

# **AZERBAIJAN REPUBLIC CHAMBER OF AUDITORS**



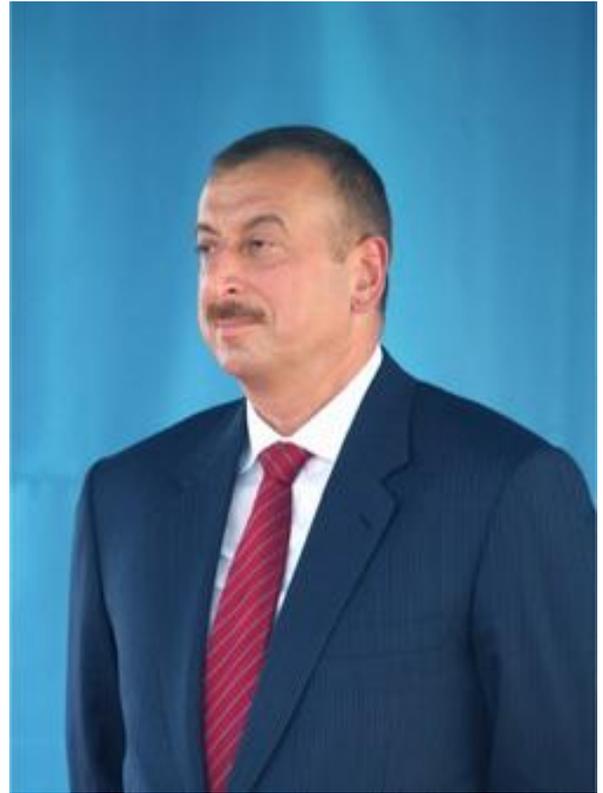
## **CONCEPT OF DEVELOPMENT OF THE AUDIT SERVICE IN THE REPUBLIC OF AZERBAIJAN (2012-2020)**

**BAKU – 2013**



*“A state with strong economy is a mighty state”.*

***Heydar ALIYEV,  
National leader of  
the Azerbaijani people***



*“The improvement of audit system on the basis of international experience and standards serves to strengthen economic power of Azerbaijan, providing financial transparency in the economy of the country, the use of budget funds according to its appointment”.*

***Ilham ALIYEV,  
President of the  
Republic of Azerbaijan***

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The main purpose of the development conception of audit is to provide the determination of further development of audit service, enhancement of audit service market, protection of the interests of the state, economic subjects and auditors, improvement of regulatory action in audit sphere in accordance with the international experience, provision of auditing according to the requirements of international standards, as well as, strengthening the role and the importance of audit in the economic life of the country, provision of increasing the role of audit and accountability of auditors to provide the transparency and fight against corruption in Azerbaijan.

The main provisions of the conception was put into the discussion of the participants at IV Eurasia forum of accountants and auditors on the theme of “Internal control and management of risks” on 26-28 September, 2013, at the regional conference held on the theme of “Financial accountability and audit in crossroads - current situation and new horizons in Europe” in the sphere of corporative financial accountability and audit on East and South-East countries by the Center for Financial Reporting Reforms (CFRR) of the World Bank on 30 September – 2 October, 2013 in Vienna and at the conference on the theme of “Enforcement of audit and reporting system for the Eastern Partnership countries” and at the international regional professional meeting organized by the Chamber of Financial Auditors of Romania in Bucharest on November 6, 2013.

# **NATIONAL ACTION PLAN ON THE FIGHT AGAINST CORRUPTION FOR 2012-2015**

## **(Extract)**

...13. Development of audit service

Works to be performed and result indicators:

13.1 Continue measures in accordance with the application of the international standards in independent audit sphere

Execution: Chamber of Auditors – constant

13.2 Drafting development concept of audit service (2012-2020) considering the international experience

Execution: Chamber of Auditors – 2013

13.3 Taking measures to identify mechanisms in accordance with the application of administrative responsibility for obligatory audit failure

Execution: The Ministry of Taxes, Chamber of Auditors – 2013

13.4 Preparation of proposals on improvement of legislation on internal audit

Execution: The Cabinet of Ministers, the Ministry of Finance, Chamber of Accounts, Chamber of Auditors – 2013

## **INTRODUCTION**

Great importance has been given to the improvement of financial control in the process of economic reforms implemented in Azerbaijan and adjustment of control mechanisms to the features of market economy, as well as, establishment of independent audit has been one of the issues which is constantly kept in the center of attention in state building policy.

Audit was founded by the Law of Azerbaijan Republic dated on September 16, 1994 “On Auditor Services” signed by Heydar Aliyev, our national leader, architect and founder of independent Azerbaijan state, according to that law, “Regulation on Chamber of Auditors of Azerbaijan Republic” was approved by the decision of National Parliament (Milli Majlis) of Azerbaijan Republic on September 19, 1995 and Chamber of Auditors started its activity on April 5, 1969.

Decree “On regulation of the public control on the production, service and financial-credit activity and prohibition of unreasonable examinations” of the President of Azerbaijan Republic dated on June 17, 1996 played an important role in the reduction of parallel and unnecessary examinations and protection of legal interests of economic subjects.

The reform of auditing system was set as one of the four main directions of state building in the decree dated on December 29, 1998 “On the establishment of State Commission on the implementation of reforms in public administration system of Azerbaijan Republic” of the President of Azerbaijan Republic.

Decree dated January 7, 1999 “On the improvement of state control system and removal of artificial barriers in the field of development of entrepreneurship” of the President of Azerbaijan Republic has great importance in our economy in terms of restoration of democratic principles.

Thus, legal border was drawn between unreasonable and illegal inspection and intervention practices in the economic policy implemented in the country, the importance of audit and necessity of development was repeatedly emphasized when the former ones were banned.

During the last period, an independent audit was established and developed in our country. However, a number of actual problems in the field of development of audit in our country wait for their conceptual solutions.

If we would say as the words of Mr. Ilham Aliyev, the President of Azerbaijan Republic, “While the economy of Azerbaijan Republic develops and its integration to the world economic system strengthens, it becomes necessary to use the opportunities of audit more widely in the assurance of transparency in economic-financial relations and in the fight against economic crime and corruption. It is very

important for this to learn advanced world practice in the field of independent financial control and to expand its application in our country by taking into consideration the characteristics of national economy”.

In this sense, the implemented reforms as an important direction of control, derives from the necessity of development of optimal control problems and raising its role in the direction of its approval along with increasing topicality and actuality of audit.

In 1998 -2008 the conception of “reform of audit system in Azerbaijan Republic” was firstly developed by the Chamber of Auditors in Azerbaijan Republic and submitted to the central executive authorities. Extensive and detailed analyses were carried out in conception on the fields of improvement of normative legal base of audit system, organization of audit in republic on the basis of international practice, preparation of auditor staff in our country and directions of improvement of professional skills, increasing the level of quality of audit and improvement control over, organization of internal and ecological audit, suggestions were developed in the field of implementation of relevant measures. Solution of the supposed problems played an important role for the formation and development of an independent audit in the country in accordance with the international criteria.

Audit of Azerbaijan has embarked on a new qualitative stage of development thanks to the care and attention of Mr. Ilham Aliyev, the President of Azerbaijan Republic, its role and importance has been further strengthened in increasing the transparency and in the fight against corruption in our country. The issues such as improvement of legislative base of audit and adjustment of auditor services to international audit standards for the purposes of improving auditor service, completion of the development of national audit standards; improvement of the activity of Chamber of Auditors; preparation of periodic reports on its activity and reporting to public about it; improvement of cooperation of audit organizations with the authorities fighting against corruption, determination of obligations in the field of fight against corruption and improvement of code of ethical behavior of auditors related to the fight against corruption was assigned to the Chamber of Auditors in “State program on fight against corruption (2004-2006)” approved by the order no. 377 dated on September 3, 2004 of the President of Azerbaijan Republic.

At the same time, important duties such as improvement of procedures on hiring and termination to the employment of heads of internal audit service, increasing transparency in accounting and financial statements and re-establishment of the systems of accounting and statistics according to the international standards, implementation of measures for the execution of duties arising from the Law of Azerbaijan Republic “on Accounting” were also assigned to the Chamber of Auditors in this State Program.

These proposed duties were executed by the Chamber of Auditors in 2004-2006, relevant document projects and suggestions were developed and submitted to the competent authorities and it was achieved to apply them in audit practice. Detailed reports on the implemented works were submitted to the Commission on Fight against Corruption of Azerbaijan Republic.

It was intended to do important works in the direction of improvement of financial control and auditor services in “National Strategy” (2007-2011) approved by the order No. 2292 dated on July 28, 2007 of the President of Azerbaijan Republic on increasing transparency and fight against corruption. As well as, related to the execution of duties such as implementation of application of international audit standards and increasing the quality of auditor service:

- a) Preparation of methodical instructions and advisory manuals that regulates the activity of internal audit service in accordance with the international standards;
- b) Adjustment of control system on the activity of auditors to the international standards;
- c) Preparation of normative-legal acts on increasing responsibility of auditors;
- d) Improvement of normative legal base that regulate the activity of internal audit service;
- e) Implementation of specific measures such as assurance of transparency in accounting and financial statements of economic subjects was assigned to the Chamber of Auditors.

The work on the development of suggestion on specification of competencies of authorities implementing the financial control and improvement of financial control mechanism was also assigned to the Chamber of Auditors together with the other relevant bodies.

Development of practical suggestion on all these direction was submitted to relevant bodies on its appointment and to the Commission on Fight against Corruption of Azerbaijan Republic for their preparation and realization by the Chamber of Auditors during 2007-2011.

Execution of a number of important duties on the improvement of auditor service was assigned to the Chamber of Auditors and other relevant bodies in “National Activity Plan on Fight against Corruption for 2012- 2015” (hereinafter will be referred to as “ACFC”) approved by the order no. 2421 dated on September 5, 2012 of the President of Azerbaijan Republic. So, preparation of suggestions for the improvement of legislation on internal audit together with Ministry of Finance and Chamber of Accounts, implementation of measures for the determination of mechanisms related to the application of administrative responsibility for avoiding from compulsory audit together with the Ministry of Taxes, as well as, continuation

of measures related to the application of international standards in the field of independent audit and development of the project of “development conception of auditor service by taking into consideration international practice” (for 2012-2015) should be implemented by the Chamber of Auditors.

Being guided by the item 13.2 on the development of Conception project of ACFC, it was intended to develop that conception in the item 1.1. of “Work Plan of the Chamber of Auditors of Azerbaijan Republic for 2013-2015” approved by the decision no. 238/2 dated on December 18, 2012 of the Chamber of Auditors of Azerbaijan Republic.

Development conception of auditor service in Azerbaijan Republic aims to ensure the balanced and sustainable development of country economy in the direction of realization of development conception of “Azerbaijan 2020: Look into the future” approved by the decree dated on December 29, 2012 of the President of Azerbaijan Republic, to support the realization of measures implemented in the direction of increasing transparency, development of civil society and integration Azerbaijan into world economy.

## **I. RESPONSIBILITIES OF AUDIT AND INEVITABILITY OF REFORMS IN MODERN CONDITIONS**

Determination of duties set forth in front of audit of Azerbaijan has great importance for defining the future development directions of audit which is one of the infrastructural fields of market economy. The following duties set forth in front of auditor service were taken as a basis while developing the conception:

- strengthening the effect of audit on the quality of financial statement;
- ensuring the protection of interests of their users on the basis of objective and competent examination of executing financial statements exactly and accurately;
- achieving the implementation of obligations of taxpayers in front of state by ensuring the compliance with the requirements of legislation in the implementation of accounting and composition of financial statements;
- achieving the correctness of taxes and allocations for state budget and extra-budgetary funds and their exact reflection in relevant reports;
- supporting the provision of transparency in the formation of the items of income and expense of state budget;
- achieving the reduction of risks by ensuring the compliance of financial statements to the legislation;
- play a leading role in the management of economy and making efficient decisions on the basis of provision of transparent information;
- expanding the activity directed at the detection of development perspectives of economy;
- expanding effectiveness audit directed at the result;
- strengthening the relations of corporative management and internal control with independent audit;
- ensuring the transparency in the use of currency funds, investment and protection of investments;
- implementation of obligations determined by legislation in the direction of fight against corruption and money laundering in the required level (together with the relevant bodies);
- development of audit directed at the detection and prevention of fraud in the sphere of finance;
- tightening relevant audit procedures in the fields that have more higher risks on being subject to corruption in audit subjects;
- implementation of preventive measures in the elimination of cases establishing condition for the corruption;
- increasing the quality of auditor service;

- increasing the professional level of auditors in the direction of provision of services complying with the requirements of international audit standards;
- achieving the full compliance to the requirements of Ethical Code of Professional Accountants for the purpose of elimination of unfaithful competent and low quality audit;
- wide use from information technologies in auditing process;
- achieving the application of IFAC standards on audit in small and medium institutions;
- widening the provision of advisory services on finance, accounting, taxation and other related services.

***Main directions of necessary reforms in the field of auditor service:***

**I. Audit in society**

- 1.1. strengthening public trust and raising the prestige in audit;
- 1.2. increasing the role of audit in the provision of economic security of country;
- 1.3. giving contribution to the expansion of economic democracy in the society by audit and deepening the cooperation with the civil society organizations;
- 1.4. Strengthening the role of audit in the provision of maximum protection of interests of various parties in corporative management;
- 1.5. Enlightenment of entrepreneurs on the essence and importance of audit;
- 1.6. More widely involvement of young people and women to audit works;
- 1.7. Strengthening control over the subjects of auditor activity serving on compulsory audit to the public interest entities (together with the relevant bodies);

**II. Audit legislation**

- 2.1. Improvement of the status of audit;
- 2.2. Coordination of interests of various parties in audit;
- 2.3. Expansion of the cooperation between the types of audit (together with the relevant bodies);
- 2.4. Expansion of scope of audit and the marker of auditor services
- 2.5. Improvement of normative legal acts that regulate the activity of auditor (together with the relevant bodies).

**III. Organization and regulation of audit**

- 3.1. Fight against negative situations as illegal entrepreneurship activity in the field of auditor service (together with the relevant bodies);
- 3.2. Expansion of related services in auditing;
- 3.3. Increasing the responsibility of auditors in the provision of transparency in accounting and financial statements;
- 3.4 Application of advanced forms and methods of audit organization;

3.5. Prevention of the situations of evasion from audit (together with the relevant bodies);

3.6. Solution of regional development problems of audit (together with the relevant bodies);

3.7. Formation of healthy competitive environment in service market;

3.8. Improvement of regulation of auditor service;

3.9. Increasing transparency in audit process;

3.10. Compliance with the ethical norms in the regulation and management of audit;

3.11. Increasing competitiveness of national audit and acceleration of integration of national audit to the world market;

3.12. Expansion of cooperation between transnational and foreign audit companies with national audit;

3.13. Preparation of methodological recommendations and materials on auditor activity.

#### **IV. Quality of audit**

4.1. Compliance of control on the quality of auditor service and auditors' activity with the international requirements;

4.2. Improvement of public control on audit quality;

4.3. Increasing the impact level of factors that determine the quality of audit (auditor culture, professionalism of auditor partners and employees, effectiveness of audit, validity of auditor reports etc).

#### **V. Application of international practice**

5.1. Learning advanced world practice in the field of independent financial control and expansion of its application (together with relevant bodies);

5.2. Achievement of the compliance with the international audit standards, international standards of financial statements and requirements of Ethical Code of Professional Accountants by auditors;

5.3. Improvement of criteria for obtaining auditor name by taking into consideration international requirements;

5.4. Application of IFAC standards on audit in small and medium institutions;

5.5. Legal assurance of requirements of directives in the field of compulsory audit of European Council and BAS for the purpose of ensuring the integration initiative of Azerbaijan to Europe (together with relevant bodies).

#### **VI. Fight against corruption**

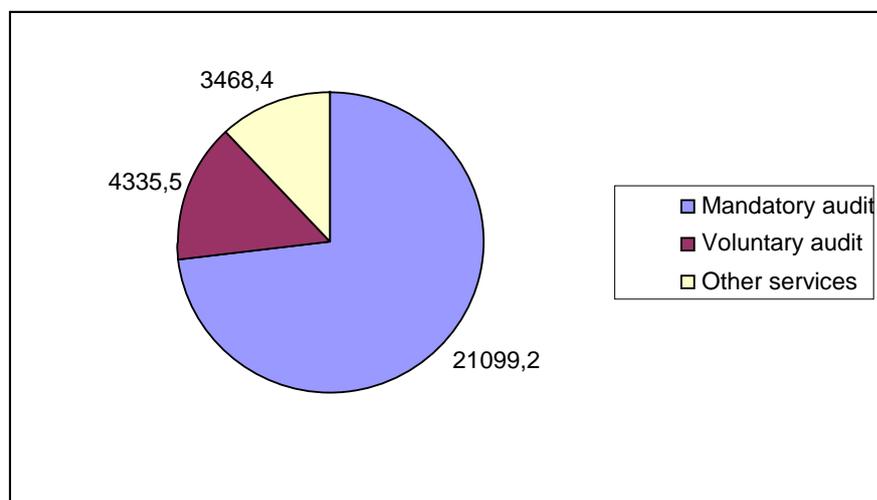
6.1. Strengthening joint cooperation with relevant public authorities in the field of audit on fight against corruption and money laundering.

