

# **The Law of Azerbaijan Republic On Internal Audit**

This law defines the establishment of an internal audit service, and legal grounds for its realization, determines internal auditors' rights and responsibilities for the purpose of increasing effectiveness of entity's management.

## **Chapter I.**

### **General provisions**

#### **Article 1. Basic definitions**

1.0. The definitions used in this law have the following meaning:

1.0.1. internal audit – an objective assurance and consulting activity designed to increase effectiveness and improve an entity's operations. It helps an entity to accomplish its objectives by bringing systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes;

1.0.2. internal audit service – an organization (audit committee, department, branch, division, internal auditor) that conducts entity's internal audit activity;

1.0.3. entity's governing body – an entity's superior body (Board of Directors or Supervisory board) charged with governance;

1.0.4. Audit Committee – an organization established at entity to be responsible for development and accomplishment of internal audit policy and strategy, and for provision of audit control.

1.0.5. internal auditor – a practitioner of an internal audit service who conducts internal audit;

1.0.6. The Institute of Internal Auditors (IIA) – a professional association in charge of international certification, training, research, and development of instructions for internal audit profession;

1.0.7. The internal audit standards – the regulations approved by the IAA's Internal Auditing Standards Board for regulating internal control system and internal audit service.

#### **Article 2. Fields of Application**

2.1. This law is applicable to entities working on the territory of Azerbaijan Republic and subject to statutory audit, irrespective of patterns of their ownership and business organization.

2.2. The provisions of this Law can be applied on a voluntary basis by the entities not specified in article 2.1. of this Law.

2.3. If special requirements on internal audit are provided in legislation for the entities this law shall be applied in consideration of those requirements.

## **Chapter II.**

### **Organization of internal audit**

#### **Article 3. The duties of the governing body responsible for establishment of internal audit**

3.1. Entity's governing body shall:

3.1.1. assign and dismiss internal audit services leader and internal auditors (Audit Committee members);

3.1.2. approve Charter of the internal audit services;

3.1.3. approve internal audit plans and allocation of responsibilities of internal auditors;

3.1.4. determine internal audit policy and strategy and ensure its realization;

3.1.5. create necessary conditions for audit activity conduction;

3.1.6. take appropriate actions for elimination of defects and shortcomings discovered by internal audit services;

3.1.7. make decisions on implementation of appropriate proposals specified in internal audit service's report.

3.2. Once an Audit Committee has been established at entity, the obligations specified in articles 3.1.2 and 3.1.4. of this Law shall be conducted by that body.

#### **Article 4. The responsibilities of the internal audit service**

4.1. The responsibilities of the internal audit service are the following:

4.1.1. ensuring of entity's continuous and effective activity, risk management, determining the effectiveness and adequacy of the internal control system established to respond shortly to any changes;

4.1.2. checking accuracy and reliability of accounting reports and financial statements;

4.1.3. assessing the effectiveness of the entity's expenses;

4.1.4. checking the conformity of an activity of the entity, its associated companies and organizations (subsidiaries) to the regulations and approved action plan.

4.1.5. assessing the resources effectiveness and adequacy, appropriate control and the sufficiency of loss protection.

4.2. An Audit Committee is usually established at public structures and performs the following duties:

4.2.1. determining the entity' internal audit policy and strategy, approving an internal audit plan and controlling an internal audit activity;

4.2.2. approving the job descriptions and programs of internal audit services leader and members, internal audit reports, the recommendations for improvement of control system;

4.2.3. making proposals to appropriate governing body for establishment and application of internal control system, and improvement of internal control and risk management system;

4.2.4. making proposals to appropriate governing body for assignment of external audit;

4.2.5. obtaining information from the entity's executive bodies on status of fulfilling the recommendations made by external and internal auditors with respect to internal control system;

- 4.2.6. determining the areas of high financial risk and obtaining assurance of effective governance by the entity's executive bodies;
- 4.2.7. discussing the misstatements, defects and shortcomings discovered by external and internal audit or in the course of other inspections, and making proposals to appropriate governing body for elimination thereof;
- 4.2.8. reviewing the legal matters that could materially affect the financial statements, and making appropriate recommendations;
- 4.2.9. supervising the process of preparing entity's current financial statements and conclusions thereof;
- 4.2.10. ensuring the discussion of recommendations made by internal auditors with respect to performed audit;
- 4.2.11. involving the entity's appropriate executive bodies to fulfillment of recommendations made by internal auditors.

### **Article 5. Independence of internal audit service**

- 5.1. The internal audit service is independent in planning its activity, conducting internal audit and preparing reports with respect to performed audit.
- 5.2. The internal audit service can not be involved in works relevant to the competence of entity's executive bodies, as well as in the preparation of programs and projects not relevant to its competence.
- 5.3. The internal audit service can make recommendations for organization of internal control system at the entity's associated companies and organizations (subsidiaries).

