

**THE LAW OF THE REPUBLIC OF AZERBAIJAN  
ON THE “AUDIT SERVICE”, NO. 882, DATED SEPTEMBER 16, 1994**

*(With the amendments and changes made in accordance with the Laws of the Republic of Azerbaijan No. 188-IQD, dated November 5, 1996, No. 190-IIQD, dated October 5, 2001, No. 219-IIQD, dated November 23, 2001, No. 311-IIQD, dated April 23, 2002, No. 407-IIQD, dated December 24, 2002, and No.598-IIQD, dated March 5, 2004)*

This law defines the organization of audit service, legal basis of its implementation, functions, rights and duties of auditors, provides for the establishment of an independent financial control system protecting the property rights of the owner in the Republic of Azerbaijan.

Relationships concerning audit service are regulated by this Law, as well as other legislative acts of the Republic of Azerbaijan, international treaties and agreements.

**SECTION I.  
GENERAL PROVISIONS**

***Article 1. Applicability of the Law***

This Law shall be applicable to all enterprises, organizations and establishments (hereinafter called "business entities") functioning in the territory of the Republic of Azerbaijan, regardless of the nature of their ownership and the bodies to which they are subordinate from an institutional and legal standpoint.

***Article 2. The notion of audit***

Audit is the independent verification of the accuracy and reliability of the bookkeeping entries, accounting reports and the financial statements of business entities engaged in the production and marketing of goods, provision of services and performance of various operations.

Audit examination may be obligatory or voluntary (at the request of the business entity. Audit performed for business entities which, statutorily, are required to publish their financial statements, as well as in cases specifically provided for by legislation or on the basis of a decision (request) of an authorized state body, is mandatory; in other cases it is voluntary.

***Article 3. Audit service***

Audit service shall be responsible for carrying out on a contractual basis, verifications, expert appraisals, the analysis of the financial and economic operations of business entities, submitting its conclusions in writing, ensuring the sound organization of bookkeeping operations, confirming accuracy of data presented in returns and performing other services connected with financial and economic activities implicit in the professional functions of the auditor (statutory functions of audit organization).

Audit service does not exclude verification of the activity of business entities by state bodies acting within their responsibilities.

***Article 4. Independent auditor***

Independent auditor is a natural person authorized to provide independent audit services in the territory of the Republic on the basis of a license issued by the Chamber of Auditors of the Republic of Azerbaijan (hereinafter called the Chamber of Auditors).

### ***Article 5. Audit organization***

Audit organization is a legal person authorized to provide audit services in the territory of the Republic of Azerbaijan on the basis of a license issued by the Chamber of Auditors and for which the provision of this type of services on the basis of its Charter constitutes its sole activity.

Audit organization may be established by one or more founders in accordance with the Civil Code of the Republic of Azerbaijan.

### ***Article 6. Requirements to become an independent auditor***

To become an independent auditor in the territory of the Republic of the following are required:

(a) to be a citizen of the Republic of Azerbaijan;

(b) non deprivation by an effective court decision of the right to hold certain positions in the financial and economic spheres or to be engaged in certain types of activities unless the decision has been duly quashed in a legal manner;

(c) possession of a higher education, specialization in accounting, finance, economics, and law, and work experience of not under three years in the specialization;

(d) passing examinations for independent auditor.

A person, who was sentenced for an offence committed on mercenary motives and has not quashed sentence may not be an auditor.

Foreign citizen authorized to exercise the profession of auditor in own country may, with the official authorization of the Chamber of Auditors, also exercise this right in the territory of the Republic of Azerbaijan.

### ***Article 7. The organization of examinations for auditors***

Examinations for auditors shall be arranged by a commission appointed by the Chamber of Auditors.

These examinations shall be organized in accordance with the procedures laid down in the Statute of the Chamber of Auditors.

### ***Article 8. Auditor's opinion***

Auditor's opinion is an official document, authenticated by the signature and seal of the auditor (audit organization), containing an assessment of the financial standing of the business entity, the lawfulness of its financial and economic operations, the reliability of the various items in its annual accounting report and the general condition of accounts, and having legal force for all legal and natural persons, state authorities and management bodies, as well as for judicial bodies.

A common form used for auditor's opinion and instructions for its completion shall be defined by the Chamber of Auditors in accordance with the Civil Code of the Republic of Azerbaijan.

## **SECTION II. REGULATION OF AUDIT SERVICE IN THE REPUBLIC OF AZERBAIJAN**

### ***Article 9. Regulation of audit service***

The Chamber of Auditors of the Republic of Azerbaijan shall be established with a view to organizing state regulation of audit service; drafting standards in this field and measures designed to develop and improve audit service in the Republic of Azerbaijan; protecting interests of the state, business entities and auditors (audit organizations), and

ensuring compliance by auditors (audit organizations) with the provisions of this Law as well as with other legislative and normative legal acts. The activities of the Chamber of Auditors shall be regulated by its Statute.

In accordance with the 32. paragraph of the 109. article of the Constitution of the Republic of Azerbaijan the Statute of the Chamber of Auditors shall be approved and its head is appointed.

***Article 10. Issuing of licenses to deal with audit services***

Independent auditors and audit organizations shall perform their work on the basis of a license issued for a period of five years after getting state registration.

***Article 11. Registration of independent auditors and audit organizations***

Auditor shall have the right to provide audit services from the time he is granted a license authorizing him to deal with audit services. Independent auditors shall be registered on the basis of defined regulations to deal with entrepreneurship without establishing a legal person.

Auditor shall perform functions independently or on the basis of contract with audit organization. He (she) may not be engaged in any other activity.