The solution of the above mentioned tasks makes necessary the implementation of radical reforms in auditing system.

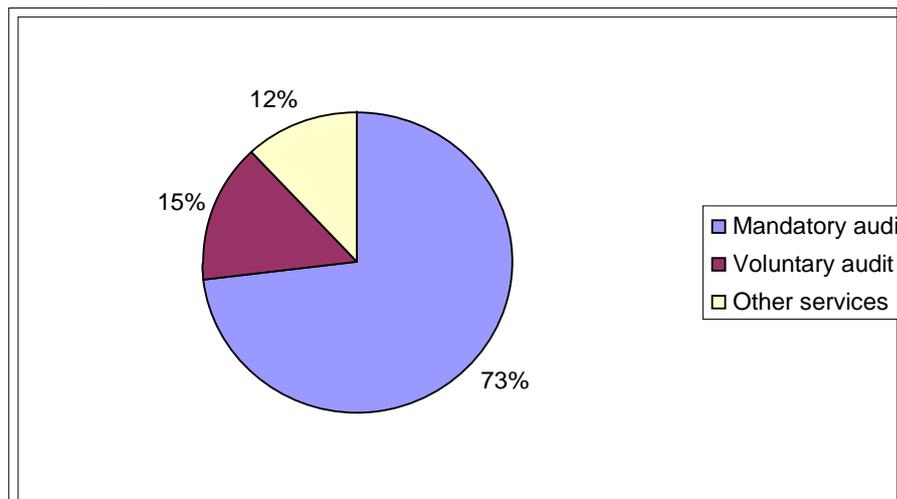
## II. MODERN CONDITION OF AUDITOR SERVICE IN AZERBAIJAN

Specific weight of compulsory audit was 73%, specific weight of voluntary audit was 15% and other services was 12 percent in the volume of the given auditor services in 2012. As it can be seen, the specific weight of voluntary audit in the market of auditor service of Azerbaijan continues to be lower, so this is much lower than in the indicators of developed countries. All of these are due to the level of public interest for audit being low in the country and provide evidence on the formation of auditor requests from the requirement of legislation.

**Composition of auditor service rendered in 2012 (in thousand manats)**



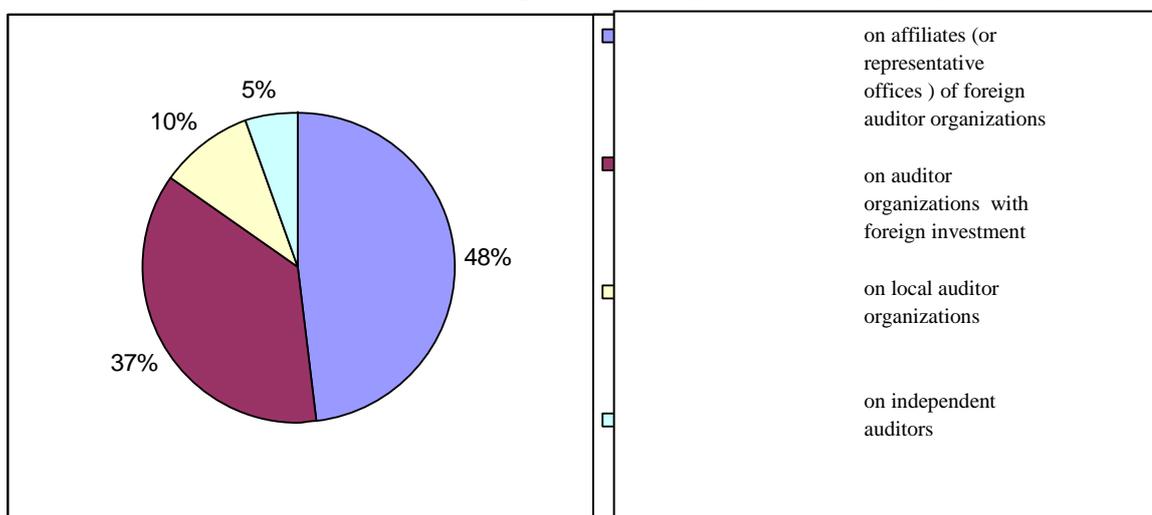
**Composition of auditor service rendered in 2012 (in %)**



It can be shown as an evidence for the insufficient level of development of national audit in Azerbaijan that specific weight of services rendered by national auditors is totally 15 % in total amount of contracts executed in 2012 (local auditor organizations 10%, independent auditors 5%). However, total share of affiliates or

representative offices of foreign auditor organizations and auditor organizations with foreign investment is 85 % in auditor service market of Azerbaijan (affiliates or representative offices of foreign auditor organizations 48%, auditor organizations with foreign investment 37%).

### Executed contracts (specific weight of audit subjects)



### The share of audit subjects in the volume of auditor services rendered in 2012 (in thousand manats)

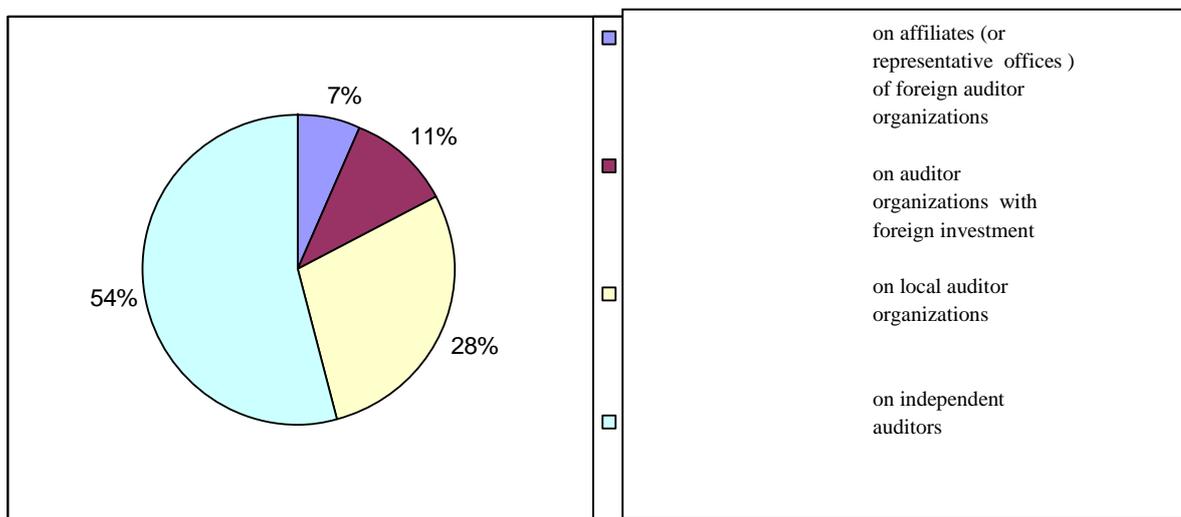
		<i>Number of contracts</i>	<i>Amount of contracts</i>	<i>Average contract amount</i>
1.	On affiliates (or representative offices) of foreign auditor organizations	292	13866	47,5
2.	On auditor organizations with foreign investment	474	10653	22,5
3.	On local auditor organizations	1257	2824,5	2,2
4.	On independent auditors	1132	1559,5	1,0
	<b>Total</b>	<b>3155</b>	<b>28903,0</b>	<b>9,2</b>

This fact itself is evidence for the existence of serious problems in the field of development of national audit in Azerbaijan.

One of the problems in auditor service market of Azerbaijan is the existence of negative case such as the substantial variance of average contract amounts among

audit subjects. So, specific weight of local auditors in the composition of executed contracts is 82%, as well, local auditor organizations' is 28%, independent auditors' is 54% (affiliates or representative offices of foreign auditor organizations 7%, auditor organizations with foreign investment 11%).

**Number of executed contracts (in %)**



As it can be seen that the average contract amounts executed by affiliates or representative offices of foreign auditor organizations is 21.6 times more than the indicator of local auditor organizations and 47.5 times more than the indicator of independent auditors. Average contract amounts of auditor organizations with foreign investment significantly exceed the average contract amounts of local organizations and independent auditors (10.2 times than local auditor organizations, 22.5 times than independent auditors). These differences manifests itself in contract amounts per auditor.

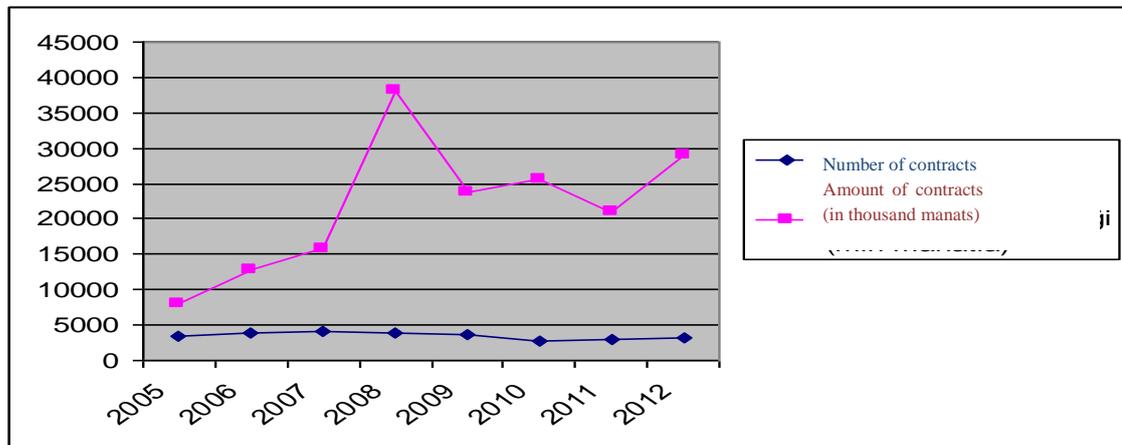
<b>Average monthly contract amount per auditor (in thousand manats)</b>			
		<i>Average contract amount</i>	
		<i>Number of auditors</i>	<i>per auditor</i>
1.	On affiliates (or representative offices) of foreign auditor organizations	9	1540,7
2.	On auditor organizations with	15	710,2

	foreign investment		
3.	On local auditor organizations	40	70,6
4.	On independent auditors	44	35,4

So that executed contract amount per auditor is 1540, 7 thousand manats in affiliates or representative offices of foreign auditor organizations and 710,2 thousand manats in auditor organizations with foreign investment, this indicator is 70, 6 thousand manats in local auditor organizations and 35,4 thousand manats in independent auditors.

As a whole, development indicators in auditor service market of our country are reflected in the following table and diagram:

	2005	2006	2007	2008	2009	2010	2011	2012
Number of contracts	3512	3981	4184	3969	3752	2831	2869	3155
Amount of contracts (in thousand manats)	8074,0	12702,5	15772,6	38147,1	23655,8	25556,9	21005,4	28903,0



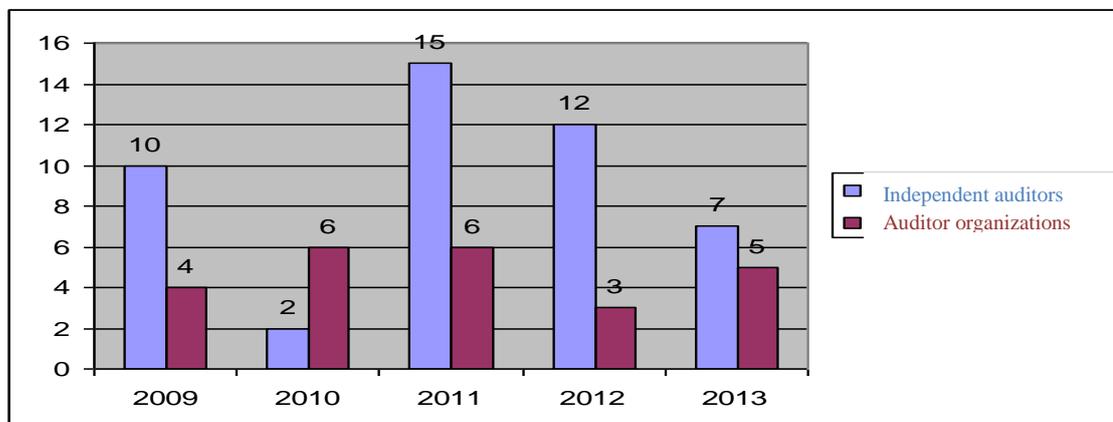
As it is seen from the diagram, growth rate of auditor service market is increasing since 2005.

One of the modern problems of audit in Azerbaijan is the interest for the auditing profession is not being in a desired level and the number of persons who want to get license for rendering auditor service being in a very low level.

Unlike other countries, the number of persons that wish to get license in order to get the name of auditor is extremely low (examinations for getting the name of auditor is multistage in most countries and it is implemented under more stringent conditions than in Azerbaijan).

### Issued new licenses

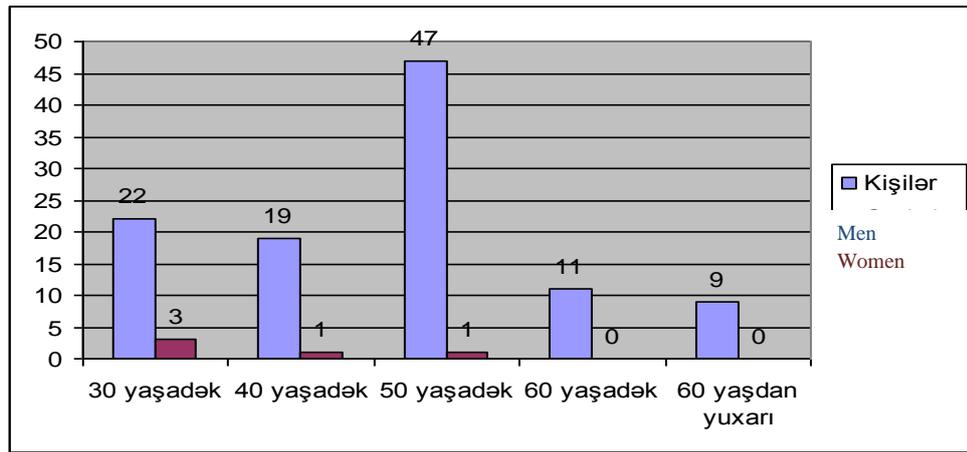
	2009	2010	2011	2012	2013
Independent auditors	10	2	15	12	7
Auditor organizations	4	6	6	3	5



As it is seen from the table, 46 persons and 24 organizations have obtained auditor license in Azerbaijan in the last 5 years. It should be also shown that most of the auditors who have obtained licenses returned their licenses back for various reasons, and a number of organizations suspended their activities. Age and gender composition of auditors is not in desirable level. So that only 5 or 4.6 % out of 108 auditors which are currently function are women. Specific weight of auditors until the age of 40 is 38%.

### Age and gender composition of auditors

	Total	Including women
Until the age of 30	22	3
Until the age of 40	19	1
Until the age of 50	47	1
Until the age of 60	11	0
Over 60 years old	9	0
	108	5



According to the existing legislation, it is mandatory for a number of economic subjects of organizational – legal forms acting in our republic, as well as, legal entities (banks, insurance organizations, open joint stock companies) whose reports should be published in press, institutions having foreign investment in their equity, limited liability companies, agencies of whose turnover and assets are higher than the limited specified by legislation, municipalities etc. to be audited.

It was determined that evasion from audit by economic subjects which are the objects of mandatory audit bears massive character according to the legislations as a result of initial investigations conducted at the Chamber of Auditors on the basis of the materials submitted by the Ministry of Taxes of Azerbaijan Republic.

