa.kiev.ua

4. International Organizations

Asia Pacific Economic Cooperation (APEC)	www.apecsec.org.sg
Financial Stability Forum	www.fsforum.org
International Federation of Accountants (IFAC)	www.ifac.org
International Organization of Securities Commissions (IOSCO)	www.iosco.org
International Organization of Supreme Audit Institutions (INTOSAI)	www.intosai.org
Open Society Institute – Assistance Foundation (OSI-AF) Azerbaijan	www.ozl-az.org
UN Conference on Trade and Development (UNCTAD)	www.unctad.org
UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)	www.unctad.org/en/subsites/dite/ 3_edev/3_isarac.htm
World Trade Organization (WTO)	www.wto.org

5. Government Organizations

Ministry of Education	http://edu.gov.az
Ministry of Economic Development (MED)	http://economy.gov.az
National Bank of Azerbaijan (NBA)	www.nba.az

6. Accounting Firms

Andersen	www.andersen.com/azerbaijan
Central Asia Business Consultants (associated with Deloitte Touche Tohmatsu)	www.cabc.top.az
Ernst & Young	www.eycis.com
KPMG	www.kpmg.az
PricewaterhouseCoopers Eastern Europe BV	www.pwcglobal.com

7. Financial Organizations

Promtekhbank Joint-Stock Commercial Bank	www.ptbank.com
Arkobank	www.arkobank.top.az

AzeriGazBank	http://intrans.baku.az/bicex/agb/agb_ind.htm
Debut Bank	www.az/debut
Insurance Companies in Azerbaijan (Listing)	www.atlas.com.ru/cmp/azer.html
International Bank of Azerbaijan	www.ibar.az
Royal Bank	www.rbb.azeri.com
SIB – Azerbaijan Industrial Investment Join-Stock Commercial Bank	www.sib-az.com

8. Educational Institutions and Providers

Ministry of Education	http://edu.gov.az
Western University	www.wu.aznet.org/CI_SBA.HTM

9. Donor Organizations

Asian Development Bank (ADB)	www.adb.org
Canadian International Development Agency (CIDA)	www.acdi-cida.gc.ca
EU-TACIS	www.europa.eu.int/comm/index.htm
European Bank for Reconstruction and Development	www.ebrd.org
German Technical Assistance Agency: Gesellschaft für Technische Zusammenarbeit (GTZ)	www.gtz.de
International Monetary Fund (IMF)	www.imf.org
Islamic Development Bank (IsDB)	www.isdb.org
Japan Bank for International Cooperation (JBIC)	www.jbic.go.jp
Japan International Cooperation Agency (JICA)	www.jica.go.jp
Netherlands	www.minbuza.nl
Organisation for Economic Cooperation and Development (OECD)	www.oecd.org
United Nations Development Programme (UNDP)	www.un-az.org/undp
United Kingdom Department for International Development (DFID)	www.dfid.gov.uk
United States Agency for International Development (USAID)	www.usaid.gov
World Bank	www.worldbank.org

Appendix 2. Interviewees

Aspects of financial management and governance were discussed with the following people.

Abbas Allahverdiyev	Deputy Chair	Azerbaijan Chamber of Accounting
Professor Vahid T. Novruzov	Chair	Chamber of Auditors of Azerbaijan
Gasham H. Bayramov	Director	Chamber of Auditors of Azerbaijan, Department of Standardization
Elkhan Jafarov	Head	Ministry of Finance, Accounting Policy Department
Ismailiylov Sabir	(Former) Chair	Ministry of Finance, Accounting Policy Department
Kamalya Humbatova	Officer	Ministry of Finance, Accounting Policy Department
Mardan H. Mardanov	Head	Ministry of Finance, Foreign Economic Relations Department
Adalet N. Aliyev	Head	Ministry of Finance, Foreign Economic Relations Department, Asian Region Relations Division
Robert Rudy	Economic Advisor	Ministry of Finance, Macroeconomic Policy Group
Abdul M. Khan	Resident IMF Treasury and Computerization Advisor	Ministry of Finance, Treasury Department
Zahir Abdullaev	Officer	Ministry of Finance, Treasury Department
Peter Burnie	Partner	Arthur Andersen MMM

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Faraj Huseynbeyov	Azerbaijan Liaison Officer	Asian Development Bank
Marco Gatti	Senior Programs Officer	Asian Development Bank
Gulnara Alekberova	Chief Coordinator	Association of Certified Accountants of Azerbaijan (ACAAz)
Fuad S. Ibrahimov	Staff Chief	Azerbaijan Accounting Chamber (AAC)
Salim Kriman	Vice President	Baku Stock Exchange
Lala Rzayeva	Senior Programs Officer	Eurasia Foundation
Gregory D. Stephenson	Outreach Coordinator	Eurasia Foundation
Michael Mered	Resident Representative	International Monetary Fund (IMF), Azerbaijan Resident Mission
Peter Barrand	IMF Technical Assistance Advisor	Ministry of Taxation
Rufat C. Aslanov	Director	National Bank of Azerbaijan (NBA), Banking Supervision Department
Muhmmad Ismail	Finance and Systems Manager	Pepsi Azerbaijan
Kenny Hawsey	Partner	PricewaterhouseCoopers
Geir Jøssang	Senior Vice President	Statoil (Norway), International Development and Production
Farid Mamedov	Operations Officer	World Bank , Azerbaijan Country Office, Infrastructure and Energy Sector Unit
Rochelle Hilton	Operations Officer	World Bank, Private and Financial Sector Development, Europe and Central Asia

Appendix 3. RETA 5980 (Regional Study) Information

1. Study Phases

The study had three broad phases as follows:

Phase I – Azerbaijan Case Study on Accounting and Auditing Support and Structures.

Phase II – Baku Workshop (5-6 December 2001).

Phase III – Manila Workshop (5-6 March 2002) and Formulation of Action Plan.

2. Phase I : Case Study On Accounting and Auditing

This phase involved the examination of Azerbaijan’s current accounting and auditing structure and systems. It also (i) analyzed Azerbaijan’s political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

Barry Reid and Nailya Ablieva conducted the fieldwork for the study from 5 November to 3 December 2001. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance (MOF), the Chamber of Auditors of Azerbaijan (COAA), the Azerbaijan Accounting Chamber (AAC), other government organizations, private sector businesses and educational institutions. A list of interviewees is attached as Appendix 2.

3. Phase II : Baku Workshop

Issues arising from the study were discussed and debated at a workshop held in Baku on 5-6 December 2001. Prof. Vahid T. Novruzov (Chair, COAA) and Mr. Ismailiylov Sabir (Chair of the Accounting Policy Department, MOF) opened the workshop. Francis B. Narayan, Lead Financial Management Specialist, ADB, participated in the workshop as a resource person and provided overall guidance with respect to the objectives of the Study. Around 25 participants attended the workshop.

4. Phase III : Formulation of Action Plan

Phase III assessed the roles that ADB and other funding agencies could play in improving the current situation in the selected DMCs. The roles included policy intervention, projects and program assistance, and

mobilization of cofinancing resources to address the identified problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment-in-principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a workshop in Manila on 5-6 March 2002 and the developed action plan was finalized for implementation.

Appendix 4. Draft Presidential Decree on Accounting Reforms

The following Presidential Decree was prepared and submitted by the MOF in 2000. It has not yet been approved.

State Program of National Accounting Standards (NASs) and Accountancy Reforms in the Republic of Azerbaijan in 2001-2005 (see Appendix 5 and Appendix 6).

- To ensure that NASs conform with international standards and to speed up accounting reforms in the Republic of Azerbaijan, I have decided:
- To approve the State Program of National Accounting Standards (NASs) and accountancy reforms in the Republic of Azerbaijan in 2001-2005.
- The administration for implementation of the State Program and coordination of the work of professional specialists engaged in implementation on the basis of contracts is to be carried out by the Ministry of Finance (MOF)
- Although drafting the State budget for 2002-2005, the MOF should reserve funds necessary for implementation of measures envisaged in the State Program
- The Cabinet of Ministers is responsible for resolving all matters relating to this Decree.