## **Chapter III.**

### **Internal auditor**

#### **Article 6. Internal auditor's rights**

- 6.0. An internal auditor has the following rights:
  - 6.0.1. to request for documents of entity's cash assets, real estate, tangible assets and etc., including electronically stored information;
  - 6.0.2. to investigate accuracy of effective and proper use of financial assets;
  - 6.0.3. to express opinion on audit results;
  - 6.0.4. to obtain as necessary additional information and explanations from entity's officials;
  - 6.0.5. to conduct other rights specified by legislation.

#### **Article 7. Internal auditor's responsibilities**

- 7.1. An internal auditor shall conduct internal audit in compliance with the work plan approved by entity's appropriate governing body or Audit Committee.
- 7.2. An internal auditor should observe in conduction of internal audit the legislation of Azerbaijan Republic, the Statute of Internal Audit Services, the professional standards, principles, instructions and regulations specified by the Institute of Internal Auditors, of which Azerbaijan Republic is a member.
- 7.3. An internal auditor is responsible for conformity of its activity to the legislation.

7.4. An internal auditor should reject to perform any engagements not relevant to its competence by communicating in writing to internal audit service or entity's governing body.

7.5. An internal auditor should not impede the entity's normal activity, not misuse of trade secret information acquired as a result of professional relationships, and should observe the principle of confidentiality.

### **Article 8. Requirements for internal auditor**

8.1. An internal auditor should have higher education in economics, law, or other specialty, and 4 years working experience in auditing and related fields.

8.2. Individuals deprived by the court's decision of the right to take certain positions in the fields of business relationships, or be engaged in certain activities, and not acquitted for previous conviction related with such penalty can not become an internal auditor.

8.3. It is prohibited to perform internal audit for internal auditor who has personal interests, or closest relationship with any of those charged with governance and those charged with drawing of financial statements of the entity to be audited, or who is founder or shareholder of that entity.

### **Article 9. Internal Audit Services Leader's responsibilities**

9.1. An internal audit services leader shall:

9.1.1. prepare long-term and annual plans for development with respect to internal auditors activity, and present to entity's governing body;

9.1.2. present internal audit report to entity's governing body;

9.1.3. make proposals to entity's governing body with indication of individuals responsible for elimination of defects and shortcomings discovered in audit;

9.1.4. communicate to entity's governing body of interferences in internal auditor's independence or objectivity;

9.1.5. apply to entity's governing body with the purpose to ensure the implementation of technical-organizational measures necessary for organization of internal audit service;

9.1.6. define the internal audit procedures at the entities as per internal audit methodology;

9.1.7. evaluate internal auditors' performance quality;

9.1.8. involve as necessary the entity's other members to the performance of audit by the consent of entity's governing body;

9.1.9. present an annual report on internal audit services activity to the entity's governing body.

### **Article 10. Requirements for Internal Audit Services Leader**

10.1. The requirements for internal audit services leader are the following:

10.1.1. to have higher economic or legal education, and 5 years working experience in the related field;

10.1.2. to have high professional practice and moral qualities;

10.1.3. not to be engaged in charged activities other than research, educational and creative work.

10.2. Individuals deprived by the court's decision of the right to take certain positions in the fields of business relationships, or be engaged in certain activities, and not acquitted for previous conviction related with such penalty can not become internal audit services leader.

#### **Chapter IV.**

#### **Public regulation and coordination of internal audit activity**

##### **Article 11. Public regulation of internal audit activity**

The public regulation of internal audit activity is conducted as per statutory and legal acts of Azerbaijan Republic.

##### **Article 12. Interrelations between entity's employer and internal audit services leader and members**

Interrelations between entity's employer and internal audit services leader and members are regulated by this Law, the Labour Code of Azerbaijan Republic and other regulations.

##### **Article 13. Internal auditing self-regulation**

13.0. An internal auditing self-regulation is conducted by appropriate public association in the following way:

13.0.1. maintaining practical support to an internal audit service in its activity;

13.0.2. maintaining methodological support to an internal service in observance of approved internal audit procedures;

13.0.3. conducting arrangements for organization of trainings and professional development courses for internal auditors;

13.0.4. rendering consulting services on internal auditing;

13.0.5. preparing proposals on internal audit procedures for internal audit services;

13.0.6. preparing regulations and comments for application of internal audit standards approved by Institute of Internal Auditors.

#### **Chapter V**

#### **Final provisions**

##### **Article 14. Responsibility**

The initiators of infringement of the requirements of this Law bear responsibility in a manner established by legislation.

##### **Article 15. Interim provisions**

The periods of phased application of this Law are determined by appropriate executive authority.

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The President of Azerbaijan Republic

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