The percentages (on 2007, 2008, 2009, 2010, 2011) of obligatory audit of audit facilities for January 1, 2012 were as follows:

No.	Organizational-legal form of mandatory audit facility	2007 % of being audited	2008 % of being audited	2009 % of being audited	2010 % of being audited	2011 % of being audited	2012 % of being audited
1.	Joint-stock companies	25,13	23,89	21,0	29.1	30.1	29,3
2.	Affiliates and representative offices	28,54	27,77	21,26	39.3	36.9	33,5
3.	Enterprises with foreign investment	14,73	13,53	10,13	9.4	10.7	9,8
4.	Limited liability companies	4,09	3,80	2,28	2.9	3.1	2,3
5	Other bodies and institutions	3,26	2,99	3,35	3.5	3.5	3,4
6	Insurance organizations	100	100	100	100	100	100
7	Joint ventures	29,06	26,29	15,38	11.5	19.7	20,7
8	Municipalities	50,09	52,39	55,68	64.6	62.3	70,6
9	Bank and credit organizations	100	100	100	100	100	100
<b>Total:</b>		11,49	11,46	9,31	9.8	9.9	6,6

### III. PROBLEMS PREVENTING DEVELOPMENT OF AUDIT SERVICE IN AZERBAIJAN

#### *3.1. Gaps in legislation*

For regulation of auditing service in our country the Law of the Republic of Azerbaijan on “Auditing service” was adopted on September 16, 1994. This Law signed by national leader Heydar Aliyev played an indispensable role in formation, organization, regulation and generally, in formation of normative legal basis of auditing and preserves its relevance today.

During the previous period normative legal basis of auditing has been created, auditing has been formed as an independent financial control system in Azerbaijan.

So, role of auditing as an important infrastructure of the country’s economics and its responsibilities were detected in more than 20 laws, as well as in laws “On compulsory insurance of professional liability of auditor”, “On internal audit”, Civil Code, “On securities”, “On banks”, “On accounting”, “On financial and industrial groups”, “On public prosecution”, “On credit unions”, “On budget system” and in other laws of the Republic of Azerbaijan. At the same time taking into account changes occurred in economic and financial life and in legislative sphere and in accordance with international experience numerous addendums and amendments were made to the Law of Azerbaijan Republic “On auditing service”.

Nevertheless, dynamic development in economic and financial sphere set a goal to renew and enhance normative legal basis to fit the times in the sphere of auditing, as well as in other spheres.

Such factors as obligations in connection with full membership at **International Federation of Accountants (IFAC)** of Chamber of Auditors of Azerbaijan Republic, translation of **BAS** into Azerbaijani and passing on to conduction of auditing in our country in accordance with international auditing standards since January 1, 2010, application of best practices in the sphere of auditing in our country and necessity of extension of auditing status brought up to date making addendums and amendments to the Law of the Republic of Azerbaijan “On auditing service”.

Setting before the Chamber of Auditors an aim of improvement the auditing service in the “National Action Plan on Fight against Corruption for 2012-2015” certified by the decree of the President of Azerbaijan Republic Mr. Ilham Aliyev No. 2421 dated on the 5<sup>th</sup> of September, 2012, necessitated the adjustment of normative legal acts in accordance with the call of times in the sphere of this service.

However, there is a number of gaps and imperfections in the legislative frameworks in auditing sphere that cause serious problems in provision of auditing services and implementation of its regulation. These primarily include the following:

1. International auditing standards and application of Code of Ethics for Professional Accountants in auditing service provision are not detected in legislation.

2. While establishment and operation of auditing organizations existence of licensed auditor in these organizations is not detected.

3. Rights, liabilities and responsibilities of the chiefs of mandatory audit subjects and officials during the process of auditing service provision are not detected in legislation.

4. Necessity of application of quality control system over the auditing service is not defined.

5. Absence of regulations in direction of ensuring antitrust and fair competition in the sphere of audit.

6. Necessity of internal control system in auditing organizations is not defined in legislation.

7. Regulations over the ensuring of transparency in auditing process are not reflected in legislation.

8. Liabilities and responsibilities of auditors in the sphere of anti-corruption fight are not defined in legislation.

9. Lack of regulations in legislation on improvement of professionalism of auditors and obligatoriness of continuous education in legislation.

10. Reporting of Chamber of Auditors about its function before the public is not defined in legislation.

11. Lack of legal action over the specification of the scope of auditing concerning the volume of annual turnover, number of employees that are the main criteria for activity.

12. In cases stipulated by legislation responsibilities in connection with the publication of financial accounts together with auditors' report by mandatory auditing objects is not reflected in legislation.

13. Lack of provisions on the relations between independent auditors and auditing committees and internal auditors of economic subjects.

14. Report of the independent auditor is not recognised as an integral part of the financial reports of economic entities.

Auditing legislation must be reviewed in the following directions according to international practice:

- establishment of auditing organization;
- terms for being an independent auditor;
- organization of examinations for getting an independent auditor status;
- provisions on auditor's conclusion and report;
- rights, liabilities and responsibilities of auditors;

- adjustment of restrictions in the sphere of auditing service to the international practice;

- Improvement of control system over the activities of independent auditors and auditing organizations, including the article that provides public control over the activity of the Chamber of Auditors;

- Collecting provisions of separate legislative acts defining subjects of obligatory audit within the Law “On auditing service” and indication of the names of obligatory auditing subjects in the same law.

### ***3.2. Law level of obligatory audition***

As a result of researches and opinion survey there has been defined a number of reasons of deviation from the statutory audit (about this see: chapter 2). As well as:

1. Existence of gaps in the sphere of accounting and accountability that are the subject of the audit, especially in financial reports submission procedures;

2. Incompliance of the chiefs of economic entities with the regulations of legislation in the sphere of ensuring transparency of their financial reports;

3. Insufficient quality of auditing service;

4. Poor level of audit-related educational, propagandistic and agitation works;

5. Lack of confidence of auditing service users in auditing;

6. Low professional level of some auditors;

7. Insufficient assessment of the benefits of audit to the real sector by economic entities and etc.

Practice suggests that the main reason of deviation from the audit is the presence of gaps in the sphere of accounting and accountability that are the subject of the audit, especially, in financial reports submission procedures. According to statistics we see that the highest percentage of passing through the audit in our country is upon the banks and insurance companies. Then municipalities, joint-stock companies and foreign-invested companies (branches and representative offices of the foreign companies) are included into this list. There is one explanation for almost 100% of banks and insurance companies passing through audit: as for their type of activities these organizations have been mostly integrated into the international transactions system and are due to submit their financial reports to the regulatory authorities – to Central Bank and Ministry of Finance without fail. In their turn, these regulatory authorities don't accept financial reports of the subordinated organizations without auditor's report (conclusion) in order to ensure the supremacy of law and to fulfill its obligations before foreign partners. The same case is at least partially found in other organizations: financial reports certified by the auditor's conclusion are required from the Center for Work with the Municipalities, Ministry of Justice, from issuers of the State Committee for Securities, from owners of fully or partially state joint-stock companies of State Committee on Property Issues of

Azerbaijan Republic. Consequent organizations are foreign-invested companies (branches and representative offices of the foreign organizations). Though the percentage of their passing through the audit is rather low (20-30%), it's significantly higher than in limited liability companies (2-6%) that are the subject for statutory audit. The reason is a more complete understanding of auditing by foreign entrepreneurs on the one hand, and requirement of obligatory auditor's certification of financial reports submitted to the headquarter that is the foreign countries resident on the other hand. These facts are approved by the materials of inquiry carried out by the Chamber.

In our republic limited liability companies are on the first place among statutory audit subjects by their special influence. According to recent data their quantity is more than 42 thousand that is approximately 90% of the total statutory audit subjects. Their audit pass rate was 3,1% in 2011 by decreasing year in year out. In our opinion, the main reason of this fact is that the limited liability companies make their financial reports only for promoter, i.e. there is no responsibility over the submission of those reports to public authorities.

Above-mentioned facts allow to conclude that elimination of gaps in the sphere of accounting and accountability as a subject of audit, and especially within the system of financial reports submission is the most effective way of preventing evasion from audit. This is also approved by foreign practice: after reforms carried out in the sphere of financial accountability in the Republic of Uzbekistan the volume of auditor service increased approximately tenfold. In Ukraine where according to legislation auditor's conclusion is considered an integral part of financial reports audit pass rate is about 100% over the country. But in developed countries, in general, such statistics is not carried out.

It must be taken into consideration that in cases stipulated in the Law of Azerbaijan Republic No. 65-IVQD dated February 11, 2011 (Article 247-3. Deviation from the statutory audit) on making amendments and addendums to the Law of Azerbaijan Republic "On auditor service" and to the Code of Administrative Offences of the Republic of Azerbaijan, the officials avoiding statutory audit are fined in the amount of three hundred AZN – six hundred AZN, and legal entities are fined in the amount of one thousand five hundred AZN – two thousand five hundred AZN. Determination of fine procedure is charged to the Ministry of Taxes and Chamber of Auditors.

Incompliance of the chiefs of economic subjects with the legislative requirements in the sphere of ensuring the transparency of their financial reports is clearly reflected in the stated table. It should be taken into account that according to the legislation measures for preventing deviation of economic subjects from audit are stipulated in the article 13.3 of "National Action Plan on Fight against Corruption for

2012-2015” certified by the decree of the President of Azerbaijan Republic dated September 5, 2012.

However, no real results has been achieved in this sphere.

Another important factor is the lack of confidence of auditing service users in audit. In recent years economic processes and financial crisis occurred in the world caused lowering of confidence in audit in whole. The removal of this reason is currently the center of attention of economists. In witness whereof, we can indicate the attention to “green document” about auditing at European Union and as a result addendums and amendments on auditing suggested to be made to the directive 43 ((2006/43/EC) – Directive of the European Parliament and of the Council on statutory audit of the annual accounts and consolidated accounts) and adopted in 2013. This reason shouldn’t be neglected in our republic as well.

### ***3.3. Unfair competition and conflicts of interests in the field of auditing service***

In the issue of researches and public surveys it was defined that unfair competition in auditors’ activity in Azerbaijan appears as the following:

1. In the form of imitation of the activity of one auditor or auditing organization by the opponent auditor.
2. In the form of interference into the activity of another auditor.
3. In the form of illegal auditor’s activity.
4. In the form of violation of the provisions of Code of Ethics of Professional Accountants.
5. In the form of confusion of auditing service users.
6. In the form of illegal payments made in auditors’ activity.
7. Damping in auditors’ activity (as well as failure to comply with minimal recommended limits of providing auditing services costs) \*.

There are enough researches and analysis over the other 1-6 articles on unfair competition and conflicts of interests in the sphere of auditing service.

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\* **Investigation over the status of execution of a decision of the Azerbaijan Republic Chamber of Auditors chairman “On minimal recommended limits of auditing services costs providing within the territory of the Republic of Azerbaijan” over 2011 was held by the Commission created upon the decree No. 1/13 dated June 14, 2012 on the investigation the status of execution of a decision of the Council of Chamber of Auditors No. 159/5 dated December 23, 2005 (with addendums and amendments made by the decision No. 197/6 dated January 26, 2009).**

Investigation was carried out on the basis of annual accounts submitted to the Chamber of Auditors by 56 auditing organizations (as well as branches of 5 foreign auditing organizations (or representative offices) and 3 foreign-invested auditing organizations) and by 42 independent auditors.

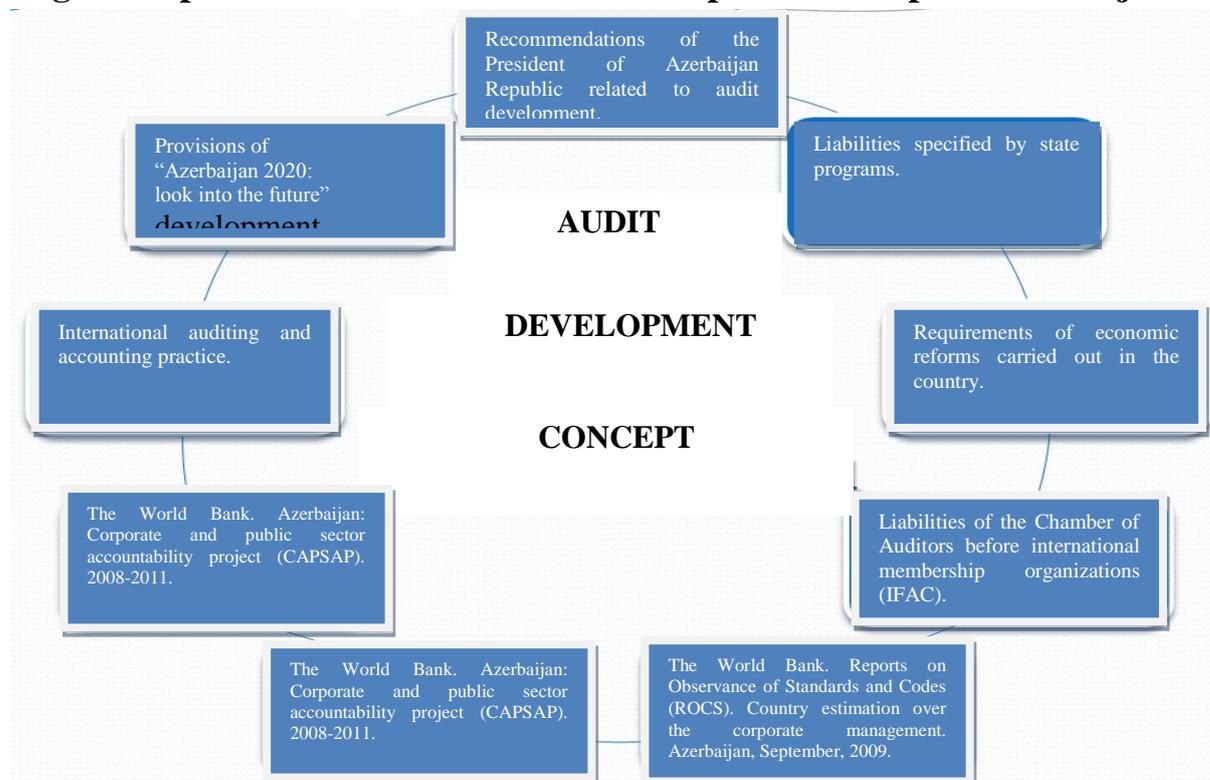
In the issue of investigation it was determined that 34,6% of contracts on auditing service made by auditing organizations, 37,1% of contracts made by independent auditors, and in total 35,5% of effected contracts were lower than recommended minimal limits.

## IV. GUIDELINES OF AUDIT DEVELOPMENT CONCEPT

While preparation the audit development concept in Azerbaijan the followings were taken as principal legal and procedural basis:

- Recommendations of the President of Azerbaijan Republic about the development of auditing;
- Provisions of “Azerbaijan 2020: look into the future” development concept;
- Liabilities specified by the state programs;
- Requirements of economic reforms carried out in the country;
- International auditing and accountability practice;
- Liabilities of the Chamber of Auditors before the international member organizations;
- The World Bank. Reports on Observance of Standards and Codes (ROSC) in the sphere of accounting and auditing. Azerbaijan, September, 2006;
- The World Bank. Reports on Observance of Standards and Codes (ROSC). Country estimation over the corporate management. Azerbaijan, September, 2009;
- The World Bank. Azerbaijan: Corporate and public sector accountability project (CAPSAP). 2008-2011.

### Legal and procedural basics of audit development concept in Azerbaijan:



#### ***4.1. Improvement of normative legal basis of auditing service***

Improvement of normative legal basis of auditing service necessitates enactment a number of new laws, as well as introducing appropriate addendums and amendments into effective legislative acts.

In order to improve legal basis of audit first of all it should be adopted a law “On financial control”. Taking into account further strengthening of relations between different branches of financial control and necessity of instantiation the scope of authority among these organizations and relying on closeness of aims in the sphere of financial control of different organizations, general aspects of state policy, their mutual relation, framework of their activity in the field of state, independent and internal control should be reflected in this law that could realize ensuring of systemacy, complexity and its effectiveness, such important issues as economic effectiveness, repeat one another, preventing unnecessary interference to business activity must be resolved by the law.

For this purpose the following provisions directed to improvement of audit should be reflected in the Law of Azerbaijan Republic “On financial control”:

1. Placing a separate chapter named “Audit”, delivery articles about external audit (state audit and independent audit) and internal audit in the same chapter;
2. Identification of such phrases as independent auditor, independent auditor’s conclusion, international standards of audit and etc.;
3. Exact identification liabilities and functions, as well as rights and authorities of financial control bodies;
4. Requirement of holding audit in accordance with international audit standards and Code of ethics of Professional Accountants;
5. Ensuring recognition of independent (external) auditor’s conclusion and etc.

Integration of Azerbaijan Republic to global economics, a full-fledged membership of the Chamber of Auditors at International Federation of Accountants (IFAC) and liabilities caused by this membership, as well as addendums and amendments made to separate legislative acts of the Republic of Azerbaijan in connection with audit brought up to date adoption of a new law regulating auditing activity.