Appendix 5. State Program of National Accounting Standards (NASs) and Accountancy Reforms in the Republic of Azerbaijan in 2001-2005

The following program was submitted with the draft Presidential Decree (see Appendix 4 and Appendix 6) in 2000. It has not yet been approved.

1. General

This program aims to support development of a national accounting system that is compatible with the needs of Azerbaijan's market economy transition. This includes: (i) modifying accounting arrangements to support economic development by improving the transparency of government finances and improving taxation assessment and collection; (ii) preparing legislation and regulations that align with international standards; and (iii) improving the availability and accuracy of economic information to facilitate analyses of reform effectiveness.

Accounting reforms are required as part of the transition process. An important objective is to ensure control over accounting policies and arrangements through developing NASs and other guidance materials.

Accounting arrangements are very important to economic development. It is essential that highly skilled accounting professionals be developed. This will require the preparation of education materials (e.g., educational programs, learning materials, books, etc).

A critical element is developing a program to automate national accounting based upon NASs, so as to ensure efficiency and the timely availability of information.

2. Main Purposes of Implementing the Reforms

The main purposes of implementing the reforms are to:

- collect complete and accurate information on the financial and economic activities of individuals and organizations, and for preparing accounting reports for the effective enterprise management by heads of enterprises, founders, entrepreneurs, financial, banking, tax and insurance bodies, investors, state bodies and other organizations and persons.
- ensure control over: (i) property and its usage; (ii) property rights and commitments; (iii) labor and material usage; and (iv) financial resources, according to approved norms, standards and estimates.
- enable timely avoidance of financial and economic problems and to ensure that internal resources are used effectively.

- correctly determine Azerbaijan's GDP, assets and liabilities.
- guarantee timely and accurate information for government purposes.
- ensure financial transparency and to accurately identify taxable income.
- ensure the accuracy of financial reports.
- create the conditions for effective accounting arrangements.
- gradually make NASs compatible with International Accounting Standards.
- automate accounting.
- utilize the accounting experience of international organizations.

3. Reform Components and the Scope of National Accounting Standards

In accordance with market economy requirements and international standards, the main reform directions are:

- improving legal and other normative regulations.
- preparing standards and operational materials and instructions (e.g., accounting registers, accounting report formats and instructions, rules, methodic material and commentaries).
- developing computerized accounting information systems that are compatible with NASs.
- developing personnel (strengthening accounting professionals).
- enhancing cooperation with international organizations.
- preparing the NASs and attracting individuals and organizations to the accountancy profession.

Where appropriate, existing accounting arrangements and traditions should be preserved during the gradual transition to international standards. When developing legal arrangements in line with international standards, the following points should be ensured:

- To prepare amendments to the Law on Accounting and other laws and regulations.
- To prepare and approve NASs that are broadly consistent with IASs within two years.
- To revise all accounting guidance and instructional materials.
- To prepare a simplified accounting system for small enterprises within two years.

Other tasks, in addition to those in the State Program, should be defined by the MOF. To ensure the implementation of the State Program, the MOF

has the right to recruit specialists on a contractual basis NASs prepared during 2001–2005 will cover:

- Industrial sector (e.g., heavy industry, light industry, food industry).
- Agriculture (farmer enterprises and other agricultural fields).
- Budget organizations (education, culture, health and others).
- Extra-budgetary organizations and activities.
- Insurance organizations.
- Municipalities.
- Energy sector (e.g., water, oil, gas, electricity).
- Services (e.g., transport, communications, construction).
- Small and medium enterprises.
- Joint-stock organizations.
- Foreign individuals and organizations.
- Commerce.

The NASs will apply to the operational activities of all individuals and organizations within Azerbaijan.

Appendix 6. Implementation Plan for State Program of Accounting Reform

The following implementation plan was submitted with the draft Presidential Decree (see Appendix 4 and Appendix 5) in 2000. It has not yet been approved.

1. Legal Amendments

Activity	Timing	Responsibility
<ul style="list-style-type: none"> • Identifying and preparing amendments to the Law on Accounting or preparing a new draft 	2001-2005	MOF and involved professional specialists
<ul style="list-style-type: none"> • Identifying and preparing amendments to other legislation and regulations 	2001-2005	MOF and involved professional specialists

2. Amending Uniform Accounting Systems (Guidance and Instructions)

Activity	Timing	Responsibility
<ul style="list-style-type: none"> • Amending the accounting plan for budgetary bodies and preparing new instructions for its application 	2001	MOF and involved professional specialists
<ul style="list-style-type: none"> • Financial accounts in Budgetary bodies and preparation of its new compiling rules 	2001	MOF and involved professional specialists
<ul style="list-style-type: none"> • Preparation of "Charter" on accounting 	2002	MOF and involved professional specialists
<ul style="list-style-type: none"> • Accounting plan in economy bodies and preparation of new instruction for its application 	2002	MOF and involved professional specialists
<ul style="list-style-type: none"> • Financial accounts in economy bodies and preparation of new compiling rules 	2002	MOF and involved professional specialists
<ul style="list-style-type: none"> • Accounting plan in insurance bodies and preparation of instruction for its application 	2003	MOF and involved professional specialists

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Activity	Timing	Responsibility
• Financial accounts in insuring bodies and preparation of new compiling rules	2003	MOF and involved professional specialists
• Preparation of other accounting standards in connection with insurance	2003	MOF and involved professional specialists
• Preparation of an exemplary “Charter” on accounting policy	2001	MOF and involved professional specialists
• Simplified rules of accounting at the small entrepreneurship establishments	2001	MOF and involved professional specialists
• Account of non-material activities	2002	MOF and involved professional specialists
• Account of “Original resources”	2002	MOF and involved professional specialists
• Account of “Leasing” operations	2002	MOF and involved professional specialists
• Account of “Equipment to be installed”	2001	MOF and involved professional specialists
• Account of “Financial investments”	2001	MOF and involved professional specialists
• Account of “Capital investments”	2003	MOF and involved professional specialists
• Account of “Stale” (amortization)	2004	MOF and involved professional specialists
• Account of “Stocks”	2003	MOF and involved professional specialists
• Package and package operations	2004	MOF and involved professional specialists
• Account of “Means”	2003	MOF and involved professional specialists
• Account of “Currency operations”	2001-2005	MOF and involved professional specialists
• Account of “Securities”	2001-2005	MOF and involved professional specialists
• Account of animal breeding	2004	MOF and involved professional specialists
• Account of plant growing	2004	MOF and involved professional specialists
• Preparation of the other accounting standards in connection with farming economy	2002	MOF and involved professional specialists

DIAGNOSTIC STUDY OF ACCOUNTING AND AUDITING PRACTICES IN AZERBAIJAN

Activity	Timing	Responsibility
• Account of “Property estimation and over-estimation”	2002	MOF and involved professional specialists
• Account of expenditures of “Original production”	2003	MOF and involved professional specialists
• Account of circulating expenditures	2003	MOF and involved professional specialists
• Account of expenditures of “Servicing economies”	2002	MOF and involved professional specialists
• Preparation of the other accounting standards in connection with the production expenditures	2005	MOF and involved professional specialists
• Account of expenditures on “Investigation and construction”	2005	MOF and involved professional specialists
• Account of settings with “Budget”	2002	MOF and involved professional specialists
• Account of settings for “Off-budget funds” (payments)	2003	MOF and involved professional specialists
• Account of settings for “Social insurance and guarantees ”	2004	MOF and involved professional specialists
• Account of productions, goods, works and services	2005	MOF and involved professional specialists
• Account of turnover expenditures	2005	MOF and involved professional specialists
• Preparation of the other accounting standards in connection with commercial organizations	2005	MOF and involved professional specialists
• Account of settings with work staff on “Labor payment and other operations”	2003	MOF and involved professional specialists
• Account of settings with the founders	2003	MOF and involved professional specialists
• Accounts of settings with “Intra-economy” and reproduction (dependent) enterprises	2003	MOF and involved professional specialists
• Account of settings with “debtors and creditors”	2004	MOF and involved professional specialists
• Inventory of property and obligations	2002	MOF and involved professional specialists

