REGULATIONS
ON AUDITING SERVICE QUALITY CONTROL
IN AZERBAIJAN REPUBLIC


1.1. Regulations (hereinafter referred to as “Regulations”) on auditing service quality control in Azerbaijan Republic specifies the procedures necessary for the implementation while carrying out auditing service quality control.

1.2. The purpose of the Regulations is to ensure the compliance of auditing service quality with the legislative acts of Azerbaijan Republic, requirements of auditing standards and code of professional ethics rules specified upon the decisions of Board of the Chamber of Auditors of Azerbaijan Republic (hereinafter Board of the Chamber).

2. Quality control procedures

2.1. Quality control is carried out by auditors (hereinafter referred to as “Auditors”) for quality control who are the members of the Chamber of Auditors of Azerbaijan Republic (hereinafter referred to as “Chamber of Auditors”) appointed by the Board of the Chamber. Board of the Chamber appoints auditors, number of which should not be over 10 and less than 5.

2.2. Inspections on auditing service quality control performed by auditing organisations and independent auditors (hereinafter referred to as “auditor”), are implemented by the control group consisting of at least two auditors. The number of control group members for each definite audit is defined by considering the number of auditors whose activity will be audited and served customers.

2.3. Activity of each auditor is audited at least once in 3 (three) years.

2.4. Quality control is carried out as planned and unplanned audits.

2.5. Planned audits are carried out within the period from June 1 of the current year, but unplanned audits are carried out during the whole calendar year.

2.6. Planned audits are carried out on annual plan approved by the Chamber of Auditors.
2.7. After approval of annual plan, the Chamber of Auditors, within a month, defines planned audits for the current year, chiefs and members of the control groups. Plans of audits are clear and understandable for the members of Chamber of Auditors.

2.8. Unplanned audits are conducted with the requirement of relevant committees of the Chamber of Auditors in the following cases:
- If auditing service quality is assessed as “B” and “C”, as specified in 5.5 item of this Regulation, by detecting significant faults and deficiencies during planned audits;
- If it is found that there is gross violation of the code of professional ethics or auditing standards in auditing services after the revision of applications entered by audited economic entities or third persons in relevant committees of the Chamber of Auditors;
- If assessment of implementation of certain types of audit within the terms arising from the requirements of legislation or contractual obligations is considered expedient.

2.9. Audits on quality control also include the following cases:
- Verifying whether auditing services has been ensured by an auditor, in compliance with existing legislation and auditing standards;
- Verifying whether internal auditing procedures has effectively been fulfilled by an auditor, taking into account the features of economic entities;
- Verifying whether the requirements of code of professional ethics, especially the norm of the auditor's independence are observed.

2.10. Each audit consists of 2 stages:
- Assessment of internal control system on quality;
- Separate assessment of auditing on each contractual obligation.

2.11. Audit is usually planned for the period of 3-5 days. If necessary, Quality Control Committee of the Chamber of Auditors (hereinafter referred to as “Quality Control Committee”) may extend the period of audit for more 5 days.

2.12. Auditors of quality control group should follow the criteria below:
- having at least 3 years of auditing experience;
- should not have any disciplinary punishment in last 2 years;
- to participate in training courses for quality control;
- should not be the member of relevant committee of the Board of the Chamber, as well as the Chamber of Auditors.

2.13. Auditors cannot participate in auditing process in the following cases:
- If he/she is the employee of inspected auditor or works there for the last 3 years;
- If auditor whose activity is audited, has participated in auditing during the last 3 years;
- If auditor's license giving the right to be engaged in audit activity is revoked or if the effect of the licence is temporarily suspended according to existing legislation;

2.14. Head of the control group specifies concrete period of audit and informs the auditor whose activity will be audited, about this in writing at least 1 (one) month prior to the inspection.

2.15. The auditor whose activity is to be checked have the right to in writing express remarks and suggestions about structure of the control group 15 days prior to audit. Board of the Chamber adopts decision about making changes in the composition of the control group if necessary, considering whether the remarks are reasonable or not.

2.16. The auditor whose activity is to be audited provides the head of the control group with the list of agreements performed during the last 2 years, 1 (one) week prior to audit.

The list includes the following information: name of the auditor, types of auditing services, type of activity, its turnover, the total amount of assets, number of employees, partners involved in agreement, the amount of hours spent for the provision of auditing services, notes whether auditing contract is a primary obligation.