While improvement legal-normative basis concerning auditing service the following directions should be given special priority:

- preparation and enactment a draft law of the Republic of Azerbaijan “On Auditing practices”;
- observance of rules of professional ethical behaviour by auditors;
- detection of provision relative to public awareness about the activity of the Chamber of Auditors;
- application of audit standards for small and medium-sized enterprises;

- use of BASes;
- removal of cases that poses a threat to independence of auditors;
- indication of international practice and requirements concerning quality control;
- adjustment of requirements to international rules for getting the name of auditor;
- increasing the responsibilities of auditors according to their accounts;
- importance of relations between corporate management system and auditing;
- indication of statutory audit subjects in the law;
- significance of participation of licensed auditors in establishment and activity of auditing organizations;
- heads of auditing organizations must be licensed auditors;
- suspension and termination of auditing activity;
- detection and prevention of defects and shortcomings in financial sphere;
- ensuring transparency in audit procedures;
- cooperation of auditors with anti-money laundering and anti-corruption bodies;
- ensuring public control over the auditing quality;
- ensuring transparency in auditors selection;
- extension of audit status;
- improvement of the regulation of audit and renewal of the status of Chamber of Auditors on the basis of international practice;
- ensuring fair competition and avoiding monopolism;
- detection of legal procedure over the specification of the scope of audit in connection with annual volume of turnover, quantity of employees that are the main criteria of activity;
- determination of responsibility in connection with the publication of financial reports together with the independent auditor's account (conclusion) in legislation by statutory audit objects;
- reflection of relations between auditors and regulatory and other competent state bodies in legislation;
- recognition of independent auditor's account as an integral part of the financial reports of economic subjects;
- detection of public interests protection as one of the responsibilities of the Chamber of Auditors;
- adjustment of bans in the sphere of auditing service to international practice;
- certification of auditors and auditing companies in order stipulated by International Education Standards of IFAC;
- registration of certificated auditors and auditing companies;

- application of effective and transparent system of researches and sanctions;
- specification of the structure of the Chamber of Auditors (Council and committees), council membership, order of selection and assignment (including limitation of the term of office, assignment of the same person to several posts, occupation of vacancies, and etc.) by the legislation;
- accreditation of auditors and auditing organizations and adjustment of registration to international practice.

#### ***4.2. Improvement of auditing services organization***

Self-improvement of organization of auditing services in Azerbaijan should be in the following directions:

1. Auditing in the spheres of main directions of the country's economy, as well as in oil and gas complex, tourism, information technologies, rural economy, construction, transportation and in other important spheres.
2. Realization of measures over the extension of voluntary and relative services.
3. Coordination of the organization of audit with regional development programs implemented in the country.
4. Improvement of organization of auditing in consideration of specifications of small and medium-sized organizations.
5. Using of higher technologies in auditing and application of electronic auditing.
6. Organization of interactive relations between economic subjects and auditors.
7. Placing annual financial reports of statutory audit subjects together with auditor's conclusion on the website.
8. Extension of effectiveness, compliance and other audits application.
9. Implementation of organizational arrangements for ensuring fair competition.
10. Determination rating level of auditors taking into consideration foreign practice.
11. Improvement of auditors' accountability.
12. Development and application of auditing performance system.
13. Organization of sampling method of auditing subjects testing.
14. Preparation of the system of realization of ethic principles.
15. Organization of control and researches system.
16. Studying practice of audit organization in foreign countries and its application.
17. Improvement of the system of regulation of prices in auditing.
18. Creation of analytical information system related to passing statutory audit by territories and regions.
19. Preparation of methodological and advisory materials concerning auditing.

20. Education of auditing service users, interested parties and generally public in the sphere of agitation and propaganda of auditing.

### ***4.3. Improvement of auditing services regulation and management***

Improvement of regulation and management of auditing services was executed with the assistance of the World Bank by “CGA-Canada” company as far back as in 2005-2006 and was one of the principal aims of the grant project of “Enhancement the functions of the Chamber of Auditors for stabilizing and adjustment them to professional standards. IDF Grant No. TF 53583-AZ”. Analysis related to institutional reforms, development of control function, strengthening required legal process, management and transparency within the Chamber of Auditors, execution of auditing quality control system and disciplinary process and in other directions were carried out and appropriate recommendation were given within the scope of the project. Some of such recommendations (especially, on the improvement of auditing legislation and application of BAS) have been already realized during the previous years, and one part of them still keep their topicality fully or partially. One of these recommendations is strengthening institutional potential of the Chamber of Auditors and improvement of its management.

Taking the following measures in the sphere of regulation and management of auditing has been recommended in the other project of the World Bank named “Azerbaijan: accountability project in corporate and state sectors” (2009):

- strengthening of institutional potential of audit;
- extension of international practice application in the sphere of audit management;
- enhancement of the status of the Chamber of Auditors, specification of its structure and liabilities;
- implementation of appropriate legal and institutional measures for appointment of external control over the activity of auditors.

It's recommended to conduct reformation and strengthening of the Chamber of Auditors within the scope of the project in the following fields:

- legislative basis, code of ethics;
- ensuring monitoring and execution;
- certification and licensing, continuous professional development;
- standards of audit.

Along with the above-mentioned, improvement of auditing services management must include the following:

**a) Expanding relationship with auditors by using higher technologies and their more attraction to the management (as well as within committees and working groups)**

It's advisable to establish such relationships in the following directions:

1. Interactive acceptance and processing of auditors' accounts.
2. Application of e-office-work system.
3. Online conduction of different conferences, as well as meetings of the committee and working groups.
4. Organization of video-conferences and video-seminars.
5. Organization of document workflow by using e-signature.

**b) Improvement of decision-making processes**

application sphere of decisions, orders and decrees of the council should be specified, execution of which instruction by order or by decree should be determined, even more democratic resolution of a number of issues by members voting should be applied. Another significant aspect is organization of operative control over the execution of decisions.

**c) Improvement of office-work, internal control and accountability (as well as auditors' accountability) within the Chamber**

These include either accuracy of interchamber document workflow, immediacy of delivery to addressees, conduction and official registration of internal control procedures, and improvement of preparation and certification processes of all types of report forms.

**d) Intensification of activity in the sphere of education, propaganda of audit and publications**

Intensification of such measures for correct and unbiased formation of conception about auditing in public is a foreground direction.

**e) Support with methodological means (as well as with normative documents of international professional organizations)**

It must be taken into account that methodological means must be studied and used not only by auditors, but also by numerous auditing services users, activity in this sphere must be extended.

**f) Creation data bases within "e-government" program, connecting to public data network over the country**

The Chamber of Auditors presently created and use data base by means of local and standard programs. It should be created auditing data base by means of more up-to-date software and its connection to public data network over the country must be provided.

**g) Activities in the field of analyses, economic studies and researches**

Activities in the field of service market studying and prognostication should be intensified by the Chamber.

**h) Activities in the field of membership with international professional organizations, relations with them, as well as effective cooperation with professional organizations of foreign countries**

In this field main attention should be directed to effectiveness of relationship, practice and potentials of foreign partners should be used at maximum.

**i) Activities over participation in the work of international and local organizations in the sphere of increasing transparency, anti-corruption fight, fight against legalization of criminally obtained funds or other property and terrorist financing**

**j) Strengthening of financial provision**

Limited financial means of the Chamber has been emphasized by different organizations (The World Bank, CGA Canada and etc.) at different times. At present 12% of the 88% membership dues of the Chamber's budget (2011) is formed from organization of vocational training courses, examination dues and publications sale. In perspective view strengthening of financial provision may be possible by the following ways:

1. Attraction of new members.
2. Increasing intensity and range of vocational courses.
3. Organization of paid arrangements (symposiums, consulting services provision and etc.).
4. Establishment of profitable subsidiaries.
5. Growth in sale of publications and e-products.
6. Donors' contributions.

When improvement of auditing management:

The Chamber of Auditors should play more active role in quality provision and increase its efforts in the sphere of control over compliance with auditing standards.

The Chamber of Auditors must strengthen its activities in the field of ensuring of high quality auditing services.

Requirements related to the independence of auditors should be intensified.

Audit-related provision excluded from the Civil Code should be restored.

Fees for services provided by auditors should be disclosed at general meeting of shareholders and in annual report.

It must be put restrictions on the work not connected with audit by the auditing company.

**4.4. Audit personnel training**

One of the main factors specifying audit improvement in Azerbaijan is high quality audit personnel training and increase their level of professional qualification.

Refresher courses to be organized by the Chamber of Auditors should be not only permanent, compulsory and continuous, but also theoretical and practical.

Theoretical courses must cover auditing, finance-accounting, changes in the sphere of economic legislation, international and national standards of auditing and accounting, normative documents, usage of new information technologies and programs and other issues.

Practical refresher courses must cover directions of studying new, advanced working experience, use of progressive methods of international audit practice.

Training of auditors and their professional development necessitate solution of a number of urgent issues. At first, existing “Rules on holding examinations for getting a status of an auditor” and “Rules of professional development of auditors” should be improved taking into account requirements of International Education Standards of IFAC.

According to recommendations concerning examinations to be held by International Federation of Accountants (IFAC) for getting an independent auditor and accountant status it’s necessary to apply a few-staged system of examinations for getting a status of an auditor in Azerbaijan.

Taking into consideration foreign experience, it’s reasonable to hold such examinations separately, especially according to relevant spheres (auditing, accounting, finance, reporting, management accounting, taxes, bank and insurance legislation, civil legislation and information technologies).

The Chamber of Accountants must achieve the execution of organization of professional development of its members in accordance with the requirements of International Education Standards of IFAC.

The Chamber of Auditors, as a full-fledged member of International Federation of Auditors, should inform its members about all information related to International Education Standards, as well as ensure provisions in experience of education for professional accountants and international education bulletin, information concerning accounting and accountability are in conformity with International Education Standards by International Federation of Accountants.

**Organization of refresher courses for auditors.** Organization of refresher courses for auditors should be conducted in accordance with the perspective plan prepared by the Chamber of Auditors relying on rules No.1 of IES. Draft of the perspective plan should be prepared by the committee on organization of refresher courses for auditors (hereinafter – committee).

Refresher courses should be held according to education, training and qualification programs (hereinafter – syllabus) of auditors. It should be recommended to include components of educational and professional development of professional accountants identified by International Education Standards into this

syllabus. Syllabus may be changed every year according to the decision of the Chamber of Auditors, any additions or amendments may be made to this. Syllabus drafts should be prepared by relevant committee.

These courses combines improvement of theoretical and practical knowledge of auditors in the sphere of accounting, international audit standards and financial accountability, as well as studying tax, civil, bank, insurance and pension issues according to legislation of the Republic of Azerbaijan.

Refresher courses may be conducted by the Chamber of Auditors as thematic lectures, seminars, trainings, at the same time as “round tables”, theoretical and practical conferences and etc. by professionals.

**Regulation of refresher courses.** Refresher courses should be conducted by teachers qualified as it’s indicated below:

- should have at least 5 years of working experience in his/her sphre, and at least 2 years of teaching experience;
- should have such certificates as CAP, CIPA, DipIFR, CPA, ACCA

#### ***4.5. Enhancement of auditing services and improvement of control***

In each developing country enhancement of auditing services and improvement of control over this activity are always in the highlight. The factor necessitating it is that the quality problem still remains a conceptual issue in auditors’ activity.

Preparation and implementation comprehensive quality control system capable of effective monitoring of compliance with appropriate audit and ethic standards and independence requirements of auditors, insurance of independence and effectiveness of control are pending.

In this regard, intensification of auditing quality control issue, achievement of complementarity between internal control and external control in quality control is very important.

As it’s known, international audit standards began to be applied in Azerbaijan Republic since 2010. This transition made it inevitable to establish control over the activity of auditors on new foundation. To this effect, firstly it’s required from auditing companies and independent auditors in Azerbaijan Republic to determine and follow internal and external quality control rules in conducted monitorings. These rules are regulated by international audit standards and International Quality Control Standards No. 1.

Enhancement of auditing services quality and its quality control should be conducted according to the following conceptual framework:

- Internal control of audit quality should be based on the following requirements:

- 1) Unconditional following the rules of independency, honesty, objectivity,

confidentiality and professional behaviour by the employees of auditing companies;

- 2) Availability of necessary skills in employees and using these skills during monitorings, as well as availability of enough privileges for proper execution of their liabilities;
- 3) Empowering specially-trained professionals and specialists having work experience under certain circumstances to hold audit;
- 4) Conduction of current control at all levels for directing the activities of specialists and employees, ensuring proper quality of working activity;
- 5) If necessary, seeking advise from external experts and specialists having adequate knowledge;
- 6) Constantly holding monitoring works with potential and existing clients. Relying on auditors' discretions on independence, their capability to provide services on necessary level and honesty of the management of audited company when making a decision on signing of a contract or continuation of cooperation;
- 7) Regular review of effectiveness and adequacy procedures and principles of internal control of audit quality.

External control system over audit quality should determine the followings:

1) Auditors should be able of the followings:

- To work in condition of fair competition;
- To implement their professional activity in line with public interests;

2) Relying on empowered tasks, all auditors should provide stereotyped approach to audit:

- to estimate procedures used by auditor for purpose of ensuring required quality and objectivity and following professional ethic norms;
- to check correct application of standards and the compliance of information and opinions indicated in working papers with conclusion;
- to provide collegial mutual relationship between economic subject and Auditing committee, internal audit organization and corporate management system.

In order to achieve external control over audit quality monitoring of the below-mentioned should be carried out:

- compliance of auditor's activity with professional ethic rules in terms of independence and professional behaviour;
- characteristics and organization of auditing;
- auditor's reports and special liabilities;
- application of proper technical auditing facilities;

Conception of quality control improvement should include the following two aspects:

- at first, “Horizontal check” covering all auditors and audit control;
- secondly, more in-depth control over audit of public organizations.

Compliance of requirements for external control of auditing services quality with documents adopted by membership international organizations with which the Chamber of Auditors cooperates is significant:

- a) directives of the European Council;
- b) quality control standards of International Federation of Accountants (IFAC);
- c) International Quality Control Standard No. 1 (IQCS) - “Quality control of work of organizations carried out auditing and reviewed financial statements over previous years, as well as providing data reliability and other related services”: obligatory requirements to IQCS (internal quality control system) structure and requirements for documenting its policy and procedures, as well as elements of IQCS.
- d) International standard of audit No. 220 “Quality control for audit of historical financial information”;
- e) Code of Ethics of Professional Accountants;
- f) Statement of Membership Obligations – SMO 1 “Quality Assurance” (obligations of professional associations included into IFAC).

#### ***4.6. Application of international practice of auditing***

As noted by the President of Azerbaijan Republic Mr. Ilham Aliyev, “As the economy of Azerbaijan Republic develops and its integration to the world economic system gets stronger, there occurs a necessity to use the opportunities of audit to ensure transparency in economic-financial relations, as well as in the struggle against economic crime and corruption.” It makes necessary to study progressive world practice in independent financial control and expand its application in our country taking into account the characteristics of the national economy“, because improvement of audit system on the basis of international practice and standards enables financial transparency of the economy of the country and use of budget funds in accordance with their assignment and serves to strengthening of economic power of Azerbaijan”.

Taking into consideration the above stated, Chamber of Auditors approaches to its activity on building international relations, i.e. representation in international and regional professional organizations, establishment and development of bilateral partnership relations namely from the aspect of study of progressive foreign audit practice, its delivery to local staff and application in the country taking into account local characteristics. At present time, the Chamber’s representation as a full member in prestigious professional organizations as International Federation of Accountants (IFAC), International Regional Federation of Accountants and Auditors “Eurasia”,

European Federation of Accountants and Auditors, and as an associative member in Eurasian Council of Certified Accountants and Auditors, signing agreements and letters of intent and establishment of intensive business relations with Board of Auditors of Russian Federation and Chamber of Auditors of Russian Federation, as well as with Union of Independent Accountant Financial Advisory and Chambers of Certified Public Accountant and Advisory of Turkey and the Institute of Internal Auditors of Turkey, Professional Accountants and Auditors of Ukraine, Ukrainian Chamber of Auditors and Chamber of Auditors of Kazakhstan, Uzbekistan, Lithuania, Latvia, China, Great Britain, France, Canada, Romania, Hungary, Poland, Slovakia, Macedonia, Belarus, Moldova and other countries also enables systematic improvement of professional standards of Azerbaijan auditors.

Study of practice of auditing of foreign countries helps to develop and improve quality of auditing service in Azerbaijan, as well as enhancement of legislative basis of auditing service.