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Activity	Timing	Responsibility
• Account of “Benefit and loss”	2002	MOF and involved professional specialists
• Compiling rules of accounting at the municipalities	2005	MOF and involved professional specialists
• Compiling rules of accounting in building organizations	2005	MOF and involved professional specialists
• Account of capitals (funds) and stocks	2004	MOF and involved professional specialists
• Account of credits, debts and special financing	2004	MOF and involved professional specialists
• Account of off-balance operations	2001	MOF and involved professional specialists
• Preparation of requisitions and forms of modern initial account documents on areas	2001-2005	MOF and involved professional specialists
• Preparation of requisitions and forms of modern accounting registers on areas	2001-2005	MOF and involved professional specialists
• Preparation of methodical instructions on expenditures in connection with production and sale of work and service	2005	MOF and involved professional specialists
• Preparation of the other normative and juridical acts in connection with accounting	2001-2005	MOF and involved professional specialists

3. Computerized Accounting Information Systems

Activity	Timing	Responsibility
• Preparing a computer program to automate accounting using the new accounting standards	2005	MOF and involved professional specialists

4. Professional Development and Training

Activity	Timing	Responsibility
• Preparing a professional code of ethics for accountants	2005	MOF, Ministry of Education and involved professional specialists
• Preparing educational materials	2005	MOF, Ministry of Education and involved professional specialists

DIAGNOSTIC STUDY OF ACCOUNTING AND AUDITING PRACTICES IN AZERBAIJAN

Activity	Timing	Responsibility
<ul style="list-style-type: none">• Preparing other instructional materials and educational programs for accounting specialists	2005	MOF, Ministry of Education and involved professional specialists

5. International Cooperation

Activity	Timing	Responsibility
<ul style="list-style-type: none">• Membership of the International Accounting Standards Committee (IASC)	2001-2005	MOF
<ul style="list-style-type: none">• Cooperation with the Organisation for Economic Cooperation and Development (OECD)	2001-2005	MOF
<ul style="list-style-type: none">• Cooperation with the International Federation of Accountants (IFAC)	2001-2005	MOF

Appendix 7. International Standards and Guidelines on Professional Arrangements

1. Overview

The IFAC Board created a Compliance Committee in May 2000. The Committee is one of several initiatives designed to strengthen IFAC and the international profession. Its primary responsibilities are: (i) monitoring the relevance, sufficiency, and efficacy of IFAC membership obligations; (ii) monitoring member body compliance with these obligations; (iii) recommending actions to the IFAC Board and Council in respect of membership obligations; (iv) reviewing the investigative and disciplinary processes of member bodies, and reporting and making recommendations on these to the IFAC Board and Council; (v) considering how member bodies might best be encouraged, or if necessary, required to comply more closely with such obligations; (vi) devising schemes to assist member bodies to comply more closely and to considering whether additional powers are required to enforce compliance with membership obligations; and (vii) implementing agreed policy in this area. The Compliance Committee will also work closely with members of the Transnational Audit Committee (TAC) in its monitoring of the members of the IFAC Forum of Firms (FOF) once these entities are fully established.

Table 7 sets out relevant international guidelines with respect to the accountancy profession. IFAC has also established a *Money Laundering Task Force*. The task force has obtained information from around the world on what other professional bodies are doing and is currently analyzing these activities. This is a first step in determining its scope of activities. Included in the work of the task force will be consideration of whether standards will be developed to help member bodies and their members to address money laundering and related issues.

Table 7: International Guidelines for the Accountancy Profession

World Trade Organization (WTO): General Agreement on Trade in Services (GATS)	The criteria for recognizing professional qualifications may not exceed what is necessary to ensure the quality of service. Each country is expected to have a methodology for comparing professional qualifications and this must be applied in a fair and consistent manner to all applicants.
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Table 7: International Guidelines for the Accountancy Profession (continued)

Confederation of Asian and Pacific Accountants (CAPA)	CAPA's Guide on the Essential Components of a Professional Accountancy Body ³⁷ covers: (i) Admission / Advancement Standards; (ii) Full Membership Requirements; (iii) Continuing Professional Education (CPE); (iv) Technical Standards; (v) Quality Assurance / Peer Review Program; (vi) Registration as Accountant/Auditor; (vii) Disciplinary Rules; (viii) Management and Administrative Structures; (ix) Governance; and (x) External Affiliations / Memberships. ³⁸
International Federation of Accountants (IFAC)	<p>IFAC pronouncements cover several areas:</p> <ul style="list-style-type: none"> • Education Guidelines and Standards. IFAC's Education Committee issues International Education Standards (IESs) and International Education Guidelines (IEGs). The IESs are intended to establish the essential elements on which education and training programs, both prequalification and postqualification, for all accountants should be founded. The IEGs promote good practice and or provide good advice. They are based on careful study of the best practices and most effective methods for dealing with the issues being addressed. • Code of Ethics for Professional Accountants. This is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct for professional accountants and states the fundamental principles that should be observed by professional accountants in order to achieve common objectives. • Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements.³⁹ This statement sets expectations and provides guidance on disciplinary action, including punishment and publicity. • Assuring the Quality of Professional Services. This statement sets expectations on quality control policies and procedures for member bodies and professional firms.⁴⁰

³⁷ Confederation of Asian and Pacific Accountants (CAPA). 1998. *Guide on the Essential Components of a Professional Accountancy Body*.

³⁸ Further details are provided in: Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank. p. 27.

³⁹ International Federation of Accountants (IFAC). 1998 January. *Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements*. New York: IFAC.

⁴⁰ International Federation of Accountants (IFAC). 1999 August. *Assuring the Quality of Professional Services*. New York: IFAC.

Table 7: International Guidelines for the Accountancy Profession *(continued)*

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of the UNCTAD	<p>In February 1999, UNCTAD issued a report on accounting education and qualifications.⁴¹ The report provides a useful set of benchmarks in respect of these issues, in particular:</p> <ul style="list-style-type: none"> • Guideline for a Global Accounting Curriculum and Other Qualification Requirements including (i) requirements for the qualifications of professional accountants; and (ii) a guideline for national systems for the qualifications of professional qualifications. • Global Curriculum for the Professional Education of Professional Accountants including: (i) organizational and business knowledge; (ii) information technology; and (iii) accounting and accounting-related knowledge.
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Furthermore, ISAR has initiated a project to assess the competence of accountants. The objective of the project is to rate professional accounting qualifications from around the world and, in doing so, create impetus for improvements and support international skill transferability.⁴²

2. Membership Requirements

Education

IFAC and ISAR have published guidelines on education requirements. The IFAC guidelines, such as IEG 9, provide an overview as to what is expected. The ISAR guidelines are more useful in a practical sense as they suggest a detailed curriculum structure and contents.⁴³

Experience

With regards to practical experience, international guidelines state that:

An appropriate period of relevant experience in performing the work of professional accountants must be a component of a pre-qualification program. The period of experience may vary due to differences in the

⁴¹ UNCTAD. 1999. *International Accounting and Reporting Issues: 1999 Review*. United Nations.

⁴² Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank. p 29.

⁴³ UNCTAD. 1999. *International Accounting and Reporting Issues: 1999 Review*. United Nations.

environment in which professional accountants offer their services. However, this period should be long enough to permit prospective accountants to demonstrate they have gained the knowledge, skills and professional values sufficient for performing with professional competence and for continuing to grow throughout their careers. This objective cannot normally be met in a period of less than three years.

Paragraph 49—IEG 9.

