

'Approved'

Financial Markets Supervisory Authority
of the Republic of Azerbaijan
Resolution № 1851100006

'08' October 2018

Acting Chairman of the Management Board

Ibrahim Alyshov

**Regulations
on requirements regarding external auditors of investment funds**

1. General provisions

These Regulations have been developed in accordance with Article 26.1 of the Law of the Republic of Azerbaijan on Investment Funds and determine requirements with respect to external auditors of investment funds and investment fund managers.

2. Definitions

2.1. The definitions used herein bear the following meanings:

2.1.1. external audit – review and assessment of the issues specified in Article 26.2 of the Law of the Republic of Azerbaijan on Investment Funds;

2.1.2. external auditor – an auditing organization that maintain external audit at investment funds and investment fund managers;

2.1.3. specialist – an employee working under an employment contract with an external auditor;

2.1.4. audit subject – a joint-stock investment fund and investment fund manager audited by an external auditor;

2.1.5. responsible employee – an employee capable to determine decisions on issues that are subject to external audit;

2.1.6. related party – a person specified in Article 27.1 of the Law of the Republic of Azerbaijan on Investment Funds;

2.1.7. international accounting degree – accountant with Certified Diploma issued by the Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA) degree issued by the American Institute of Certified Public Accountants (AICPA) or other equivalent international degrees;

2.1.8. Commitment letter – a written document reflecting the terms of the external audit, including the purpose and scope, the external auditor's obligations before audited entities and audited entities' obligations before the external auditor.

2.1.9. International Standards on Auditing (hereinafter – 'ISA') – standards used to verify financial information covering the previous period prepared by the International Auditing and Assurance Standards Board, the committee of the International Federation of Accountants (IFA). The following documents published by the IFA for the purposes of these regulations will hereinafter be referred to as the 'IAS':

2.1.9.1. Code of Ethics for professional accountants;

2.1.9.2. International Principles of Auditing and Assurance;

2.1.9.3. International Standards on Quality Control;

2.1.9.4. International Standards on Auditing;

2.1.9.5. International statements on auditing.

2.1.10. independent opinion – the ability to express an opinion free of factors that may affect professional judgment and to be accurate, objective, and cautious;

2.1.11. independent view – absence of important facts and conditions that may lead a third party with relevant information to conclude that the external auditor has lost credibility in terms of accuracy, objectivity, as well as professionalism.

3. Requirements on external auditors

3.1. The external auditor of audited entities should:

3.1.1. have a permit to operate in accordance with the law;

3.1.2. not be a related party to audited entities;

3.1.3. have at least two specialists who should:

3.1.3.1. have an international accounting degree;

3.1.3.2. have at least 3 (three) year auditing experience.

3.2. The external auditor should conduct its audit independently of audited entities and their shareholders, including shareholders with qualifying holding.

3.3. Independence of the external auditor should be based on independent opinions and visions of its experts.

3.4. The external auditor should conduct its audit under the requirements of the IAS.

3.5. Independence of the external auditor is considered lost if the following threats have a significant impact on him/her and these threats cannot be reduced to an acceptable level:

3.5.1. threat of self-interest - arises when an external auditor may benefit from financial interests in audited entities or from conflict with interests of those audited entities;

3.5.2. threat of self-examination - arises when it is necessary to re-evaluate previous results and considerations in order to obtain findings of the audit, or if the specialist was a responsible employee of audit entities in the past;

3.5.3. threat of incentive - arises as a result of the incentive activity of the external auditor, which jeopardizes objectivity of the position against audited entities or the opinion on audited entities;

3.5.4. threat of familiarity – arises when close relationship with audited entities, their employees or persons related to audited entities lead to conflict of interest;

3.5.5. threat of hazard - arises when the external auditor is threatened or assumed to be subject to intimidation by persons related to audited entities or employees of audited entities, which leads to a loss of its objectivity.

4. External auditor's selection and replacement

4.1. The audited entity enters into a written agreement with the external auditor to conduct the audit and notifies the Financial Markets Supervisory Authority within 30 (thirty) days after the date of signing the agreement.

4.2. After signing the contract specified in Item 4.1 herein, the 'Commitment letter' prepared on the basis of the IAS should be sent by the auditor to the audited entity and the receipt of the letter should be approved by the audited entity accordingly.

4.3. In the event of a change of the external auditor selected to conduct the audit during activities of audited entities, the audited entities should inform the Financial Markets Supervisory Authority on it and on the reasons for the change and the information on whether the newly selected external auditor meets the requirements set forth in Part 3 of herein within 30 (thirty) days from the day the external auditor is changed.

4.4. Replacement of the external auditor selected to conduct the audit during the activity of the audited entities may be carried out no later than 90 (ninety) days before the end of the financial year.

4.5. An external audit of an audited entity by the same audit organization may not be performed for more than 5 (five) consecutive years.