Independent auditors shall keep a day book, reflecting their activities. Day book is submitted to the Chamber of Auditors with a view to monitor their work and verify quality of the audits they perform.

Audit organizations shall be registered with the relevant executive power in accordance with the relevant law.

Audit organization, registered in accordance with the legislation has the right to provide audit services from the time he is granted a license authorizing him to deal with audit services.

### SECTION III. RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF AUDITORS

***Article 12. Rights of auditors***

Independent auditors and audit organizations shall have the following rights:

independently to decide which forms of audit and methods in accordance with this Law and the provisions of the contract concluded with the client;

to get acquainted with all documents on the financial and economic activities of the client (including those in the possession of other legal persons) and have access to them for verification purposes, to verify the presence of cash, securities, and assets, and to obtain any other information needed for audit purposes;

to obtain any clarification they require in writing from the client's senior management and staff;

if the audit is being undertaken at the request of authorized state bodies, to raise, in their presence, the question of any violations and shortcomings that may be discovered;

to associate, on a contract basis, other auditors with the audit;

to refuse to conduct audit in case of refusal of submitting to produce the documents required for audit purposes by the subjects of economy.

### ***Article 13. Obligations of auditors***

Obligations of independent auditors and audit organizations are the following:

to comply strictly with the requirements of the legislation of the Republic of Azerbaijan when conducting an audit;

to perform qualitative audit examinations and other audit services;

immediately notify the client (authorized state body) if they are unable to undertake audit due to the circumstances indicated in article 18 of this Law;

to verify situation and reliability of the returns and accounts of the client and determine whether they are in conformity with the Laws and normative standards in force;

to inform the client's management of any violations detected in the course of the audit and of any shortcomings in the accounts and the presentation of returns;

to preserve the confidentiality of information obtained during audit at the request of the client (unless otherwise required by judicial bodies);

to ensure for the storage of documents obtained or prepared during the examination;

at the request of the business entity, provide detailed information about the statutory audit requirements to be satisfied, the rights and obligations of the parties and also of the normative standards used as a basis for preparing the observations and conclusions contained in the audit's opinion;

to submit auditor's opinion on the tax report in cases envisaged by the legislation.

### ***Article 14. Responsibility of auditors***

Auditors and audit organizations which perform their functions improperly may be called to property account in accordance with the legislation of the Azerbaijani Republic and the provisions of the contract with the client.

### ***Article 15. Recall of audit licenses giving the right to deal with audit service***

Licenses authorizing auditors and audit organizations to provide audit services in the territory of the Republic of Azerbaijan may be recalled by the decision of the Chamber of Auditors in the following circumstances:

if they carry out unsatisfactory audit three times during the same calendar year;

if during the course of audit, they flagrantly violate the provisions of this Law and the legislation of the Republic of Azerbaijan;

if a court decision in respect of an independent auditor takes effect, depriving him (or her) of the right to hold certain positions in the financial and economic spheres or to be engaged in certain activities, or punishing him (or her) for offences committed for mercenary motives;

if after the license has been granted, it is found that it was obtained on the basis of false information;

if the auditor transmits information he obtained during the course of an audit to a third party without the consent of the manager (owner) of the business entity, except in the cases provided for by the legislation;

if the auditor (audit organization) conceals any cases in which audits are prohibited under article 18 of this Law.

SECTION IV.  
**GENERAL ORGANIZATION OF AUDIT SERVICE  
IN THE REPUBLIC OF AZERBAIJAN**

***Article 16. Organization of audit service for business entities***

Audit service shall be provided on the basis of a contract between an independent auditor or an audit organization on the one hand and a client on the other, indicating the subject and duration of the audit, the extent of the consultative services to be provided, the cost and method of payment, as well as the responsibilities of the parties.

The client shall be responsible for making all the necessary arrangements enabling auditor to perform professional functions fully and in a satisfactory manner.

Auditor shall not be dependent on the client or on any other third party having an interest in the audit.

The performance by auditor or audit organization of the provisions of the contract shall be indicated in the document of acceptance and transmission of auditor's opinion. Auditor's opinion shall be prepared on the basis of a defined form.

***Article 17. Obligations and rights of business entities using audit services***

The manager (owner) of the business entity shall provide the auditor with all the documents, registers and returns needed in connection with the audit and shall be responsible for their accuracy. He (or she) is required, at request of auditor, to provide written or oral clarification.

Choice of auditor is up to the business entity concerned.

Business entities shall have the right to conclude contract of any duration with independent auditor or auditor organization covering all matters relating to financial and economic activities. In cases where such contracts involve verification, auditor shall prepare a document in due form on results of the verification.

SECTION V.  
**SPECIAL PROVISIONS**

***Article 18. Prohibitions in connection with audit services***

Auditors shall be prohibited from conducting an audit if they have a personal property mercenary interest in the enterprise in question, are directly related to a person responsible for the management of that enterprise, are a founder, owner or shareholder of the enterprise, or previously provided the enterprise with their professional services.

***Article 19. Settlement of disputes***

Any disputes involving assets that may arise between auditors (audit organizations) and their clients and that cannot be resolved by the Chamber of Auditors shall be settled by a court.

An auditor (audit organization) may, in accordance with the established procedure, appeal to a court the decision of the Chamber of Auditors not to grant him a license or to recall his license, as well as failure to register the audit organization as a legal person.

***Article 20. Verification of audit organizations***

The Chamber of Auditors shall verify whether the financial and economic activities of audit organizations are in conformity with the provisions of this Law and shall monitor their activity.