2.17. The auditor whose activity is to be audited is obliged to provide control group with all required information related to audit.

2.18. Participation of auditor in auditing process whose activity is inspected is obligatory.

2.19. Audit is summarized with meeting fixed by the head of the control group. Time of the meeting is agreed with auditor whose activity is to be inspected.

2.20. Head of the control group presents draft report on the results of the audit to the auditor whose activity has been audited, prior to fixed meeting. Auditor has the right to express its remarks and suggestions regarding the draft report.

2.21. Control group presents the report on the results of the audit to the control group committee. The committee assesses the report and depending on the result:
- makes decision on keeping in archive;
- makes suggestions on expediency of unplanned audit;
- Presents to Ethics Committee of the Chamber of Auditors for discussion, in order to make decision on application of disciplinary punishment.

2.22. Board of the Chamber approves the form and content of report on results of quality control verification.
2.23. Quality Control Committee gather the results of all inspections till the end of the current year and presents to the Board of the Chamber in January of the following year. Annual report, including statistical information is posted on the website of the Chamber of Auditors by an auditor without showing the name of inspected economic entity. The report contains the following information:

- the number of planned and unplanned audits;
- results of audits;
- faults and shortcomings found during audits;
- advice and recommendations given for improving auditing service quality.
- facts found during unplanned audits;
- Information on applied disciplinary punishment according to the results of inspections.

2.24. Committees of the Chamber of Auditors, auditors, as well as members and partners of the Chamber of Auditors use the information obtained during the audits on quality control only for the execution of the service positions and are responsible for notifying it to the third person. This condition does not apply to information to be given to the competent authorities pursuant to legislation and information deemed to be of public importance in accordance with 2.23 item of this Regulation.

3. Assessment Procedure of the System of Internal Quality Control

3.1. Assessment of the system of internal quality control is an integral part of conducted audit. The purpose of the assessment is to define its compliance with the requirements of the Law of Azerbaijan Republic “On Auditing Service” and auditing standards in the following fields:

- the imposition of high professional requirements on licensed auditors, their assistants and other specialists;
- ensuring professional development of knowledge and skills of licensed auditors, their assistants and other specialists;
- correct determination of contractual obligation and effective management of internal control;
- effective risk management in involving and providing new customers with auditing service.

3.2. The level of internal quality control system is assessed by carrying out survey among the auditors whose activity has been inspected and subordinate employees, and by the inspection of relevant documentation.
4. Separately selecting auditing work on contractual obligation

4.1. Head of the control group specifies the obligations on auditing contracts. The head of the group takes into account the followings, while selecting auditing work, for inspection, by the auditor whose activity will be audited:

- Presentation of information required by the auditor whose activity is to be audited in time and fully;
- The most significant auditing work on contractual obligation and holding discussions on risks related to such work.

4.2. While separately choosing auditing work intended to be inspected on contractual obligation, the head of the control group postulates the following principles:

a) Business documents made by auditor or its assistants related to each definite auditing work chosen for inspection should be sufficient for getting full and comprehensive information about professional activity;

b) If two or more licensed auditors participate in implementation of auditing service, then inspection is limited by checking auditing work performed by each licensed auditor, on condition that each auditing work on contractual obligation should cover whole auditing activity;

c) As the purpose of audit is the assessment of the quality control risk management, each selected auditing contract obligation includes auditing work under contractual obligations arising from especially high risk or relatively high risk;

4.3. While separately selecting each auditing work intended to be inspected under contractual obligation, the head of the control work focuses on the followings:

- Auditing contract obligations fulfilled in organisations registered in stock market;
- Auditing contract obligations implemented in large-scale and complex enterprises;
- primary auditing contract obligations;
- Auditing contract obligations implemented in specialized and complex activity spheres;
- Auditing contract obligations not peculiar to activity spheres to be mandatorily audited;

4.4. Provision of related auditing services (assessment of authorized capital (shares), implementation of agreed procedures, assessment of re-construction or unification of enterprises, and such other inspection of contractual obligations) are selected for internal control and are characterized as “high-risk commitments”. 
4.5. The head of the control group informs the auditor whose activity is inspected, about the auditing work selected under contractual obligations, 1 (one) week prior to the beginning of such inspection (audit). But at the beginning of audit, auditor whose activity is to be audited is informed about other auditing contract obligations.

