

## **Minimum external auditing requirements for non-bank credit institutions**

### **1. General provisions**

1.1. These Requirements have been developed in accordance with Article 20.2-1 of the *‘Law of the Republic of Azerbaijan on Non-bank credit institutions’* and determine minimum external auditing requirements for non-bank credit institutions (hereinafter – NBCIs) operating throughout the Republic of Azerbaijan.

1.2. These requirements do not apply to external audits conducted at the initiative of the NBCI, except in cases defined by law.

1.3. The external audit of NBCI’s financial statements is carried out in accordance with International Auditing Standards.

### **2. Definitions**

2.1. The definitions used in these Requirements bear the following meanings:

2.1.1. external auditor – an audit organization or an independent auditor licensed to provide audit services in accordance with legislation.

2.1.2. independence – the ability to make objective and independent decisions without being under NBCI’s direct and/or indirect influence and/or other outsiders.

2.1.3. International Standards on Auditing – standards used for auditing of financial information relating to prior periods, developed by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

2.2. Other definitions used in these Requirements bear the meanings defined in the Law, and in the *Laws of the Republic of Azerbaijan ‘on Accounting’* and *‘on Audit Services,’* as well as in other legal acts.

### **3. Criteria for selecting an external auditor**

3.1. When appointing an external auditor, the NBCI considers the auditor’s past performance, professional qualifications, expertise, and business reputation, as well as the following:

3.1.1. the external auditor should meet the requirements set by the Chamber of Auditors of the Republic of Azerbaijan for external auditors conducting audits in public interest institutions.

3.1.2. the external auditor should be independent, including no other relationship, including business relations, with the NBCI that could impair the independence of the external auditor and the staff member(s) who will participate in the audit.

3.1.3. the staff member(s) of the external auditor who will participate in the audit should not have worked for that NBCI during the past 3 (three) years.

3.1.4. an audit of the NBCI should not be carried out by the same external auditor for more than 5 (five) consecutive years.

3.2. By December 15 of each calendar year, the NBCI submits written information to the Central Bank on the external auditor that will audit the institution. The information should also indicate external auditor's compliance with Item 3.1 of these Requirements.

#### **4. Requirements for activities of the external auditor**

4.1. An external audit report is developed based on external audit findings. The report should include at least the following:

4.1.1. the auditor's opinion.

4.1.2. at least the following financial statements of the NBCI:

4.1.2.1. statement of financial position (balance sheet).

4.1.2.2. income statement.

4.1.2.3. statement of changes in equity.

4.1.2.4. cash flow statement.

4.1.3. notes to financial statements.

4.2. Other matters that do not affect NBCI's financial statements but are of significant importance to its operations (for example, prudential indicators, management, and internal control systems, etc.) may be annexed with the external audit report.

4.3. After the external audit is completed, the external auditor submits an additional report to the NBCI's executive body, Audit Committee, and Supervisory Board (Board of Trustees). The report should present major risks, unusual findings, recommendations for improving internal controls and processes, and information on changes and actions taken regarding previous recommendations (if any).

4.4. Any violations, losses, or unlawful activities identified by the external auditor that pose a significant threat to interests of the NBCI's creditors or cause its capital to fall below the minimum level required by applicable legislation should be reported immediately to the Central Bank.

4.5. If the external audit is not conducted in accordance with these Requirements, the Central Bank demands the replacement of the external auditor and the conduct of a repeated audit at the NBCI's own expense.

#### **5. Duties of the Audit Committee regarding external audit**

5.1. In addition to the duties specified in the '*Law of the Republic of Azerbaijan on Internal Audit*,' the Audit Committee of the NBCI:

5.1.1. organizes joint work with the external auditor and assists in the implementation of audit findings and recommendations.

5.1.2. establishes contact between managerial bodies and the external auditor.

5.1.3. meets with the external auditor before the audit starts and ensures that all significant information and documents regarding NBCI's activities, and its subsidiaries related to the external audit are provided to the external auditor timely and completely.

5.1.4. requires the external auditor to provide immediate information on significant facts and events identified during the audit and discusses such information and audit findings with the external auditor.