For effective study of international practice of auditing, it is advisable to set up relations and signing cooperation agreements for implementation of joint activities with audit organizations of the below shown countries in 2014-2020 years:

- Albania
- Germany
- Austria
- Bulgaria
- Bosnia and Herzegovina
- China
- Arabian countries
- Georgia
- India
- Croatia
- Iran
- Israel
- Italy
- Kirgizstan
- Malaysia
- Pakistan
- Serbia
- Slovenia
- Thailand
- Japan
- Greece

In order to apply international practice of auditing, it is necessary to stipulate the following activities in the letters of intent, agreements, and memorandums of understanding about cooperation:

- Application of International Audit standards;
- improvement of audit policy;
- improvement of regulatory legislative basis of audit;
- implementation of joint activities on drafting the projects on legislation and regulations of audit;
- Exchange of information and practice;
- Preparation of auditors, their re-qualification, and agitation of international certification;
- improvement of examination system for the candidates to become an auditor;
- organization of control on the quality of audit and public supervision system;
- Increase of role and coverage area of audit and enhancement of its functions;
- Study of the materials submitted by international organizations and professional institutions, their discussion and application;
- organization of joint conferences, seminars and symposiums;
- improvement of management of audit companies and provision of their independence;
- automatized processing of information on auditors and auditor organizations;
- overcoming unfair rivalry;
- determination of the value of auditor service;
- enhancement of the activity of auditors in a struggle against corruption, legalization of the money funds or properties obtained via criminal ways and financing terrorism;
- involvement of professional auditors to management and regulation of audit;
- application of progressive forms of audit;
- increase of application of information technologies in audit.

#### ***4.7. Improvement of the relations of independent audit with state audit and internal audit***

In order to provide more effective organization of financial control in the country, it is necessary to improve mutual relations between state control and non-state control, as well as external audit.

In developed countries, there exist effective and progressive relations between state and non-state forms of control.

Progressive foreign practice shows that by involving non-state control to monitoring of social –economic programs implemented by state in one hand enables

effective usage of state funds and in another hand increases society's trust in state's implementation of more transparent rivalry policy.

It is necessary to remark that in laws of Azerbaijan Republic "About auditor service", "About prosecution", "About Chamber of Audit", "About budget system", in Statement "About National Television and Radio Council" and in Statement "About Mortgage Fund of Azerbaijan attached to Central Bank of Azerbaijan Republic", in "State Program on improvement of management of state property in Azerbaijan Republic" and in other legislative and regulatory documents there are clauses intending implementation of an independent audit within the framework of a state audit.

In this aspect, the relations between the state and external (independent) control are to be established on new bases from the point of view of accurate implementation of the requirements of the legislation.

Such a situation makes actual settlement and improvement of mutual relations among the other state control institutions with one another and with independent auditors. In this aspect, there is a necessity for preparation and verification of a special regulatory document. The principles of behaviour of non-state auditors with the representatives of the state auditing organs during their joint activity, as well as regulations of disputable points on controlled materials and other issues should be depicted in this document. Development of audit requires analyses and improvement of mutual regulations with other appropriate fields. Firstly, it must be taken into account that coordination of accounting, bookkeeping, and taxation fields with the audit is very important.

Development of audit requires combined development and coordination of external and internal forms of it and accurate establishment of mutual relations between them. As it is known, one of the main duties of external audit is correct evaluation of internal audit existing in an enterprise and determination of possibility of usage of its results if necessary. In other words, in the process of external audit existence of correct established internal control and audit should be admitted as the base of financial accounting and efficiency in an enterprise as a whole.

#### ***4.8. Expanding the application of international audit standards***

Audit standards, which auditors have to follow during implementation of their professional duties, play a great role in regulation and development of auditor activity. The aim of audit standards is to form common basis of requirements about audit and to guarantee reliability of audit by determining regulatory requirements about the quality of audit.

According to the obligations arising from the full membership of the Chamber of Audit to International Federation of Accountants, and to the memorandum signed

on April 21, 2008 with the above-mentioned organization, in 2009, the Chamber provided necessary regulatory basis required for implementation of international audit standards in our country since January, 1, 2010 by translation into Azerbaijan language and publishing of 32 international audit standards worked out by the Council of Verification of Accurateness of International Audit and Information and accepted and published by the International Federation of Accountants, as well as Ethics Code of Professional Accountants.

In order to ensure the implementation of the article 13.1 - "Continuation of arrangements about implementation of international standards in independent audit field" of the "National Plan of Activities for 2012-2015 for the struggle against corruption" confirmed with the order № 2421 of the President of Azerbaijan Republic on September, 5, 2012 and to fulfill the obligations arising from the membership of the Chamber to the International Federation of Accountants, the Council of Chamber of Auditors ensured provision of 2012 version of the international audit standards with the order №239/3 on January, 25, 2013. At the same time, enhancement of activity in the field of translation of appendixes and amendments made to International Audit Standards into Azerbaijan language is considered expedient. At present time, organizational work with IFAC is being continued on translation and publishing of latest version of International Audit Standards in Azerbaijan language. Besides it, in order to ensure extensive implementation of International Audit Standards, following measures are required to be realized:

1. Inclusion of latest appendixes and amendments made to International audit standards and Ethics Code of Professional Accountants into programs of courses on improvement of professional skills of auditors;
2. Implementation of activities on application of "Instructions on quality control for small and medium enterprises" of International Federation of Accountants (IFAC);
3. Preparation of regulatory documents on application of international audit standards in small and medium enterprises;
4. Preparation and application of audit standards within the company;
5. Implementation of activities on improvement of application of International Quality Control Standards №1 of IFAC.
6. Organization of constant seminars on application of international audit standards and Ethics Code of Professional Accountants.

As an important aspect of improvement of auditor services, in National Plan of Activity on struggle against corruption, Chamber of Audit is authorized for continuation of activities on application of international standards in independent audit field.

The necessity of application of international standards has been constantly stressed and its importance has been clearly emphasized by President Ilham Aliyev in his reports and speeches. As an example, the thought of the country's leader can be reminded: "... all state companies are to function as international companies. International audit has to be conducted and all standards are to be on world level..."

In other words, application of international standards is an integral part of economic reforms conducted in Azerbaijan and it is carried out in accordance with the completion of the transition period into market economy in our country and on the bases of the recommendations and instructions of the President. At the same time, application of international standards binds serious obligations upon auditor service in Azerbaijan. It includes constant improvement and regular update of juridical and regulatory bases of application of international standards, improvement of quality control system, monitoring of regulatory basis and its adaptation to application of international standards.

#### ***4.9. ICT application in audit service***

Application and efficient usage of information technology in independent auditor activity which has a special place in financial control of the economy of the country and which is a type of entrepreneurship, enables improvement of the quality of audit, its operative and skilful conduction, as well as establishment of honest relations between the client and the executor. International practice and achievements of progressive auditor companies definitely confirm that implementation of auditor service in accordance with modern requirements is closely connected with the application of ICT.

More modern technical facilities of information carriers depending on the stages of conduction of audit (collecting information, research, identification of strong and weak points by analyzing, correct reflection of financial status, necessary recommendation and preparation of proposals etc.) enables constant development and improvement of this activity. The information technologies applied in audit differ according to their aim and duties. In this aspect, to our opinion, three main directions worth attention:

1. Local network is necessary for formation of primary information of an auditor (an auditor company). Therefore, it is useful to use both equipment existing in the office and mobile means. It is expedient for audit procedures to benefit from various computer programs depending on field or type. These technical facilities enable auditor to possess necessary knowledge, to organize his work more efficiently and to gain good indicators in service market with sound competition. In this network, the information of the auditor (in other words "dossier") is reflected. They are property of the

executer and must not be revealed. So preserving information in a right way provides confidentiality and objectivity of audit.

2. An open network is necessary for reflecting results of the activity of the auditor (auditor company) including his email, website and other communication means. Here is also shown his status in a service market, dynamics of auditing practice conducted by him and his financial level as a logical result of the service he carried out. By conducting exchange of views, discussions and forums with his colleagues and interested parts, the auditor makes his contribution to the society for usage of means in economy, including transparent and clear usage of financial recourses. This process is necessary to be conducted on the basis of correct and objective information; otherwise, an auditor can definitely lose his prestige and position.
3. Expansion and improvement of co-ordination and control network is carried out by the Chamber of Auditors. The following activities are planned to be implemented in the field of application of ICT by the Chamber of Auditors:
  - Establishment of extensive electron information basis about audit and its connection to the network of the country within the framework of the “E-government” program.
  - Organization of electron service on issuing license and permit giving a right for rendering an auditor service;
  - Establishment of common information registry on audits conducted in enterprises;
  - Organization of electronic admittance of reports submitted by free auditors and auditor companies;
  - Application of electron records management system covering the members of the chamber and structure sections;
  - Enlightenment and information rendering, as well as holding interactive inquiry by expansion of possibilities and functions of the official web page of the Chamber.

Exact methodology of audit procedures used in conduction of rapid and qualitative inspection by both top-rank professional staff, and numerous assistants has been prepared. Usage of ICT allows saving time for conduction of audit, as well as improving the quality of the rendered services and adaptation of working staff in a short time.

One of the topical issues is establishment of auditor inspection technology allowing reduction of the cost value without damaging the quality of audit. The main direction of solution of this issue is application of modern

ICT and computerization of audit. One of the ways of solution of reduction of labour capacity of audit procedures is possibilities and abilities of an auditor to use computer information massive of an audited economic enterprise. For this purpose, both existing universal means (Excel, Access, Word, Outlook program products included to Microsoft Office package), and also special software products applied by international network of audit companies (Case Ware Audit, Audit Management Software, Swiss Auditor, ASL Analytics Software, AD Audit Report Software etc.) can be used.

Following sections of working documents are to be included to the function of atomization of audit:

- Financial reports and final documents;
- Summarization of audit;
- Planning;
- Evaluation of risks and management of evaluated risks;
- Audit program and its procedures – assets;
- Audit program and its procedures – capital and obligations;
- Audit program and its procedures – profit and loss calculations;
- Other information and control documents.

The section of **financial reports and final documents** must include original or copy of signed financial reports; recommendation letters addressed to the governing body including comments of a client; signed presentation letter of the governing body, control list of financial reports; other information used in financial reports; other control lists.

Section of **summarization of audit** must include general audit results; control notes of a collaborator according to a task; control notes on quality of a task; consulting and final outcomes; diary of meetings with a client; diary of discussions with officials of a client; working documents of the analyses of a collaborator according to a task; turnover-balance table; table of amendments; analyses of constancy; analyses of the following events; turnover-balance table.

Section of **planning** must include working documents on control list of audit planning; general audit strategy and plan; inquiry list of acceptance of a client; inquiry list of continuation of a task; audit letter obligation or a contract; significance; evaluation of a risk and reduction of risks; letter of advocates; elucidation of operations to related parts; time budget and composition of a working group; discussions on fraud with the governing body; system notes; analyses of invariable audit file; usage of the work of other auditors.

Section of **evaluation of risks and management of evaluated risks** must include working documents on agreement of business knowledge of a client; inquiry

list of internal control; agreement of a client and his internal control system; evaluation of a fraud; analytic procedures; analytic analyses of working documents; related parts and program working documents.

Section of **audit program and procedures – assets** must include - a cover page for each balance article; audit program, working documents and control tests on non-material assets; lands, buildings and equipment; investment properties, biological assets; natural assets; investments with share lots; other financial assets; long-termed debtor indebtedness; cancelled tax assets; other long-termed assets; deposits; short-termed debtor indebtedness; short-termed financial assets; money funds; other short-termed assets.

Section of **audit program and procedures – capital and obligations** must include a cover letter for each balance article, audit program, working documents and control tests on statutory fund; emission profits; withdrawn capital; capital deposits; distributed profit; obligations creating long-termed percentage liabilities; long-termed evaluated obligations; cancelled tax obligations; long-termed creditor liabilities; other long-termed liabilities; obligations creating short-termed percentage liabilities; short-termed evaluated liabilities; taxes and mandatory payments; short-termed creditor liabilities; other short-termed liabilities.

Section of **audit program and procedures – profit and loss calculations** must include a cover letter on each balance article, audit program, working documents and control tests on profits from operation activity; profits from financial activity; profit from investment activity; expenditures on operation activity; expenditures on financial activity; expenditures on investment activity; expenditures on profit tax.

#### **Application of programs on automatization of audit**

Taking into account that automatization of audit is an issue, which is difficult to solve, efficiency of usage of software depends on its application, and instruction of users. A working group is to be set up who will thoroughly research technical facilities and application of software. The working group should involve colleagues on the task, heads of audit departments, head of internal control department, head of quality control department, head of methodological department and heads of charged working groups. The working group should identify the main modules of the software to be applied in accordance with audit standards, financial report standards and related services standards, as well as taking into account legislation of Azerbaijan Republic. These modules include accounting reports and mapping of reports, selection of formats of financial reports (MHBS, İSMUS, KMUMMUS, QHTMMUS and other report standards), determination of structure and forms of working documents, references and markings, as well as storage of information and determination of user rights in a server.

#### ***4.10. Code of Ethics for audit***

Yet in 2001, taking into consideration responsibility of the profession of auditor before the society and serving to development of audit in the country, as well as solution of principle issues of auditor activity on a single methodological basis, also taking care of the interests of the state, enterprises and auditors, the Chamber of Audit adopted Code of Professional Ethics of Auditors reflecting behaviour norms of auditors acting in our country and fundamental principles they have to keep to in order to achieve the aims of audit.

In the following years, complete formation of audit as an economic infrastructure and integration of the Chamber of Audit to international world, particularly, its adoption to full membership of International Federation of Accountants (IFAC) created new obligations, which led to enlargement of the requirements for the profession of audit a bit more.

Beginning from this period, it began a necessity to keep to ethic values determined by the Ethic Code of Professional Accountants. One of the principle conditions of IFAC membership is namely inadmissibility of less severe standards than shown in the Code excluding the articles contradicting legislation and regulatory rules of the country.

It is not accidental that a special attention was given to ethic behaviour of financial controllers and necessity of a systematic approach of regulation of these relations was put in claims in “National Plan of Activity against corruption for 2012-2015” confirmed with the order № 2421 of President of Azerbaijan Republic on September, 5, 2012. It includes important articles such as preparation of annual reports on ethic behavior issues (showing enlightenment works conducted in reports, breach of ethic behavior rules and applied reproof measures), its submittal to the Commission on Struggle Against Corruption and socialization; determination of a mechanism enabling efficient research of complaints submitted on breach of behavior rules and establishment of a special section on ethic issues in official state web pages (mechanism of electron complaint system about non-ethic behavior, ethic rules, ethic reports etc.).

In order to achieve the goals set in “National Plan of Activity,” firstly, auditors have to be made to obey the main principles of auditor ethics.

The following points require special attention for evaluation of ethic behavior rules in the activity of independent auditors and auditor companies:

- researches of information submitted about shortcomings revealed during conducted monitorings on implementation of obligations put forward before the independent auditors and audit companies by the law of Azerbaijan Republic “About legalization of money funds or other properties obtained in a criminal way or financing of terrorism”;

- discussions conducted in order to provide transparency when information on faults made by independent auditors and auditor organizations is accepted;

- administering an appropriate reprimand to independent auditors and auditor companies if they do not carry out their professional obligations in a proper way from ethic point of view;

- work on revival of connections of the activity of Committee on Professional Code of Auditors and Quality control committee of the Chamber of Audit. Based on international and national audit practice, independent auditors and audit companies are to analyze application of professional ethic norms and carry out constant arrangements for profound adherence to professional ethic rules and norms.

Finally, it would be advisable to present an oath of auditor on implementation of professional obligations with honour and dignity and observance of requirements of laws of Azerbaijan Republic as an integral part of ethic requirements.

Quality control committee should closely participate in discussion of issues on professional ethics during implementation of auditor activity, benefit from specialist-expert opinion, if necessary and manifest adherence to principles in researches on insufficient implementation of obligations from professional ethic point of view.

#### ***4.11. Possibilities in the field of expansion of types of auditor services***

World practice shows that linked (or other) services in the capacity of auditor services have significantly special weight. Such services in different countries hold from 10% to 30% in total capacity of audit and are inclined to increase. The reason of it is that with the development of the economy of the country entrepreneurs render main attention mostly to commercial purposes and management issues, and prefer using high-quality professional services in decision-making processes on economic-financial matters. In accordance with constant development of the economy of our country, there arises a need for auditor services. Beside mandatory and voluntary audit, auditors also render a wide range of services to interested parts. These services can mainly be expanded on following three directions:

1. Operation services (preparation of business plans, investment projects, contracts, non-standard financial and statistics reports, etc. on request of economic subject);
2. Control services (verification of documents if they are worked out in accordance with conditions, if bookkeeping is conducted properly and reports are drawn out accurately, and taxes and other payments are calculated correctly);
3. Information services (all types of consulting, giving methodological recommendations, holding training and seminars).