5. Separate assessment of each auditing work quality control under contractual obligation

5.1. Separate assessment of each work quality control under contractual obligation aims at how correctly it has been defined in accordance with auditing standards of significant risks during professional activity of auditing group leader and involved employees for the fulfilment of these obligations.

5.2. Control group assesses whether the following issues have been observed within the framework of the risks in 4.2 item of the Regulations:

- Revealing and evaluation of risks arising from contractual obligations and planning of the selection of an appropriate auditing procedure;
- Collection of audit evidences for the presentation of auditor's opinion on the audit of related issues and financial statements through tests, inspection procedures and discussions;
- Regular monitoring of the work done by specialists involved in fulfilment of contractual obligations by the head of auditing group being responsible for the implementation of these contractual obligations;
- Development of financial statements and other final documents in accordance with the requirements of standards, norms and regulations in force;
- Development of auditor’s reports in accordance with the legislation of Azerbaijan Republic and auditing standards;
- The execution of the requirements under the legislation of Azerbaijan Republic on independence of auditors and code of professional ethics.

5.3. Auditors make conclusions in the course of inspection on quality control, as well as about the followings:

- Compliance of done works with auditing activities and continuation possibility of this activity;
- Contractual obligations on providing auditing service;
- planning work on preparation of collection of features, time and selection method of audit;
- availability and conformance of business documents;
- Quality of relevant business documents that audit of financial statements and auditor’s opinion on financial statements are based on.
5.4. Upon completion of the inspection, each audit work on contractual obligation chosen for the inspection is assessed separately. Assessment is included in quality control report.

5.5. The following criteria are used in assessment:

a) satisfactory – assessment «A» (shortcomings and deficiencies revealed in this assessment are considered non-significant). Recommendations are added to the report on quality control, for the separate improvement of each auditing work under contractual obligation of professional activity during the audit;

b) partly satisfactory - assessment «B». Recommendations are added to the report on quality control, for the improvement of each auditing work quality under contractual obligation of professional activity during the audit (thus, shortcomings and deficiencies revealed in this assessment are considered significant);

c) non-satisfactory - assessment «C». Shortcomings and deficiencies in professional activity not complying with the legislation of Azerbaijan Republic, requirements of audit standards and the code of profession ethics are noted in the report on quality control while assessing each inspected audit work under contractual obligation. Report of Quality Control Committee of the Chamber of Auditors is presented for the discussion of Ethics Committee of the Chamber of Auditors in order to provide disciplinary penalty.

5.6. Schedule indicating the period for the execution of working plan, program and recommendations on the elimination of shortcomings and deficiencies revealed in the report about the results of the inspection on quality control is submitted to Quality Control Committee. Submitted working plan is attached to the report on quality control and its usage in next inspection is considered available.

6. Documentation and declaration of results

6.1. Results of the inspections on quality control, separate assessment of each auditing work under contractual obligation and relevant results are collected in the report on quality control.

6.2. During the meeting held with the participation of the auditor whose activity has been inspected, the head of the control group gives explanation about the results of inspection on quality control and results indicated in draft report.

6.3. 10 days after the meeting, the head of the control group submits the report on the results of the audit to the Quality Control Committee. Copy of the report is also submitted to the auditor whose activity has been audited.

6.4. The reason of shortcomings and deficiencies detected as the result of audit is made clear referring to the important facts and added to the report.
7. Actions carried out by auditor upon completion of the audit

7.1. The auditor whose activity has been inspected is responsible for elimination of shortcomings and deficiencies detected by control group and for the improvement of professional activity.

7.2. Within 30 days after the submission of the report on quality control or after Board of the Chamber adopts relevant decision, the auditor whose activity has been audited presents the list of employees responsible for the improvement of professional activity, in relation to the results of the audit and working plan in order to eliminate revealed shortcomings and deficiencies.

7.3. Evidences about assessment on the results of audit can be presented to the Board of the Chamber within 30 days.

7.4. Board of the Chamber discusses the evidences about the assessment provided in the 7.3 item of the Regulations within 30 days and informs the auditor whose activity has been audited about its decision, by checking whether they are reasonable.

7.5. Special activity types and terms of fulfilment of actions related to the improvement of professional activity are indicated in the plan and program provided in 5.6 item of the Regulations. As a rule, improvement of professional activity by an auditor is performed during 90 days. If measures are not carried out till the last date of implementation period, working plan and implementation of program is provided by coordinating with Quality Control Committee.