Moreover, IFAC recommends that practical experience requirements must be considered when professional bodies seek mutual recognition of qualifications.⁴⁴

Continuing Professional Education (CPE)

IFAC and ISAR recommend a minimum of 30 hours CPE per year, or a minimum of 90 hours in every three-year period, of structured learning activity.⁴⁵

3. Quality Control and Assurance

“In the case of professional accountants in public practice, the implementation of appropriate quality control policies and procedures is the responsibility of each firm of practicing accountants. The task of encouraging and assisting firms of practicing accountants to maintain and improve the quality of professional services is primarily that of the member bodies in each country. IFAC believes that the member bodies have the responsibility to take appropriate steps to achieve that objective in the legal, social, business, and regulatory environment prevailing within their countries.”

– IFAC (August 1999)⁴⁶

In relation to quality control and assurance, IFAC suggests that:⁴⁷

- Member bodies should adopt or develop quality control standards and relevant guidance that require firms of practicing accountants to establish the quality control policies and procedures necessary to

⁴⁴ International Federation of Accountants (IFAC). 1995 June. *Statement of Policy of Council: Recognition of Professional Accountancy Qualifications*. New York: IFAC. Paragraph 22-25.

⁴⁵ International Federation of Accountants (IFAC). 1998 May. *International Education Guideline (IEG) 2: Continuing Profession Education*. New York: IFAC.

⁴⁶ International Federation of Accountants (IFAC). 1999 August. *Assuring the Quality of Professional Services*. New York: IFAC.

⁴⁷ International Federation of Accountants (IFAC). 1999 August. *Assuring the Quality of Professional Services*. New York: IFAC.

provide reasonable assurance of conforming with professional standards in performing services. The nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as the size and nature of its practice, its geographic dispersion, its organization, and appropriate cost/benefit considerations. Accordingly, the policies and procedures adopted by individual firms will vary, as will the manner in which the policies and procedures themselves and compliance with them are documented.

- Member bodies should develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with those policies.
- Member bodies should establish quality review programs designed to evaluate whether firms of practicing accountants have complied with relevant professional standards for assurance engagements.
- Member bodies should require firms of practicing accountants to make appropriate improvements in their quality control policies and procedures, or in their compliance with those policies and procedures, when the need for such improvement is identified. Where firms fail to comply with relevant professional standards, the member body should take appropriate corrective action. Member bodies should also take such educational or disciplinary measures as indicated by the circumstances.

As a basic condition, IFAC emphasizes that implementation of an adequate self-regulatory program cannot be effected until firms of practicing accountants in a country are bound by an appropriate code of ethics and also by adequate standards governing accounting principles and engagements to provide professional services. The IFAC *Code of Ethics for Professional Accountants*, its International Standards on Auditing, and the International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB) all provide guidance for such standards.

Box 2: Professional Quality Assurance in the People's Republic of China

The People's Republic of China provides one example of how a quality assurance program can be implemented.⁴⁸ From July 1997 to March 1999, China conducted a nationwide rectification campaign of the accounting market. The campaign had four stages:

- Self-inspection. In the six months to December 1997, around 6,700 accounting firms conducted self-inspections. The self-inspections covered around 50 percent of their 1996–1997 activities. Just under 1.5 million business reports were inspected; of these, 26 percent were considered to be either defective or in need of correction.
- Focus Groups and Field Inspections. In January 1998, local CPA Institutes established working groups. In the following six months, these working groups conducted field inspections of 5,800 firms.
- Inspection Reviews. From July to the end of October 1998, 192 people selected by the Chinese Institute of Certified Public Accountants (CICPA) reviewed the inspections conducted in stages I and II. The reviews focused on 405 accounting firms.
- Reexamination. From November 1998 to March 1999, CICPA reexamined the qualifications and status of qualified accountants and accounting firms.

As a consequence of the campaign almost 12,700 individual CPAs were either forced to withdraw from the profession or were disciplined (25 percent of CPAs). Many of these were older members who had not passed the uniform accounting examination, and around 580 accounting firms withdrew from the profession or had their licenses cancelled. Warnings and punishments were issued to a further 2,000 accounting firms (43 percent of firms).

CICPA judged the campaign to be a success based on the following evidence.⁴⁹ First, during the period of the campaign, 6,300 newly qualified accountants joined the profession. The net effect was to substantially improve the profession's age structure and knowledge. Second, to address problems that were identified in the inspections, 85 percent of accounting firms substantially improved their internal-management practices; improved professional rules; implemented or improved quality-control systems; increased training; and in doing so, effectively eliminated the problems that had been identified. Third, in 1998, the level of "non-clean" audit opinions given on listed companies rose dramatically (to around 12 percent of audit reports) which (arguably) indicated improved professional quality and ethics. Fourth, the credibility of CPAs in the eyes of the public, as measured by a media survey, climbed from 45 percent in 1996, to 81 percent in June 1998.

⁴⁸ Narayan, Francis, B. and Barry Reid. 2000. *Financial Management and Governance Issues in the People's Republic of China*. Asian Development Bank. pp. 35-39.

⁴⁹ Yong, Li. 1999. The Reform, Regulation and Opening-up of China's Accounting Market. *Contemporary Issues in China Accounting and Finance: Policy and Practice*. Oxford University Press. p. 282-283.

Appendix 8. International Accounting Standards

The following IASs were in effect at 30 September 2001.^{50,51}

IAS 1	Presentation of Financial Statements	IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 2	Inventories	IAS 28	Accounting for Investments in Associates
IAS 7	Cash Flow Statements	IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 10	Events After the Balance Sheet Date	IAS 31	Financial Reporting of Interests In Joint Ventures
IAS 11	Construction Contracts	IAS 32	Financial Instruments: Disclosures and Presentation
IAS 12	Income Taxes	IAS 33	Earnings Per Share
IAS 14	Segment Reporting	IAS 34	Interim Financial Reporting
IAS 15	Information Reflecting the Effects of Changing Prices	IAS 35	Discontinuing Operations
IAS 16	Property, Plant and Equipment	IAS 36	Impairment of Assets
IAS 17	Leases	IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 18	Revenue	IAS 38	Intangible Assets
IAS 19	Employee Benefits	IAS 39	Financial Instruments: Recognition and Measurement
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 40	Investment Property
IAS 21	The Effects of Changes in Foreign Exchange Rates	IAS 41	Agriculture
IAS 22	Business Combinations		
IAS 23	Borrowing Costs		
IAS 24	Related Party Disclosures		
IAS 26	Accounting and Reporting by Retirement Benefit Plans		

⁵⁰ Source: IASC Website: www.iasc.org.uk

⁵¹ The following IASs have been withdrawn:

- IAS 3 was replaced by IAS 27 and IAS 28.
- IAS 4 was replaced by IASs 16, 22, and 38.
- IAS 5 was replaced by IAS 1.
- IAS 6 was replaced by IAS 15.
- IAS 9 was superseded by IAS 38.
- IAS 13 was replaced by IAS 1.
- IAS 25 was replaced by IAS 39 and IAS 40.