These three directions involves in itself more than 40 related (other) auditor services. Besides it, two types of audit – efficiency and conformity audits, which particularly differ, are also being founded. Being modern civil control type, efficiency audit aims at determination of economy (economy of expenditures spent on gained result), productivity (correlation of expenditures and results, i.e. expenses made on each unit of result) and successfulness (final social-economic profits). Conformity audit consists in analyses of activity of an economic subject by verification of its definite financial or economic activity to be in conformity with the conditions set up, as well as rules or laws. Forecasting of efficiency and conformity audit, as well as related auditor services in Azerbaijan and rendering high-quality professional service to interested parts is a constituent part of development conception of audit. Realization of following points is necessary for rendering such services:

1. For rendering professional related auditor services, it is necessary to prepare staff not confined in rendering classic auditor services and possessing business knowledge and expert skills (condition of certification of such staff should not also be excluded);
2. Improvement of legal and normative basis regulating such services;
3. Notification and enlightenment of economic subjects and a society as a whole about related auditor services.

#### ***4.12. Coordination of audit interests, ways to create a healthy competitive environment and pricing issues***

At present day, there is a great need for overcoming clash of interests and existing cases of unfair competition in audit service. It is the result of these problems that the clients of auditor service have low interest in audit and there occur undesirable obstacles in development of audit. These obstacles arise in one hand from definite vacuums existing in legislation (see: section 3.1), and on another hand, they are the result of auditors' irresponsible approach to their obligations and incomplete comprehension of users of audit service before legislation. This conception should help to achieve determination and establishment of correct system of interests. It is known that being a special type of entrepreneurship, audit service has a particular range of interest. This range of interest can be noted as current and perspective. Here current interest of an auditor is to establish a business with any client in order to realize his activity and perspective interest consists in selecting more prestigious client in the market in order to promote the image of his or the company he presents . In a wide meaning, the conception, in one hand, should reconcile the interests of users of audit, audit companies and regulating bodies of the

state, from another hand it has to lay a ground for coordination of all above-mentioned with the interests of the society. In this aspect, there is a need for establishment of strong, fair, and broad competition in market of auditor service and auditors' acquirement of high professional skills and application of serious sanctions against low-quality audit.

Without achievement of right regulation of interests, it seems impossible to overcome low-quality auditor references lowering reputation of the service and known in society with "black", "grey" and other negative names arising at the result of striking a bargain with economic subjects not reflecting real economic status of a subject.

In the field of auditor service solution of the "price-quality" correspondence problem still holds its actuality. Generally, in the market of audit the principle of "the value of audit has to be in conformity with the quality of audit" should be admitted as a criterion. In this connection, the works on application of optimal method of choice of risk of auditor, price making in auditor service, significance, accurateness of reports, and correct application of standards are very much. Clash of interests should be solved in relation to other institutions implementing financial control. In connection with it, proposals on mutual relations with other sections of financial control and distribution of authority should be worked out.

Common aim of the changes in audit is to continue effective activity in financial and non-financial markets for strengthening the role of audit profession in market by giving more reliable, transparent, and substantial information on correctness of financial reports of a company with more acceptable price.

As in auditor service the value of service of co-ordination of interests is the amount that is agreed between the auditor and the client, the parts should come to an agreement on two contradicting aims, a) rendering a qualitative service providing minimum audit risks and b) minimization of expenditures of the client using the service – i.e. the value of auditing service.

It is possible to achieve reduction of risks by increasing capacity of planned audit procedures and collected audit proofs. In one hand, increase of audit proofs and audit procedures lead to rise of value of auditor service and consequently, such auditors lose competitiveness in comparison with the auditors who are 'ready' to work for low prices. On another hand, activity of auditors working in conditions of high risks can cause material claims of clients and third parts and it results payment of fines and loss of prestige of auditors.

Dependence among the agreed value of auditor service, expected losses and quality of auditor service can be described in the following way:

K- abscissa axis- quality of auditor service

M- ordinate axis- cost price of auditor service

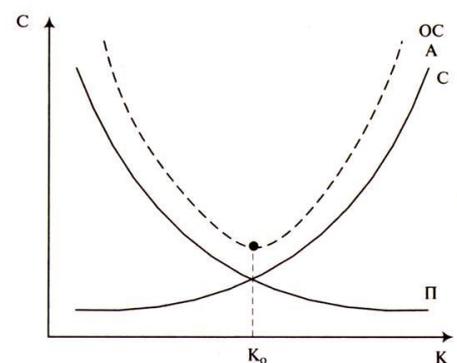
I - curved line – supposed losses

D – curved line- value of auditor service

RD- curved line- agreed value of auditor service

Abscissa axis K called “Quality of auditor service” reflects the change of quality of auditor service. Abscissa axis K called “Quality of auditor service” reflects the change of quality of auditor service. The quality of audit service depends on a number of factors: audit procedures and volume of collected audit proofs; level of specialty and professionalism of auditors and specialists; working practice of auditors and specialists; level of technology applied by an auditor etc. Therefore, increase of work capacity and quality can display an increase of detection of expect probability of significant mistakes in a report. In this case, as a quality indicator (K)  $K=1-AR$  (risk of not detection) formula can be used. Ordinate axis M called “Cost price of auditor service” reflects cost price of auditor service. Cost price involves in itself payment for work of auditor and specialists, rental fee, license, communication expenses, membership dues, amortization of equipment and inventory, losses on supposed material claims for low-quality service, expenses on external specialists and other expenditures. Curved line D reflects the value of auditor service. Of course, with increase of the quality of auditor service the value of it also rises. Payments for claims on supposed losses (curved line I) form maximum amount against factual expenses for rendering service and decreases with the increase of the quality of auditor service.

Curved line RD is shown with broken line and reflects agreed value of auditor service. It is equal to the amount combining the value of cost of agreed service (D) and supposed losses (I). There is a minimum  $K_0$  point on the curved line RD where the value of the cost of agreed service is equal to minimum amount and the “price-quality” relation is optimal from auditor point of view. In organization of auditor service formation of quality in  $K < K_0$  form (on the left of this point) is appropriate to high auditor risks. Expenses spent on increase of quality is also not reasonable in  $K > K_0$  form (on the right of this point), as it causes rise of value of auditor service and can result in loss of the client.



## V. FORECASTING OF DEVELOPMENT OF AUDIT SERVICE MARKET IN THE REPUBLIC OF AZERBAIJAN AND EXPECTED RESULTS

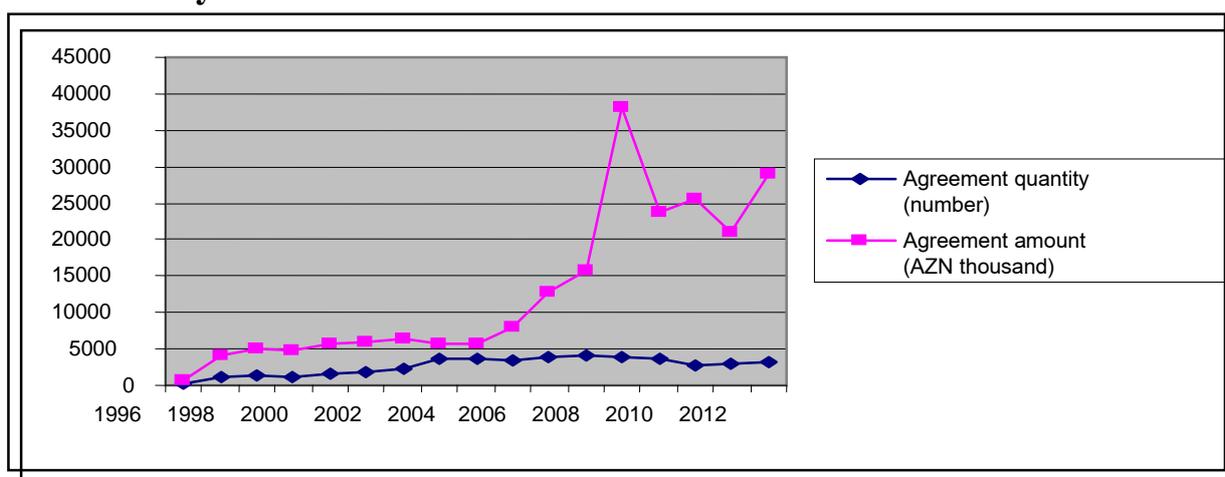
The forecasting of development of audit service market should be based on the analyses of present indicators on this sphere.

Indicators (number and amount of executed agreements) on audit service for 1996-2012 are as following:

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agreement quantity (number)	179	1040	1257	1232	1512	1723	2396	3587	3698
Agreement amount (AZN thousand)	660,0	4119,6	5088,6	4837,8	5662,6	5980,4	6313,8	5696,4	5602,2

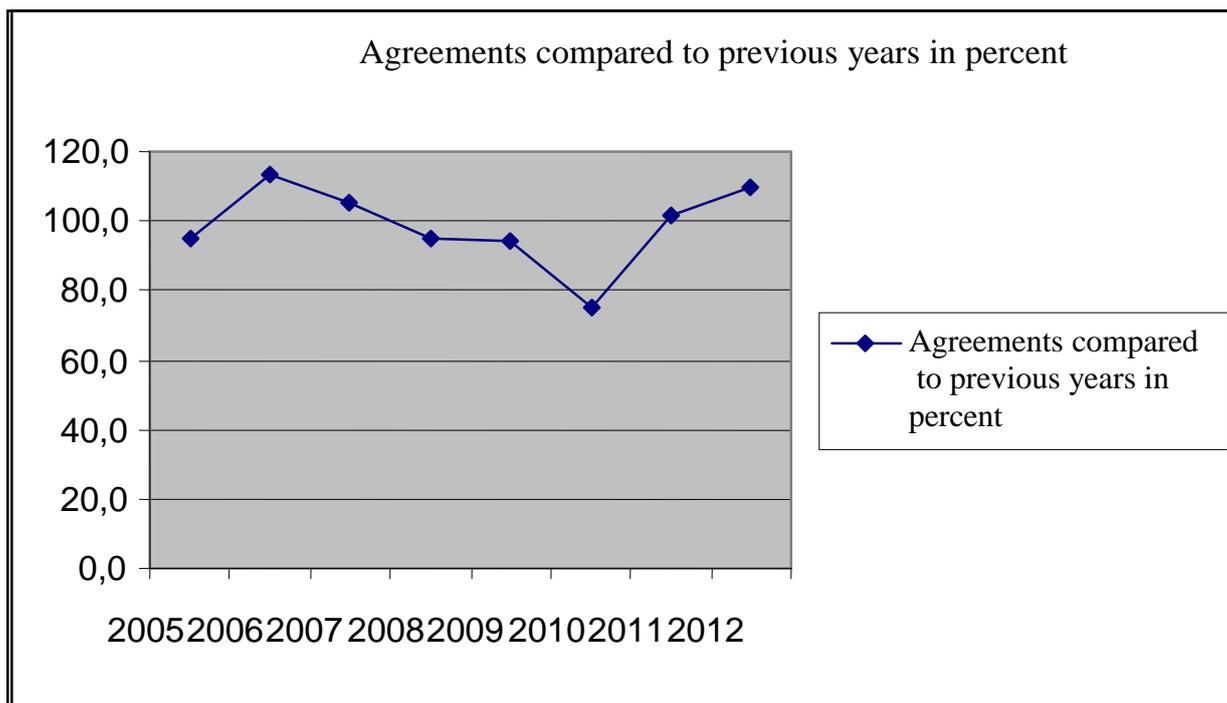
2005	2006	2007	2008	2009	2010	2011	2012
3512	3981	4184	3969	3752	2831	2869	3155
8074	12702,5	15772,6	38147,1	23655,8	25556,9	21005,4	28903,0

The dynamics of these indicators are listed in the chart below.



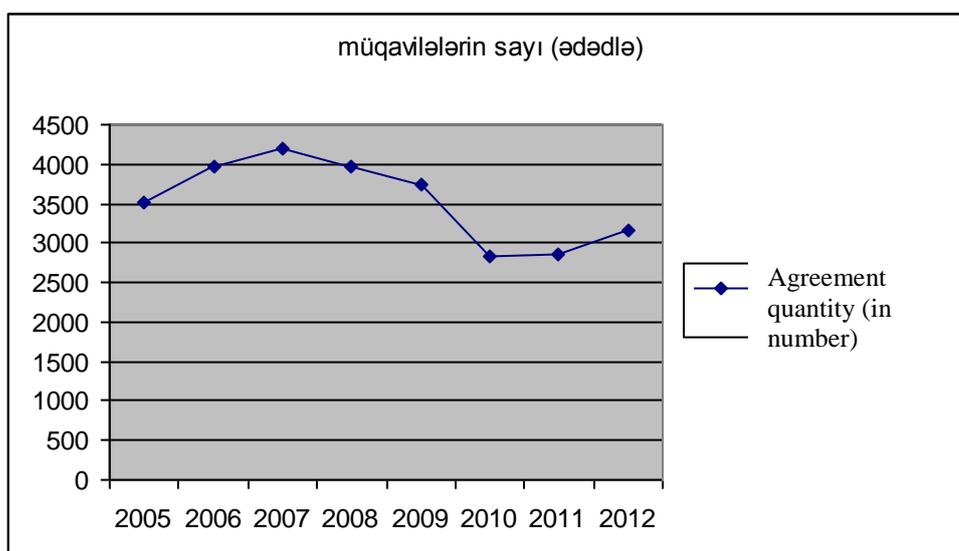
The diagram confirms that an abrupt change is not observed in the agreement quantity for the mentioned period (especially since 2005):

	2005	2006	2007	2008	2009	2010	2011	2012
Percent of agreements compared to previous years	95,0	113,4	105,1	94,9	94,5	75,5	101,3	110,0



Whereas, the comparison of natural indicator of agreement for the same period causes different notion:

	2005	2006	2007	2008	2009	2010	2011	2012
Agreement quantity (in number)	3512	3981	4184	3969	3752	2831	2869	3155



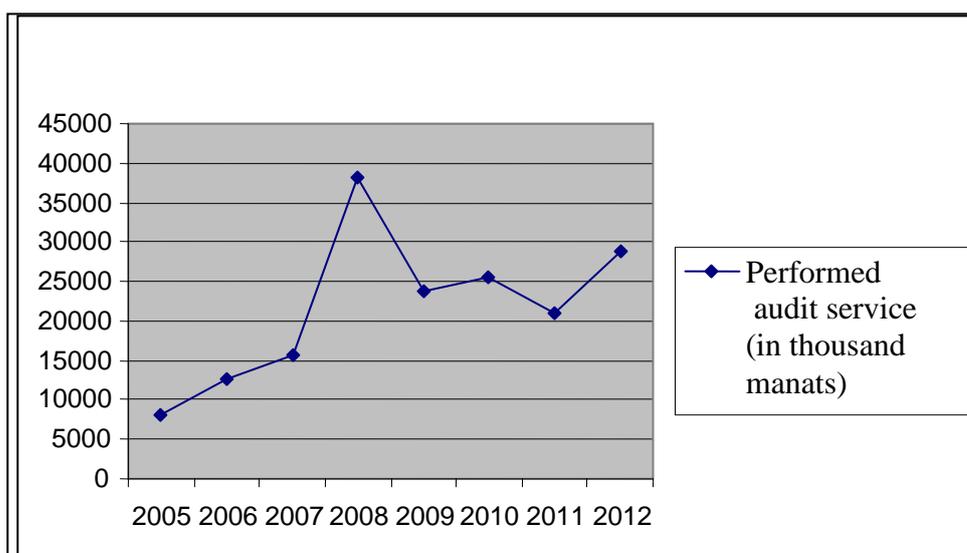
The provided tables and diagrams approve that the number of the agreements executed in 2012 is significantly less than the indicators in 2005-2009. On the other hand, the number of an executed agreement should be analysed in the light of numbers of entities to be audited mandatory. That is, if 3000-4000 audits were conducted in 2005-2012, a significant increase was observed in the number of obligatory audit entities during that period. In other words, 3,5 thousand (approximately 14%) obligatory audit entities of 25 thousand ones were audited in 2005, only 3,1 thousand (6,7%) of 45,8 thousand entities were audited in 2012.

