

“Approved”

State Committee for Securities of the
Republic of Azerbaijan
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Chairman

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Regulations on requirements for external auditors of licenced persons in the securities market

1. General provisions

- 1.1. These Regulations have been prepared in accordance with Article 61.14 of the Law of the Republic of Azerbaijan “On Securities Market” and determine the requirements for external auditors of an investment company, stock exchange, clearing house and investment fund depository.
- 1.2. The terms used in these Regulations shall have the following meanings:
 - 1.2.1. **external auditor** – is an audit organization performing external audits in an investment company, stock exchange, clearing house and investment fund depository;
 - 1.2.2. **specialist** – a staff member of the external auditor, an individual;
 - 1.2.3. **subject of audit** - an investment company, stock exchange, clearing house and depository of an investment fund audited by an external auditor;
 - 1.2.4. **responsible employee** - an employee who can have a direct and significant impact on the subject of audit;
 - 1.2.5. **international accounting degree** – Chartered Certified Accountant, a title issued by the Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA), a title granted by the American Institute of Certified Public Accountants (AICPA) or other international equivalents;
 - 1.2.6. **independent opinion** - the ability to express an opinion free from factors that may affect professional judgment, and to be correct and cautious;
 - 1.2.7. **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.

2. Requirements for external auditors

- 2.1. The external auditor of audited entities shall:
 - 2.1.1. have a special permit (license) to carry out auditing activities in accordance with the Law of the Republic of Azerbaijan “On Auditor Service”;

- 2.1.2. not be a related party to audited entities;
- 2.1.3. have at least two specialists who should:
 - 2.1.3.1. have an international accounting degree;
 - 2.1.3.2. have at least 3 (three) years of auditing experience.
- 2.2. The external auditor shall conduct its audit independently of audited entities and their shareholders.
- 2.3. Independence of the external auditor shall be based on independent opinions and visions of its experts.
- 2.4. 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:
 - 2.4.1. 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;
 - 2.4.2. 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;
 - 2.4.3. 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;
 - 2.4.4. threat of familiarity – arises when close relationship with audited entities, their employees or persons related to audited entities lead to conflict of interest;
 - 2.4.5. 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.
- 2.5. The external auditor shall protect the trade secrets and other legally protected information obtained about the audited entity during the audit.

3. External auditor's selection and replacement

- 3.1. Audit entities are free to choose an external auditor. Audit entities shall obtain information from the external auditor on:
 - 3.1.1. availability of a special agreement (license) in force to engage in auditing services;
 - 3.1.2. names of specialists to be involved in the external audit, their education and work experience;
 - 3.1.3. names of specialists with international accounting degree, their certificates;
 - 3.1.4. the term of the external auditor and the names of the entities audited during this period;
 - 3.1.5. relationships of the external auditor and its staff with the audited entities and their related parties in the last three years.
- 3.2. Replacement of the external auditor selected to carry out the audit during the activity of the audited entities shall be made not later than one month before the end of the financial year.