Appendix 9. IASB Work Plan

The Work Plan of the International Accounting Standards Board (IASB) as of 30 September 2001 is as follows.⁵²

Issue	Plan
Agriculture	Exposure Draft E65: published July 1999. Final IAS: planned 4th quarter 2000
Business Combinations	Added to Agenda: 4th quarter 1998. G4+1 Discussion Paper: published 2nd half 1998. Specific IASC steps are not yet determined.
Business Reporting on the Internet	Staff Research Project. Discussion Paper: published November 1999. Added to the Board's Work Program: March 2000.
Emerging Economies	Project Added to Agenda April 1998. August 2000: Survey on Barter Transactions.
Extractive Industries (including Mining and Oil and Gas)	Project Added to Agenda April 1998. Issues Paper: planned 3rd quarter 2000.
Financial Instruments—Comprehensive Project	Issues Paper: published 1st quarter 1997. Joint Working Group Report including draft Exposure Draft: planned 2000.
Financial Instruments—Recognition and Measurement	Final IAS 39: published December 1998. Exposure Draft E66, Limited Revisions to IAS 39: published July 2000. Implementation guidance is being developed.
Insurance	Project approved April 1997. Issues Paper: published December 1999.
Pension Plan Assets	Exposure Draft E67: published July 2000.
Present Value (formerly 'Discounting')	Project Added to Agenda April 1998. Issues Paper: planned 2nd half 2000.
Reporting Financial Performance	G4+1 Position Paper: published August 1999. Draft Statement of Principles: planned 4 th quarter 2000

⁵² Source: IASC Website. http://www.iasc.org.uk/frame/cen3_4.htm

APPENDIXES

Issue	Plan
Disclosures by Banks and Similar Financial Institutions	Steering Committee appointed: June 2000
Tax Consequences of Dividends	Exposure Draft ED 68: published July 2000
Transition	Undecided

Appendix 10: International Standards on Auditing

The following International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs) were in effect on 30 September 2001.

International Standards on Auditing (ISAs)		710	Comparatives
100	Assurance Engagements	720	Other information in documents containing Audited Financial Statements
120	Framework of ISAs	800	The Auditor's Report on Special Purpose Audit Engagement
200	Objective and General Principles Governing an Audit of Financial Statements	810	The Examination of Prospective Financial Information
210	Terms of Audit Engagements	910	Engagements to Review Financial Statements
220	Quality Control for Audit Work	920	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
230	Documentation	930	Engagements to Compile Financial Information
240	Fraud and Error		Glossary of Terms
250	Consideration of Laws and Regulations in an Audit of Financial Statements		Preface to ISAs and RSs
300	Planning	International Auditing Practice Statements (IAPs)	
310	Knowledge of the Business	1000	Inter-Bank Confirmation Procedures
320	Audit Materiality	1001	CIS Environments-Stand-Alone Microcomputer Systems
400	Risk Assessments and Internal Control	1002	CIS Environments-On-Line Computer Systems
401	Auditing in a Computer Information Systems Environment	1003	CIS Environments-Database Systems
402	Audit Considerations Relating to Entities Using Service Organizations	1004	The Relationship Between Bank Supervisors and External Auditors
500	Audit Evidence	1005	The Special Consideration in the Audit of Small Entities
501	Audit Evidence-Additional Considerations for Specific Items	1006	The Audit of International Commercial Banks
505	External Confirmations	1007	Communications with Management
510	Initial Engagements - Opening Balances	1009	Computer-Assisted Audit Techniques
520	Analytical Procedures	1010	The Consideration of Environmental Matters in the Audit of Financial Statements
530	Audit Sampling and other Selective Testing Procedures	1011	Implications For Management And Auditors Of The Year 2000 Issue
540	Audit of Accounting Estimates		
550	Related Parties		
560	Subsequent Events		
570	Going Concerns		
580	Management Representations		
600	Using the Work of Another Auditor		
610	Considering the Work of Internal Auditing		
620	Using the Work of an Expert		
700	The Auditor's Report on Financial Statements		

Appendix 11: International Standards and Guidance on Accountancy Education

International organizations have issued guidance on accountancy education issues. This guidance includes:

- *Quality Issues For Internet and Distributed Learning in Accounting Education.* This International Federation of Accountants (IFAC) Education Committee discussion paper discusses the environment that encourages the design, development and delivery of high-quality Internet and distributed learning in global accounting education. It offers recommendations for assessing the quality of Internet education and distributed learning.⁵³
- *Discussion Paper on Assistance Projects in Accountancy Education and Development.* This IFAC Education Committee discussion paper, which is based on the experiences of 15 IFAC member organizations, looks at some of the common aspects of successful aid and assistance projects and the impediments that can derail the process. It is meant to be of assistance to accountancy organizations and consultants involved in aid projects for the development of accountancy education, as well as potential donors.⁵⁴
- *International Education Guideline 9: Accounting Education and Experience.* This IFAC guideline sets out high-level curriculum expectations.⁵⁵
- *Guideline for a Global Accounting Curriculum and Other Qualification Requirements.* This United Nations Conference on Trade and Development (UNCTAD) report sets out (i) requirements for the qualifications of professional accountants; and (ii) a guideline for national systems for the qualifications of professional qualifications.⁵⁶

⁵³ International Federation of Accountants (IFAC). 2000. *Quality Issues For Internet and Distributed Learning in Accounting Education*. New York: IFAC Education Committee. www.ifac.org

⁵⁴ International Federation of Accountants (IFAC). 2000. *Discussion Paper on Assistance Projects in Accountancy Education and Development*. New York: IFAC Education Committee. www.ifac.org

⁵⁵ International Federation of Accountants (IFAC). 1996. *Guideline 9: Accounting Education and Experience*. New York: IFAC.

⁵⁶ UNCTAD. 1999. *International Accounting and Reporting Issues: 1999 Review*. United Nations.

- *Global Curriculum for the Professional Education of Professional Accountants.* This UNCTAD report sets out curriculum requirements including: (i) organizational and business knowledge; (ii) information technology; and (iii) accounting and accounting-related knowledge.⁵⁷

⁵⁷ UNCTAD. 1999. *International Accounting and Reporting Issues: 1999 Review*. United Nations.

Appendix 12: Auditing Services Law 1995

This law concerns the establishment of auditing services in the Azerbaijan Republic, the legal grounds for its realization, determines auditor's functions, legal rights and duties, envisages the creation of an independent financial control system for protection of owners' right of property.

Relations connected with the auditing services are regulated by the present law, as well as by other legislative acts of the Azerbaijan Republic, by international agreements and contracts

CHAPTER I—GENERAL PROVISIONS

Clause 1. Sphere of the Law's Application

The present law is applicable to all enterprises, organizations and institutions (further called "economic subjects") functioning on the territory of the Azerbaijan Republic irrespective of kind of their property and of their organizational and legal subordination.

Clause 2. The Term "Audit"

The term audit means independent examination of accounts and financial reports of economic subjects engaged in producing and dealing with goods, rendering services and fulfilling works, to check that the said accounts and reports are exact and correct.

The audit can be done compulsorily or voluntarily (initiated by the economic subject itself). According to legislation the audit is compulsory for the economic subjects that are obliged to publish their accounts, as well as in the cases specified by legislative acts or in accordance with a corresponding decision of an authorized state body, and is voluntary in all other cases.

Clause 3. Auditing Services

Auditing services consist of carrying out on a basis of a contract the examination, expert investigation, analysis, submission of a written report about the financial-economic activity of economic subjects, including the assistance in accounting, confirmation of exactness of reports figures, rendering other services in the field of professional activity of the auditor (in accordance with the charter of the audit company).

The audit services do not exclude the examination of the economic subject's activity by the state bodies of their own accord.

Clause 4. Independent Auditor

The independent auditor is a natural person who has been granted a license to render auditing services on the territory of the Azerbaijan Republic by the Audit Chamber of the Azerbaijan Republic (called further "Audit Chamber").

Clause 5. Audit Company

The audit company is a legal entity rendering the auditing services in accordance with its charter on the territory of the Azerbaijan Republic on a basis of the license granted to it by the Audit Chamber.

To establish an audit company at least three independent auditors are needed.

Clause 6. Requirements Demanded from the Independent Auditors

The following is required to be an independent auditor in the Azerbaijan Republic:

- 1) to be a citizen of the Azerbaijan Republic;
- 2) a valid court's decision about canceling a previous restriction to take certain

positions in the field of financial-economic relations or be engaged in certain activities, or about acquittal of any charges connected with such activities;

3) to have higher education in the field of accounting, finance, economic and legal disciplines, and at least three years of working experience in one's specialty;

4) to pass the auditor examination.

Persons convicted for crimes committed by mercenary (self-interest) reasons and not acquitted cannot be auditors.