**Result: It keeps on having a negative impact on the development of audit in the country when economic entities are not adhering the requirements of legislation and use their audit service.**

Pay attention to the dynamics of audit service performed during that period:

	2005	2006	2007	2008	2009	2010	2011	2012
Performed audit service (in thousand manats)	8074,0	12702,5	15772,6	38147,1	23655,8	25556,9	21005,4	28903,0

**Or in graphic design:**

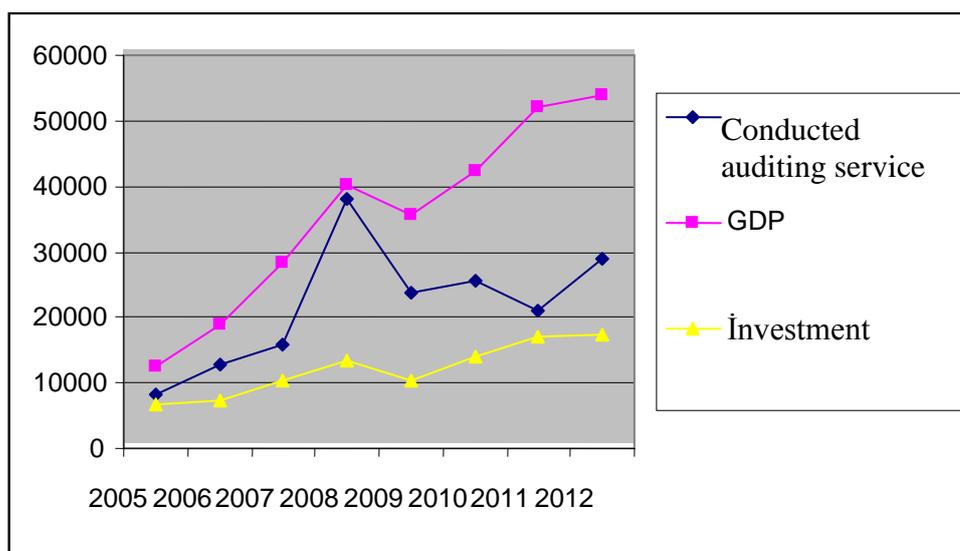


Result: dimension of the audit service significantly increased within the analysed period. Audit has intensively increased in recent years in Azerbaijan. It is known that, an optimal balance should be between the intensive (increasing the value of service unit) and extensive (involving wider customer base of the service) improvement of service.

To compare the improvement of audit service with the gross domestic product and the dynamics of investment across the country, actual numbers of those indicators was considered principal in 2005-2012:

	2005	2006	2007	2008	2009	2010	2011	2012
Performed audit service (in thousand manats)	8074,0	12702,5	15772,6	38147,1	23655,8	25556,9	21005,4	28903,0
GDP (in mln manats)	12522,5	18746,2	28360,5	40137,2	35601,5	42465,0	52082,0	53995,0
Investment (in mln manats)	6 733.4	7 415.6	10 353.9	13 328.0	10 475.0	14 118,9	17 048,8	17270,0

### Comparison chart of audit service with GDP and volume of investment across the country

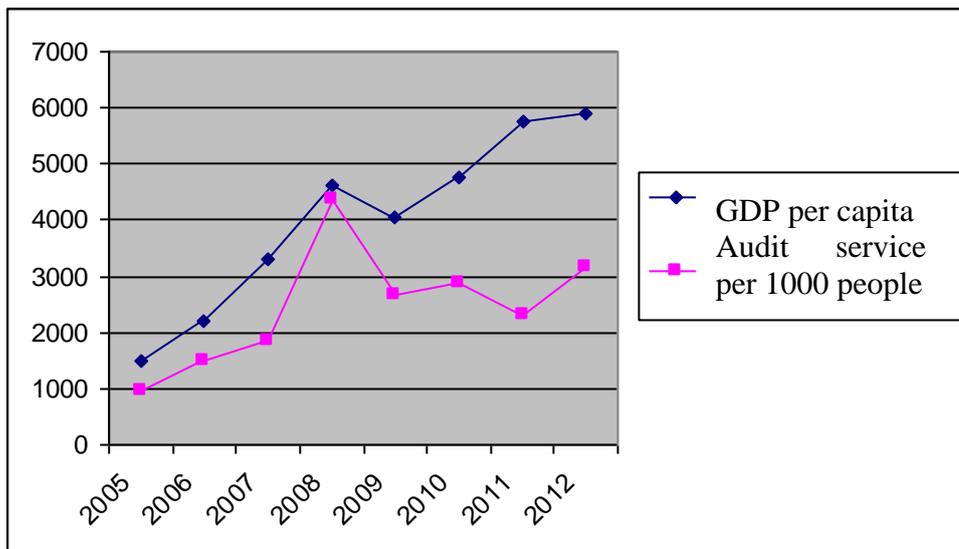


The chart illustrates that, a considerable similarity is observed in increase of dimension of audit service and gross domestic product manufacture and investment dynamics in our country. This similarity is distinctly observed on all three indicators in 2008. So, an acute increase was observed on gross domestic product and investment, as well as, audit service in the same year.

**Result: A stable growth is observed in the volume of audit during the analyzed period and this growth is proportional to the gross domestic product and investment.**

In case, such proportion observed between the volume of the audit service and GDP, the same dependence is observed between the GDP per capita and audit service per every thousand people:

	2005	2006	2007	2008	2009	2010	2011	2012
GDP per capita (in manats)	1494,3	2208,2	3296,6	4603,7	4033,2	4753	5752,9	5884,5
Audit service per 1000 people (in manats)	963,5	1496,3	1833,4	4375,4	2679,9	2860,5	2320,2	3149,9



Note: in 2010 – 2011 relatively decrease in the volume of audit service in the term of amount can be explained by several reasons (globally decline in confidence in audit, decrease of the performed services level, some economic entities not being interested in the transparency of their financial accounts, etc.). However, as a fact of these reasons the following should be emphasized.

It is known that, in recent years enlivening is observed in the activity of legal entities, rendering consulting services, which are integral parts of audit services in our country. This is a natural process. Investment attractiveness of our country has caused establishment of enterprises with numerous foreign investments or mutual properties. Those enterprises order specialized auditor or consulting companies, which is new for our country, to do their accounting and to prepare their financial statements. Such activity does not need a special consent (license) legally, and these services are rendered by both auditor companies and other ones. Such a practice is observed in recent years that, some auditor companies with foreign investment establish their own subsidiary or related companies just engaged in consulting. The consulting services performed by them are directed to these companies. Such companies do not bear reporting responsibilities before Chamber of Auditors. As a result of this, indicators of related audit services, that are intended by the auditor companies in their statements and included in the summary by the Chamber, are suspended of the Chamber's statistics on audit.

The analysis shows that, average growth rate for audit service was 10% in 2005-2012, 6% in last 4 years. But as this growth was not stable in those years, it is impossible to predict with absolute certainty. Parallel to macroeconomic indicators approves the existence of growth tendency. So, it is necessary to make use of the minimum growth rate for the purpose of forecasting, that is to say, growth rate of 6% is observed in last years, which is minimum limit like basic indicator.

In this case, minimum volume of audit service in the term of amount can be as following in 2013-2020:

### **Forecasting option 1.**

Forecasting of audit with the minimum growth percentage (6%) observed in the previous years

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Audit service (in million manats)	28.9	30.6	32.5	34.4	36.5	38.7	41.0	43.5	46.1

As mentioned, a significant compliance is observed in the volume growth of audit service and the dynamics of gross domestic product. If this correlation and growth rate are considered principle ( $41.53-11.30+19.28+22.65+3.67=75.82/5=15.16\%$ ) in the dynamics of gross domestic product within last 5 years (2008 - 40137.2 mln. manats, 2009 - 35601.5 mln. manats, 2010 – 42465 mln. manats, 2011 – 52082 mln. manats, 2012 – 53995. mln manats), forecasting indicators of audit service volume will be as following:

### **Forecasting option 2.**

Forecasting of audit with the average growth percentage (15.16%) of gross domestic product observed in 2008-2012 years.

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Audit service (in million manats)	28.9	33.3	38.3	44.1	50.8	58.5	67.4	77.6	89.4

Other important factor is considered during forecasting the development of audit service, as well.

In the chapter of this concept titled “Reasons for low obligatory audit” table is intended on the audit percentage of obligatory audit facilities for the date of January 1, 2013 according to the operative information submitted by the Ministry of Taxes and comparative data of the information base by the Chamber.

According to that table audit percentage of obligatory audit facilities has been 9-11% at last 5 years.

According to the Law of the Azerbaijan Republic “On Audit Services” and the Law of the Azerbaijan Republic No 65-IV QD “On Making Amendments and Additions to the Criminal Procedure Code of the Republic of Azerbaijan”, dated February 11, 2011 and the decree of the President of the Republic of Azerbaijan on the implementation of the same Law dated April 13, 2011, the Item 247-3 titled “Avoidance from obligatory audit” is added to the Criminal Procedure Code of the Republic of Azerbaijan and a penalty is set for public officials in the amount of three hundred manats to six hundred manats, whereas, for legal entities in the amount of one thousand and five hundred manats to two thousand and five hundred manats in accordance with the avoidance from the obligatory audit to be performed legally. The Ministry of Taxes and Chamber of Auditors are assigned to execute the duty in accordance with the Item 13.3 titled “Measures for defining mechanisms in accordance with the application of administrative responsibility due to avoidance from obligatory audit” of “National Action Plan on Fighting Corruption for 2012-2015” approved by Decree dated September 5, 2012 of the President of Azerbaijan Republic.

The implementation of the mentioned administrative measures can be realized considering some measures carried out in this sphere.

If the number of the obligatory audit entities is considered to be more than 45 thousand, auditing can be increased due to the administrative fine application. The followings should be considered in this condition.

Naturally, auditing cannot surround all 45 thousand entities at the same time within near 1-2 years.

The majority of the companies within these entities are the enterprises with inactive and simplified taxpayers bearing very small turnovers. The number of medium and large enterprises, that are, the VAT payers are 17-18 thousand and those are important enterprises in terms of audit.

VAT payers are expected to be rapidly involved in the obligatory audit in the next few years as the obligation of audit is promoted by administrative events and the parties are intensively informed and enlightened about that.

At the same time it should be considered that these enterprises are ones have been avoided from audit up to now and will possibly intend to determine the lowest amount during the payment for audit service. The Chamber should keep this in focus and strengthen the control over compliance with the recommended minimum price limits. So, it can be assumed during the forecasting that the entities, newly involved in audit, will sign agreements in the minimum amount suggested by the Chamber.

In other words, it can be predicted that expected important audit entities will rapidly be involved in audit with 30% increase, entity to minimum price application and this situation will be stable until 2020.

Considering the rendered, the forecasted volume of audit services can be expressed by the following formula:

$$PH = TH + MH$$

Here, PH – forecasted volume of services;

TH – the volume of service with current trend growth;

MH – intended growth volume of the service as a result of administrative measures on obligatory audit.

Considering all mentioned, the minimum volume of the audit service can be as following in terms of price in 2013-2020:

### **Forecasting variant 3.**

The following table intends prognostic indicators on organizational and legal measures realization, improving regulation of auditing services and avoidance of obligatory audit deviation, administrative responsibility, and increase in audit service based on the implementation of existing law.

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Audit service (in million manats)	28,9	30,6	36,8	46,0	59,8	73,6	101,2	138,0	165,6

As the 4th variant the conception intends the average statistic indicator of the forecasting of the volume growth of audit services till 2020 in Azerbaijan on the abovementioned variants.

### **Forecasting variant 4.**

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Audit service (in million manats)	28,9	31,5	35,9	41,5	49,0	56,9	69,9	86,4	100,4

**All forecasting indicators are intended in the following table on the all variants intended about the volume growth of audit services.**

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Variant 1	28,9	30,6	32,5	34,4	36,5	38,7	41	43,5	46,1
Variant 2	28,9	33,3	38,3	44,1	50,8	58,5	67,4	77,6	89,4
Variant 3	28,9	30,6	36,8	46,0	59,8	73,6	101,2	138,0	165,6
Variant 4	28,9	31,5	35,9	41,5	49,0	56,9	69,9	86,4	100,4

It is important to consider natural indicators (of the executed agreements) in forecasting of audit services.

If the above-mentioned forecasting variants are also used in forecasting of natural indicators

(“Forecasting of audit with minimum growth percentage (6%) observed in previous years– variant 1” and forecasting of audit with the expected volume growth as a result of administrative measures held in accordance with the audit intended in the conception and mandatory one – variant 3), forecasting of natural indicators will be as following:

**Forecasting of audit service with natural number (agreements to be executed – in thousand numbers)**

	<b>2012 (fact)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Variant A Forecasting of audit with minimum growth percentage (6%) observed in previous years	3,1	3,3	3,5	3,7	4,0	4,2	4,5	4,7	5,0
Variant B Forecasting of audit with the expected volume growth as a result of administrative measures held in accordance with the audit intended in the conception and mandatory one	3,1	3,3	4,0	5,0	6,5	8,0	11,0	15,0	18,0

Growth of natural indicators demands, in its turn, to solve the problem of auditor personnel in forecasting period.

**Whereas:**

- 1. An agreement should be executed for minimum 5 days;
- 2. An auditor's work is seasonal and approximately 70% of the services are rendered in the first half of a year.

Considering that the first half of a year consist of 135-140 working days (average working days – 137,5) demand for required audit staff for next years can be defined as following on the basis of predicted natural indicators:

- 1. An auditor can execute 28 agreements in the first half of a year (137, 5 working days / 5 working days needed for an agreement execution);
- 2. If natural indicators on predicted years are divided by 28, numbers of the personnel required can be determined to do that work.

So, implementing the above mention order, requirement for predicted auditor personnel is assumed as following:

**Prediction of auditor personnel for 2015-2020  
(in person)**

<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
125	163	200	274	374	451

The table shows that, requirement for auditor personnel are expected to increase 4 times until 2020.

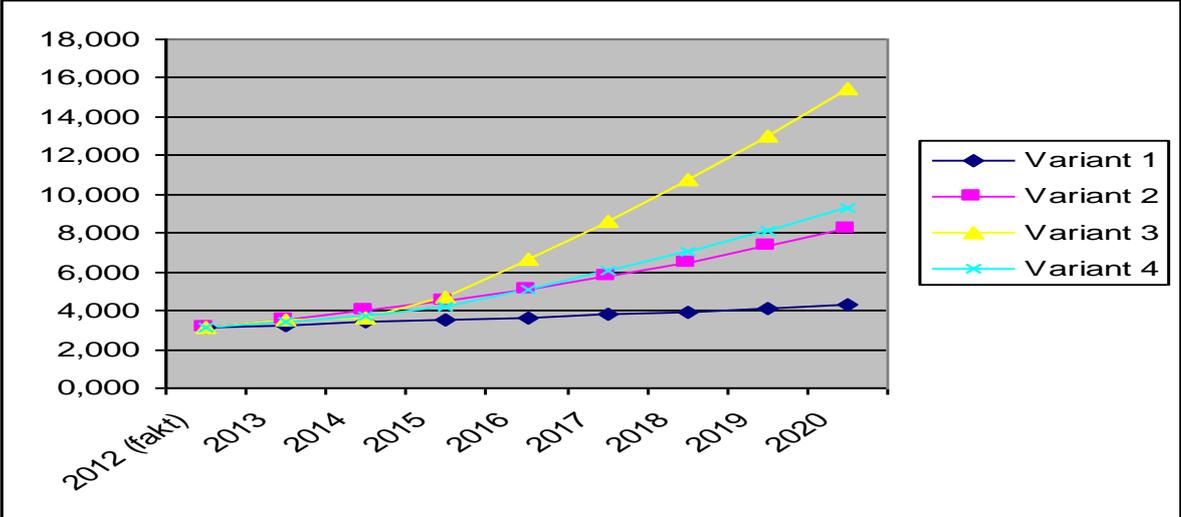
To note that, the above-mentioned prediction numbers only concern to the auditors with license and are counted for them to use 100% of their working days that means the numbers are defined at minimum limit. Taking into account that, in real situation, the ratio of using working time can be law than 100% (the current using ratio is up to 60%- in the audit system of the country). As employment is accepted to be 80%, the numbers of auditors with license can be up to 540 in 2020 in the country. Furthermore, considering the fact that in the international auditing practice 5-6 assistants, specialist and other auxiliary staff are intended for an auditor with license, about 3500 employees are predicted to work in the audit system of the country till the end of forecasted period. In its turn, it will contribute employment program realized in the country.

The volume of audit service per 1000 people of population is defined in the conception according to the abovementioned forecast indicators.

*In thousand manats*

	2012 (fact)	2013	2014	2015	2016	2017	2018	2019	2020
Variant 1	3,150	3,267	3,399	3,524	3,663	3,805	3,949	4,105	4,261
Variant 2	3,150	3,120	3,086	3,054	3,024	2,995	2,967	2,938	2,910
Variant 3	3,150	3,267	3,849	4,713	6,002	7,237	9,748	13,021	15,307
Variant 4	<b>3,150</b>	<b>3,218</b>	<b>3,445</b>	<b>3,764</b>	<b>4,230</b>	<b>4,679</b>	<b>5,554</b>	<b>6,688</b>	<b>7,493</b>

Or in diagram:



So, the volume of audit service per 1000 people will increase 1,4-4,9 times than in 2012.

**The conclusions according to the analysis and forecasting are as follows:**

**1. Audit service volume is expected to increase both in the term of money and natural expression under the influence of complex factors (eliminating the avoidance from audit through eliminating the tendency of the increase in audit, gaps in legislation, application of administrative measures (in case applied) etc.) in the near future (2014-2020).**

**2. This increase should be mainly observed in local auditor companies, and independent auditors. Audit volume is likely to increase due to audit evading entities up to the present time. Those entities do not belong to the customer group of transnational auditor companies (“Great Four”, “Ten” and “Twenty”). Therefore, the turnover of foreign auditor companies can be expected to increase only in accordance with natural increase tendency. Generally their specific share can be expected (though increased in the term of amount) to decrease in general service market,**

**3. Important progress should be gained in personnel training.**

**CALENDAR PLAN FOR EXECUTION OF MEASURES IN  
“CONCEPT OF DEVELOPMENT OF THE AUDIT SERVICE  
IN THE REPUBLIC OF AZERBAIJAN”  
FOR 2014-2020**

<b>Row №</b>	<b>Name of Measures</b>	<b>Execution period</b>	<b>Note</b>
<b>I</b>	<b>On the development of normative legal framework of audit service:</b>		
1	Completion of the preparation of the draft law of the Republic of Azerbaijan “On Audit activity”	2014	
2	Public discussion of draft law «On Audit activity» and coordination with relevant agencies	2014	
3	Drafting changes and amendments to the legislative acts and other legal documents of the Azerbaijan Republic on “On Audit activity”	2015-2016	
4	Public discussion of proposals made on the development of law on internal audit	2015	
5	Relevant proposals preparation on the study and application of international practice to develop a legal basis for audit	2014-2020	
6	Participation in the preparation or review of draft laws on finance theory, accounting and audit	2014-2020	
<b>II</b>	<b>On audit activities management, regulation and strengthening institutional potential of audit:</b>		
1	Informing the public regularly on the activity of Chamber of Auditors	2014-2020	
2	Development of audit regulation and redefining the status of Chamber of Auditors on the basis of international practice	2015-2016	
3	International experience adjustment of the bars in the field of audit services	2015-2016	
4	Transparent research and sanctions system application	2015-2020	
5	Strengthening of institutional potential of audit	2015-2017	
6	Enhancement of application of international experience in the field of audit management and regulation	2015-2017	
7	Implementation of appropriate legal and institutional measures to provide external control over audit activity	2015-2016	
8	Control over the activity of the Chamber of Auditors	2015	

9	Expansion of relations with auditors using the application of high technology and their more active involvement in the management (as well as, within the framework of committees and working groups)	2015-2020	
10	Application of electronic records management system	2015	
11	Enhancement of financial provision of the Chamber of Auditors: a) Involvement of new members; b) Increasing the intensity and range of vocational courses; c) Establishing commercial subsidiaries; ç) Donor assistances; d) Other sources;	2014-2020 2014-2016 2014-2015 2015-2017 2014-2020 2014-2020	
12	Strengthening the role of the committee under the Council of the Chamber of Auditors in development and regulation of the audit service	2014-2020	
13	Development and implementation of a system of measures to strengthen the public confidence in the development of audit	2015-2020	
14	Legal framework determination on the clarification of the scope of audit in accordance with the amount of annual turnover, number of employees that are main criteria of activity	2016	
<b>III</b>	<b>On strengthening the application of the international audit standards:</b>		
1	Translation and publication of the international audit standards	2014	
2	Translation and publication of the Code of Ethics for Professional Accountants	2015	
3	Translation and publication of the comments on the international audit standards	2015-2016	
4	Translation and publication of the BASs for small and medium enterprises	2015-2016	
5	Commencement of the application of audit standards for small and medium enterprises	2016	
6	Improvement of the available “Rules for conducting exams to get a degree of audit” and “Rules on the improvement of professional skills of audits”	2015	
7	The application of the multi-level system of examinations to get a degree of audit and accountant in Azerbaijan in accordance with the	2016	

	recommendations on the exams to be held by the International Federation of Accountants		
8	Achievement of the adjustment of the audit service quality control to the documents adopted by the international organizations	2014-2020	
9	Regularly including the last appendixes and changes on International audit standards and Code of Ethics for Professional Accountants to the program of courses for auditors' professional training	2014-2020	
10	Development and implementation of an exemplary within-firm standards for national audit firms	2015-2017	
11	Organization of regular seminars on the application of International auditing standards and the Code of Ethics for Professional Accountants	2014-2020	
12	Application of an oath-taking ceremony for an auditor	2015	
<b>IV</b>	<b>On improvement of the quality of audit service:</b>		
1	Expanding the application of international standards on audit quality control	2014-2020	
2	To ensure the public control over the quality of audit	2015	
3	Control over the observance of ethical principles	2014- 2020	
4	Implementation of appropriate legal and institutional measures to provide external control over the activity of an auditor	2015-2016	
<b>V</b>	<b>On auditor personnel training and re-training:</b>		
1	Compliance of the requirements to the international rules to get a degree of audit	2015	
2	Increase the intensity and range of vocational courses	2014-2015	
3	Organization of training courses in the theoretical and practical direction with the character of compulsory and stable	2014-2020	
4	Improvement of examinations in accordance with the International Standards of Education in order to get a degree of audit and application of the multi-level system of examinations	2016	
5	Raise the level of additional measures, such as, professional thematic lectures, seminars, trainings, "round tables", scientific and practical conferences, etc. on increasing the auditors' professional qualifications	2014-2020	
6	Including regularly the last appendixes and changes to the International Standards on Auditing to the program of professional training courses	2014-2020	

	for auditors		
7	Training of certified personnel with wide business knowledge and expert competence to provide related audit services	2015-2017	
<b>VI</b>	<b>On audit organization:</b>		
1	Improving accountability in audit system	2014-2015	
2	Strengthening the links between corporate governance system and audit	2015-2016	
3	Achievement of the certified auditors' compulsory participation in the creation and operation of audit organizations	2015	
4	The main criterion for the amount of the annual turnover, number of employees associated with the determination of a legal mechanism for the specification of the scope of the audit	2016	
5	Implementation of measures in the direction of recognition of the independent auditor's report as an integral part of the financial statements of economic entity	2015	
6	Certification of auditors and audit firms in the manner specified by IFAC International Education Standards	2015-2017	
7	Registration of certified auditors and audit firms	2017-2020	
8	International experience of the Chamber of Auditors	2015	
9	Accreditation and registration of auditors and audit organizations in accordance with the international experience	2015-2020	
10	Implementation of measures system to improve the voluntary and related services	2015	
11	Coordination of the audit organization with the regional development programs carried out in the country	2015-2020	
12	Application of advanced technology and electronic audit in auditing	2015-2020	
13	Interactive relations between economic entities of the auditors	2015-2020	
14	To make a website with the annual financial statements and a report of an auditor of obligatory audit entities	2014	
15	Enhancement of efficiency, compliance and conducting other audits	2015-2017	
16	Determining the level of experience rating, taking into account the external experience	2014-2020	
17	Development and application of statistical indicators system of audit	2014	
18	The application of the method of selection of independent auditors and audit verification system	2014– 2020	

19	Application of a system of control over adherence to ethical principles	2014-2020	
20	Study and application of the international audit experience on audit organization	2014-2020	
21	Improving the system of price regulation in audit	2015	
22	Establishment of an analytical information system on the condition of obligatory audit conducted on areas and regions	2015-2016	
23	Strengthening the institutional capacity of the audit	2015-2017	
24	Expanding the use of high technology in cooperation with auditors and their more active involvement in management (including within the framework of committees and working groups)	2014-2020	
25	Interactive acceptance and processing of the auditors' reports	2014-2020	
26	To conclude cooperation agreements to communicate to and hold joint activities with audit institutions of foreign countries for more effective study of the international audit experience	2014-2020	
27	Improvement of relationships between an independent audit and government audit, internal audit	2016	
28	Provision of better mutual relations between state control and external audit	2015-2017	
29	Application of within-firm auditing standards for national audit organizations	2017-2020	
30	Rendering electronic services in connection with the issuance of licenses and permits to render auditor service	2014	
31	Creation of a unified register audits conducted on economic subjects	2014	
32	To enhance access to software products applied in the international audit experience (CaseWare Audit, Audit Management Software, SwissAuditor, ASL Analytics Software, AD Audit Report Software etc.)	2014-2019	
33	Application of an oath-taking ceremony for an auditor	2015	
34	Rendering operational services (by the order of economic subjects compiling documents - business plans, investment projects, contracts, and other non-standard financial and statistical statements, etc.)	2016	
35	Rendering control services (preparation of documents in accordance with the conditions, accounting and reporting of design, calculation and	2017	

	payment of taxes and other payments, etc.)		
36	Rendering information services (all kinds of advice, methodological recommendations, training and seminars, etc.)	2015-2020	
37	Development and implementation of a system of measures to attract a wider range of young people and women in auditing	2015-2020	
38	Provision of auditors with the International auditing standards and the latest additions and changes to the Code of Ethics for Professional Accountants	2014-2020	
39	Organization of the association and affiliated membership to the Chamber of Auditors	2015	
<b>VII</b>	<b>On increase of transparency in auditing, unfair competition and anti-corruption struggle:</b>		
1	Provision of transparency in auditing	2014-2020	
2	Dirty money laundering and strengthening the cooperation between the bodies struggling against corruption	2014-2020	
3	To ensure transparency in the selection and rotation of auditors	2015	
4	Implementation of measures related to the publication of financial statements by the compulsory audit subjects together with the independent auditor's reports	2014-2015	
5	Application of the control system on adherence to ethical principles	2014-2020	
6	Sustainable provision of the liabilities by the Law of the Republic of Azerbaijan "On the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism" before independent auditors and auditing organizations	2014-2020	
7	Ensuring fair competition and monopoly in the field of implementation of measures	2014-2016	
8	Prevention of conflict of interest in audit service and development and implementation of measures on elimination of unfair competition	2014-2020	
9	Expansion of the application of sanctions because of the low-quality audit	2014-2020	
<b>VIII</b>	<b>On preparation of methodological manuals and recommendations on the organization and regulation of the audit:</b>		
1	To develop regulatory guidelines regarding the accreditation and	2014	

	registration of statutory auditors and audit organizations		
2	Priority areas of the national economy: a) travel; b) oil-and-gas complex; c) transportation; d) preparation of audit programs on information technology sector	2014-2016	
3	To develop a methodological manual on carrying out audit taking into account the features of small and medium-sized enterprises	2015	
4	To improve the provision of auditors with methodological manuals (including, legal documents of international professional organizations)	2014-2020	
5	establishment of the recommendations on the mutual relations between the external and internal audit	2015	
6	Preparation of auditing standards within-firm for the national audit institutions	2015-2017	??????
7	The preparation of methodological manuals on rendering operational services (documents - business plans, investment projects, contracts, non-standard financial and statistical statements development by the order of economic subjects)	2015	
8	The preparation of methodological manuals on rendering control services (preparation of documents in accordance with the conditions of the documents, accounting and reporting of design, calculation and payment of taxes and other payments, etc.)	2016	
9	Provision of services related to regulatory and methodological framework	2015-2017	
10	To determine a mechanism for the specification of the scope of the audit in accordance with the amount of the annual turnover which is the main criterion of action, number of employees	2016	
11	Adoption of the regulatory documents on the recognition of the entity's financial statements as part of the report of independent auditor	2015	
12	To develop methodological guidance to conduct accreditation and registration of auditors and audit organizations in accordance with the international practice	2014	
13	Improving the system of price regulation in audit	2015	??????
14	Preparation an order on the association and affiliated membership to the Chamber of Auditors	2015	
15	Preparation of methodical instructions and guidelines on ensuring fair	2014-2016	

	competition and prohibition of monopoly		
16	Improvement of “The rules of professional development of auditors” considering the requirements of the International Standards in Education	2014	
<b>IX</b>	<b>On promotion and encouragement of the audit:</b>		
1	Enlightenment of users of audit services, audit stakeholders and general public about the promotion and encouragement of audit	2014-2020	
2	Education and information, as well as, interactive inquiries provision through expanding opportunities and functions of the official website of the Chamber of Auditors	2014-2020	
3	Publication of popular books and reference books on audit	2014-2020	
4	Publication and dissemination of educational materials on audit	2014-2020	
5	Press conferences on audit	2014-2020	
<b>X</b>	<b>On the application of information technology in audit:</b>		
1	Interactive acceptance and processing of the reports of auditors	2014-2020	
2	Application of electronic records system and forming of document circulation through the application of e-signatures	2014-2015	
3	To carry out various meetings online, including meetings of committees and working groups	2014-2020	
4	Organization of video conferencing and video seminars	2015-2020	
5	Creation of databases under "E-government" program, general data network connectivity across the country	2014-2015	
6	Organization of electronic services in connection with the issuance of licenses and permits to render audit service	2014	
7	Education and information, as well as, interactive inquiries provision through expanding opportunities and functions of the official website of the Chamber of Auditors	2014-2020	
8	To enhance access to software products applied in the international audit experience (CaseWare Audit, Audit Management Software, SwissAuditor, ASL Analytics Software, AD Audit Report Software etc.)	2014-2019	
<b>XI</b>	<b>On publications, seminars and conferences:</b>		
1	Intensification of activities in the field of publications on audit	2015-2020	
2	Paid events organization (workshops, consulting services)	2015-2020	

3	To increase sales of publications and e-products	2015-2020	
4	To Conduct seminars on actual problems of audit	2014-2020	
5	Expansion of information services (providing all kinds of advice, methodological recommendations, training and seminars, etc.).	2014-2020	
6	Support to prepare young auditor cadre at and appropriate higher schools and promotion of the profession	2014-2020	
7	Re-publication of "Audit" manual	2015-2016	
8	Publication of the 7th, 8th and 9th editions of "Audit: legislative and normative documents" collection	2015, 2017, 2019	
9	Re-editions (4th and 5th) of field audit program	2015, 2018	
10	Contemporary challenges of audits and organization international scientific-practical conferences devoted to their ways of solutions (every two years)	2014- 2020	
11	The organization of "round tables" and conferences on the development of national audit	2014-2020	
12	Organization of regional seminars and conferences on the theme of "The regional problems of audit and transparency in Azerbaijan"	2015-2020	
13	Wide use of new advertising and promotional methods on audit service	2014-2020	
<b>XII</b>	<b>On analysis, research and sociological inquiries:</b>		
1	Expansion of activity in the direction of conducting analysis, economic researches and studies	2014-2020	
2	Intensification of activities in the direction of market research and forecasting services	2014-2020	
3	Carrying out specific researches for auditors to comply with the rules and norms of professional ethics	2014-2020	
4	Conducting researches in the field of audit service in the field of "price - quality"	2017-2019	
5	Predicting the development of audit services market on regions and branches	2015-2017	
<b>XIII</b>	<b>On the application of international audit experience:</b>		
1	Activity in the direction of Membership of international professional organizations, relationships with them, as well as, effective cooperation with foreign countries	2014-2020	
2	To conclude cooperation agreements to communicate to and hold joint	2014-2020	

	activities with audit institutions of foreign countries for more effective study of the international audit experience		
3	Preparation of appropriate proposals on the international practice study and application on the improvement of the legal framework for the audit	2014-2020	
4	Expansion of the impact of the international experience to conduct and regulate audit	2015-2017	
5	The impact of international experiences for the structure of the Chamber of Auditors to the international experience	2015	
6	To enhance access to software products applied in the international audit experience (CaseWare Audit, Audit Management Software, SwissAuditor, ASL Analytics Software, AD Audit Report Software etc.)	2014-2019	
7	Accreditation and registration of auditors and audit organizations in accordance with international practice	2015-2020	
8	Determining the rating of auditors taking into account the external experience	2014-2020	
9	Development and application of statistical indicators system of audit	2014	
10	Study and application of foreign experience on audit organization	2014-2020	
11	Improving the system of regulation of prices in audit	2015	
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