A foreign citizen having the auditor license of his own country through official permission of the Audit Chamber can use his right to render auditing services on the territory of the Azerbaijan Republic.

Clause 7. Examination in order to get the auditor rank

To take examinations for granting the auditor rank the Audit Chamber establishes a special commission.

The examinations are carried out in an order prescribed in the charter of the Audit Chamber.

Clause 8. Auditor's report

The auditor's report certified by his (audit company's) signature and stamp (seal) represents for all legal and natural persons, government, executive and legislative bodies, as well as for courts an official and legal document testifying the financial position of the audited economic subject, the exactness of its annual accounting documents, and the estimation of the general situation with its business accounts.

The auditor's report reflecting the results of examination carried out on a basis of the authorized state body's decision is considered equivalent to the report of the expertise carried out in accordance with the legislation of the Azerbaijan Republic.

The general form and requirements to composition of the auditor's report are determined by the Audit Chamber.

CHAPTER II. REGULATION OF THE AUDITING SERVICES IN THE AZERBAIJAN REPUBLIC

Clause 9. Auditing services regulation

In order to establish the state regulation of auditing services; to prepare norms, acts and measures aimed at the improvement of the auditing services in the Azerbaijan Republic; to protect interests of the state, of economic subjects and of auditors (audit companies), to see that all legal demands are properly observed in the course of the auditor's (audit company's) activity, the Audit Chamber of the Azerbaijan Republic is being established. The activity of the Audit Chamber is governed by its Charter.

The Supreme Council of the Azerbaijan Republic approves the Charter of the Audit Chamber and appoints its head.

Clause 10. License to implement auditing services

Independent auditors and audit companies can function on a basis of a license that is valid for five (5) years.

Clause 11. Registration of independent auditors and audit companies

The auditor acquires the right to render auditing services from the date of issuing the license for such activity to him and entering his name in the register of auditors.

The auditor can carry out his activity independently or as a member of an audit company. He is forbidden to be engaged in any other activity.

The independent auditors must keep a journal registering their activities. They must submit this journal to the Audit Chamber for checking their activities and for controlling the quality of auditing services.

The Audit Chamber implements the registration of auditors and audit companies on the territory of the Azerbaijan Republic.

The audit company consisting of not less than three auditors after having acquired a license for auditing services and been registered at the Audit Chamber has a right to render the auditing services.

CHAPTER III. AUDITOR'S RIGHTS, DUTIES AND RESPONSIBILITY

Clause 12. Auditor's rights

The independent auditor and audit company have the following rights:

- to determine independently the form and methods of the audit in accordance with the requirements of the present law and of the agreement concluded with the customer;
- to acquaint himself with all documents (including those kept by other legal persons) relevant to the financial and economic activity of the customer and to take them for examination, to check the available cash, securities, valuables, to get all information needed for the auditing work;
- to get written explanations from the customer's management and employees;
- while carrying out the auditing work by an order of authorized state bodies to bring up questions for their consideration about revealed violations and defects;
- to invite other auditors to the auditing work on a basis of agreements;
- to refuse to carry out the audit if the economic subject fails to submit documents which are necessary for the audit.

Clause 13. Auditor's duties

The independent auditor's and audit company's duties consist of the following:

- strict observance the requirements of legislation of the Azerbaijan Republic during the implementation of auditing services;
- to implement the audit examination and other auditing services with good quality;
- to inform immediately the customer (authorized state body) of the impossibility to participate in audit due to circumstances specified in Clause 18 of the law;
- to check as thoroughly as possible the compliance of the customer's accounts and reports with existing laws and normative acts;
- to inform the customer's management of all violations, errors in the accounting and reporting documentation discovered in the course of audit;
- to keep in strict confidence (except by demand from the law court) the information obtained during the audit initiated by the customer;
- to guarantee the safe preservation of documents which have been acquired or prepared during the examination;
- to give the economic subject by his demand detailed information about legal requirements concerning the audit, about the parties' rights and duties, as well as about normative acts concerning the defects and consequences described in the auditor's report.

Clause 14. Auditors' responsibility

If auditors or audit company fail to fulfill their duties in accordance with requirements of the legislation of the Azerbaijan Republic and of the agreement concluded with the customer they can bear property responsibility for that.

Clause 15. Withdrawal of the license to implement auditing services

The license granted to the auditor or to the audit company to carry out audit activity on the territory of the Azerbaijan Republic can be withdrawn on a basis of the Audit Chamber's decision in the following cases:

- in case of three unsuccessful audits during one calendar year;
- if in the course of audit the requirements of the present law and of the legislation of the Azerbaijan Republic were seriously violated;
- if the court's decision comes into legal force depriving the independent auditor of his right to take certain position in the field of financial-economic relations, or be engaged in certain activities, or imposing a penalty for crimes committed for self-interest reasons;
- if after the issuance of the license it was discovered that the applicant had given false information in order to get the license;
- except the cases specified by legislation, if the auditor has transferred the information obtained in the course of the audit to the third parties without the consent (permission) of the head (owner) of the economic subject;
- if the auditor (audit company) has concealed the circumstances specified in Clause 18 of the present law which prevent him from fulfilling the audit.

CHAPTER IV. GENERAL RULES OF THE AUDIT SERVICE RENDERING IN THE AZERBAIJAN REPUBLIC

Clause 16. Organization of auditing services at the economic subjects

The auditing servicing can be rendered on a basis of an agreement concluded between the independent auditor or audit company, on the one hand, and the customer, on the

other hand; the said agreement must specify the examination purposes, its duration, volume of consulting services, the expenses and procedure for their payment, as well as responsibility of the parties.

The customer is obliged to create all necessary conditions for the auditor to carry out his professional duties in full extent and with good quality.

The auditor is independent of his customer or of any other third person interested in this work.

The fulfillment of the agreement's requirements by the auditor or audit company is certified by an acceptance certificate of the auditor's report. The auditor's report must be written in accordance with specified requirements.

Clause 17. Rights and duties of the economic subject in connection with auditing services

The management (owner) of the economic subject is obliged to submit to the auditor all documents, registers and reports needed for the audit and bears responsibility for their correctness. He is obliged to give the auditor by his demand written and verbal explanations.

The economic subjects can freely choose the auditor.

The economic subjects have a right to conclude agreements for any period with the independent auditor or audit company on all issues connected with financial-economic activities. The auditor prepares a report in the prescribed form on the results of the investigation fulfilled according to such agreement.

CHAPTER V. SPECIAL PROVISIONS

Clause 18. Audit services restrictions

Auditors cannot audit the enterprises where they have personal property

interests, or have kindred with any of its managing persons, are its founders, owners or shareholders, or previously rendered to it their professional services.

Clause 19. Dispute settlement

All property disputes arising between the auditor (audit company) and his customers, if they cannot be settled by the Audit Chamber, must be settled by court (arbitration court).

The auditor (audit company) can apply in the prescribed order to a law court (arbitration court) if the Audit Chamber

has refused to grant him a license or has withdrawn it, or has refused to register the audit company as a legal person.

Clause 20. Inspection of the audit company

The Audit Chamber inspects the compliance of the audit company's activity with the requirements of the present law, and supervises its activity.

RATIFIED by the resolution of National Council of Azerbaijan Republic, Baku, September 19, 1995 N 1115

Appendix 13: Provisions of the Chamber of Auditors of Azerbaijan

I. GENERAL CLAUSES

1. Chamber of Auditors of Azerbaijan Republic (further “Chamber”) is an independent financial body, carrying out the organization of the state policy and development of audit services, protection of the properties of the owners, State interests, subjects leading their economy and auditors, supervision of the observance of requirements by independent auditors and audit organizations in their activity; any such requirements arising from the legislative Acts of the Republic.

2. In its own activity the Chamber is governed by the Law of Azerbaijan Republic “On audit service”, by the present provisions, and also by other normative Acts.

3. The Chamber is a legal entity, with settling, currency and special accounts in the bank. It has round stamp with the picture of State Emblem of Azerbaijan Republic on it and with its name, and other stamps.

4. Audit services are paid on the basis of contracts concluded between independent auditors and registered audit organizations, and between the enterprises and organizations, but under contracts by legal and other bodies for conducting of revisions and inspections on the enterprises and in the organizations – by mentioned bodies in the according order

5. Place of the Chamber location - Baku

II. OBJECTIVES AND FUNCTIONS OF THE CHAMBER

6. The principal function of the Chamber is the organization of work of audit service in the Republic and carrying out the measures on development and improvement of its activity according to Legislation for ensuring

precise and authentic policy of financing and accounting and calculation in all the subjects leading their economy irrespective of forms of ownership.

7. The Chamber fulfill the following functions:

- organizes and adjusts the work of audit service in Azerbaijan Republic; grants in the territory of Azerbaijan Republic the License to the independent auditors and audit organizations, carrying out supervision at their work and in the accordance to the Charters of audit organizations according to the Law of Azerbaijan Republic “On audit service”;
- carries out the registration, account of the independent auditors and audit organizations and grants the certificates to them on registration;
- works out and ratifies the rules of exams on granting of licenses, giving rights to deal with the audit activity in the territory of Azerbaijan Republic;
- prepares and ratifies composition and provision of examination commission on granting of licenses, giving right to deal with audit activity, fixes the payment for examination;
- prepares and ratifies forms of audit conclusions on financial and accountant reports of subjects leading their economy, various reports about the independent auditors and audit organizations;
- consults the independent auditors and audit organizations on matters of audit experience summery and application of acting legislative acts, prepares proposals on development and improvement of audit service and carries out the supervision for their realization;

- prepares instructions, recommendations and methodical indications on conducting the audit;
- makes up normative documents about forms and methods of rendering services, prepares proper recommendations on the basis of permanent study of national and international experience;
- provides the consideration according to the legislative acts of the republic, the claims of customers to the independent auditors and audit organizations for non-fulfillment of their proper professional duties;
- Carries proper measures on protection of rights and legal interests of the independent auditors and audit organizations;
- Verifies that financial-economic activities of independent foreign Auditor and subsidiary and/or agencies of foreign audit organizations conform with the Law on "Audit service in the Azerbaijan Republic" and controls their work;
- Carries the repeated audit;
- Makes audit conclusions on authenticity of economic subjects' property evaluation with respect to privatization of the state enterprises and other purposes. (Supplemented by the decree of the National Assembly of the Azerbaijan Republic dated March 12, 1996 with changes and supplements in Regulations of the Chamber of Auditors of the Azerbaijan Republic).
- to receive from the independent auditors and audit organizations reports in fixed form;
- to give to the auditors and audit organizations instructions and methodical indications obligatory to fulfillment;
- to consider disputes between the independent auditors and audit organizations and between the customers;
- to consider and settle complaints against acts of the auditor;
- to adjust business ties with international organizations dealing with audit activity, and to present in foreign countries the interests of Azerbaijan Republic on audit items;
- to prepare and improve audit employees;
- to settle other matters of audit service within the competency of the Chamber;
- to render services to legal entities and persons with respect to audit activity and financial-economic relations;
- to render audit services on the basis of contracts with economic subjects;
- to set up audit organizations. (supplemented by the decree of the National Assembly of the Azerbaijan Republic dated March 12, 1996 with changes and supplements in Regulations of the Chamber of Auditors of the Azerbaijan Republic).

III. AUTHORIZATIONS OF THE CHAMBER

8. The Chamber has the following authorizations:

- to examine quality of audit of the independent auditors and audit organizations, and if there is violation of the law, to revoke the license for audit activity;

IV. MANAGEMENT BY CHAMBER

9. The Chairman of Chamber and his deputy are appointed by the Supreme Council of Azerbaijan Republic. They are authorized by leaders of central state executive bodies fixed by legislation of Azerbaijan Republic.

10. The Chamber is managed by its Chairman. He bears personal responsibility for the execution of tasks and liabilities

laid down by the Chamber and the realization of its functions.

11. Structure, staffs, salary of employees and estimates of Chambers expenditures within its own means are ratified by the Chamber Chairman. The Chairman of the Chamber in accordance with the labor law hires and dismisses its employees, encourages them and imposes upon them penalties.

12. To conduct service functions there is a management body, a Council is set up in the Chamber. The composition of the Council comprises the Chairman of the Chamber, a deputy, leaders of two leading departments, one representative from audit organizations, independent auditors and Minister for finance of Azerbaijan Republic.

13. The Chairman of the Chamber declares the Members of the Council.

14. The meetings of the Council are held not less than one time per quarter.

V. ORGANIZATION OF EXAMS TO OBTAIN AUDITOR'S TITLE

15. Examination for the title of auditor is conducted by an exam commission appointed by the Chamber (further - "commission").

16. The composition of the commission comprises three representatives of Chamber of Auditors, one representative from Ministry of finance, head of state tax inspection, National Bank, scientist-economists, independent auditors and audit organizations. At the beginning of each year the composition of the commission is declared by the Chairman of the Chamber.

17. The members of the Commission are to have great experience in the field of audit service with not less than 10 years of practical work on one of specialties of accountant calculation, finances, economy and law.

18. Salary of commission members is fixed.

VI. PROPERTY OF THE CHAMBER

19. Property (income) of the Chamber is raised from: payments for passing the exams and granting licenses; incomes from registration of audit organizations; members fees of independent auditors and audit organizations (including foreign, legal and physical persons); sums paid for rendering audit services on contracts; other resources not prohibited by Legislation; receipts from sales issued on the matters of audit instructions and methodical indications, books, newspapers and magazines and incomes from any authorized activity.

20. Property (or income) of the Chamber is available for its disposal and circulation.

21. Income after payment of duties stipulated by Legislation, is to be disposed by the Chamber according to the purpose they were raised.

22. The procedure for formation and utilization of funds is ratified by the Council of the Chamber.

VII. MEMBERS OF THE CHAMBER

23. Independent auditors and audit organizations are qualified to be Members of the Chamber.

24. Members of the Chamber are to pay membership fees in fixed order.

25. Amount of fee is established by the Council and is according to the account of expenditures of the payers.

VIII. ACCOUNTING CALCULATION AND REPORT (ACCOUNT)

26. The Chamber in fixed order presents to the tax and statistical bodies in the territory of their allocation summaries of their own activity on accounting and statistical account.

Appendix 14: Law on Banking 1996

The Law of the Azerbaijan Republic on banks and banking activity (Law No . 123-IT Baku, July 14, 1996).

CHAPTER I. GENERAL PROVISIONS

CHAPTER II. LICENSING OF BANKING ACTIVITY

CHAPTER III. OWNERSHIP AND MANAGEMENT OF BANKS

Article 24. Finance-auditing committee

1. Finance-auditing committee is elected by the general meeting for the period not exceeding four years. It is composed of odd number of members, but not less than three. Members of Supervisory Council and the board are not entitled to serve at the same time as the members of finance-revision committee. The general meeting elects the chairman of the committee. Finance-revision committee: (i) controls the execution of banking legislation, normative acts of the National Bank and the Articles of credit organization; and (ii) fulfils accounting control.

2. Finance-revision committee executes audits according to the plan it adopts and by the demand of the Supervisory Council, the board and shareholders, representing over 10 percent of votes and in other cases, specified by the Articles. The general meeting does not have the right to approve the annual balance without the statement of finance-revision committee.

3. Committee resolutions are adopted with a simple majority of votes. Abstention from voting is prohibited.

4. The general meeting is entitled to award the members of the committee; awards are to be granted only from the net profit of credit organization.

CHAPTER IV. BANKING ACTIVITY

CHAPTER V. RELATIONS BETWEEN CREDIT ORGANIZATIONS. RELATIONS OF CREDIT ORGANIZATIONS WITH CLIENTS

CHAPTER VI. SAVINGS SPHERE

CHAPTER VII. RESPONSIBILITY FOR INFRINGEMENT OF BANKING LEGISLATION

CHAPTER VIII. CONSERVATION AND LIQUIDATION

CHAPTER IX. ACCOUNTING AND REPORTING OF CREDIT ORGANIZATIONS. CONTROL OVER ITS ACTIVITY

Article 49. Accounting and Reporting

1. Regulations of accounting in credit organization, the character, volume and terms for submitting of its reports are fixed by the National Bank.

2. Accounts, reporting documentation and financial accounting of credit organization are to reflect operations and financial state of its branches. During the annual report the credit organization is to submit summarized balance and report of profits/ losses with consideration of the report of affiliated credit organizations.

3. Branches of foreign banks are to submit their reports to the National Bank in compliance with the requirements of the present article.

Article 50. Audit of Credit Organization

Finance-economic activity of credit organization is subject to annual audit by auditors who are selected by the organization itself or if necessary, appointed by the National Bank. After the notification of the National Bank of audit results, the annual balance and report of profits/losses are published in papers in the form and within terms, established by the National Bank.

Article 51. Reporting and Inspections

1. Credit organization prepares report of administrative control and conducted operations, its liquidity-credit capability and profitability. Reports are made in the

form and with details, established by the normative acts of the National Bank and are periodically submitted to the National Bank. Reports are submitted to the general meeting of shareholders.

2. Audits of credit organizations and their branches are executed only by the National Bank in the order, specified by the article 50 of the present Law, excluding audits, made by the State Tax Inspectorate of the Azerbaijan Republic. If other bodies of state power conducting audits and control functions, provide the National Bank with the motivated applications, the National Bank is entitled to carry out the audit itself or invites an auditing organization.

Appendix 15: Law on Enterprises 1994

Relevant Extracts.

CHAPTER I. GENERAL PROVISIONS

CHAPTER II. TYPES AND ORGANIZATIONAL AND LEGAL FORMS OF ENTERPRISES

Clause 4. Types of Enterprises

According to the Law of the Azerbaijan Republic "On property in the Azerbaijan Republic" can refer to enterprises based on state, collective, private and mixed kinds of property.

Clause 5. Organizational and Legal Forms of Enterprises

Enterprises function in the organizational and legal forms of a state enterprise, individual (family) enterprise, general partnership, limited partnership, limited liability enterprise and joint stock company.

Clause 6. State Enterprise

There are the following forms of the enterprises based on state property:

enterprise, property of which is in full state ownership;

enterprise, the controlling block of shares of which is owned by state bodies.

The state-owned enterprise in compliance with legislation of the Azerbaijan Republic is established by state bodies authorized to manage the state property.

Clause 7. Individual (family) Enterprise

Clause 8. General Partnership

Clause 9. Limited Partnership

Clause 10. Limited Liability Enterprise

Clause 11. Joint Stock Company

Clause 12. Association of Enterprises

CHAPTER III. ESTABLISHMENT, LIQUIDATION AND REORGANIZATION OF ENTERPRISES

CHAPTER IV. STATE AND ENTERPRISE

CHAPTER V. PROPERTY OF THE ENTERPRISE

Clause 30. Financial and Auditing Commission of the Enterprise

In order to control and audit the financial and economic activity of the enterprise a financial auditing commission is established.

The member of the financial auditing commission cannot be a member of the management or the supervisory council of the enterprise.

The financial-auditing commission audits the economic and financial activity of the enterprise in the following cases:

- a) on completion of the economic year;
- b) on demand from the general meeting;
- c) on demand from members of the supervisory council and management;
- d) in other cases envisaged by the charter.

CHAPTER VII. ECONOMIC AND SOCIAL ACTIVITY OF THE ENTERPRISE

Clause 38. Accounting and Reports of the Enterprise

In accordance with the results of its activity the enterprise keeps operational and accounting records, statistical reports.

Forms of the state statistical reports are determined by the state statistics bodies and include only actual data, addresses and terms of submission of the information. The information not envisaged by the state statistical accounting can be submitted by the enterprise only on a basis of an agreement or in the case and by a procedure determined by legislation of the Azerbaijan Republic.

Officials of the enterprise are responsible for distortion of the state accounting as specified by legislation.

CHAPTER VIII. LIABILITY OF THE ENTERPRISE AND CONTROL OVER ITS ACTIVITY

Clause 40. Liability of the Enterprise

For violation of agreement obligations, credit, accounting and taxation procedures, requirements to production quality, other

rules of implementing of the economic activity the enterprise has property accountability (liability) as specified by the relevant legislation of the Azerbaijan Republic.

Clause 41. Control over the Enterprise's Activity

All-round (complex) auditing of the financial-economic activity of the enterprise is carried out by the owner's initiative at least once every year.

Taxation and other state bodies that are authorized by legislative acts of the Azerbaijan Republic to check various aspects of the enterprise's activity, if needed can carry out inspection within the limits of their power (authorization). The enterprise has a right not to meet demands of such bodies on matters not in their competence, or not connected with such inspection.

Appendix 16: Law on Joint Stock Companies 1994

Relevant Extracts.

CHAPTER I. GENERAL PROVISIONS

CHAPTER II. ESTABLISHMENT OF A COMPANY

CHAPTER III. SHAREHOLDERS' POWERS AND DUTIES

Article 15. Auditing the Company's Activity by a Shareholder's Demand

1. The shareholder(s) who own not less than one-tenth of the company's registered funds can demand from the supervisory council to audit the enterprising activity of the company, indicating his (their) purposes and reasons for it.

2. In case the supervisory council fails to fulfill within 30 days this demand, described in subclause 1 of this article, the shareholders can apply to the general meeting.

3. If the general meeting fails to meet the shareholders' demand the latter(s) can apply to court.

CHAPTER IV. FUNDS AND PROPERTY OF THE COMPANY

CHAPTER V. MANAGEMENT OF THE COMPANY

Article 21. Company General Meeting

1. The general meeting of shareholders (founders) represents the suprememanaging body of the company.

The exclusive competence of the general meeting embraces:

- to determine the main directions of the company's activity, to approve the prepared plans and reports;

- to make changes in the articles of association of the company;

- to elect and recall the personnel of the supervisory council, management and control financial-auditing commission;

- to approve the results of work during the year (including that of subsidiaries), reports of the control and financial auditing commission;

- to establish branches (subsidiaries) and representations, to approve their articles of association and their liquidation;

- to make decisions about calling the company's officials to property accountability;

- to approve the organizational structure and routine of the company;

- to fix salaries for the officials of the company, its subsidiaries, and to cease activity of the company.

The general meeting is considered competent if it is attended by not less than 60 percent of the shareholders having the voting right.

The following matters can be solved by a majority of the shareholders present at the general meeting:

- alteration of the articles of association of the company;

- cessation of activity of the company;

- establishment and liquidation of subsidiaries.

- All other matters can be settled by a simple majority of the shareholders present at the general meeting.

5. The general meeting must be held once in a year unless otherwise specified by the articles of association.

6. An extraordinary general meeting in order to guarantee the interests of the shareholders is summoned by the management, supervisory council and financial-auditing commission.

Article 24. Financial Auditing Commission of the Company

1. The financial-auditing commission is established in order to control (check) and audit the economical and financial activity of the company. Members of the financial-auditing commission are elected by the general meeting.

2. The financial-auditing commission monitors the financial and economic activity of the company. The financial-

auditing commission makes up its report based on the annual account and balance. Without such report (conclusion) of the financial auditing commission the general meeting of the shareholders cannot approve the annual account.

3. The financial-auditing commission carries out the auditing of the financial and economic activity of the company in the following cases: on completion of the economic year; on demand from the general meeting of the shareholders; on demand from the shareholders who own one-tenth of vote; on demand from the supervisory council and management; or in other cases specified by the articles of association.

CHAPTER VI. LIABILITIES OF THE COMPANY AND CESSATION OF ACTIVITY