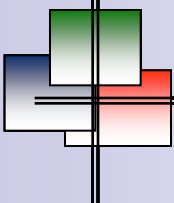




**MINISTRY OF FINANCE OF THE REPUBLIC OF AZERBAIJAN**  
**ACCOUNTING POLICY DEPARTMENT**

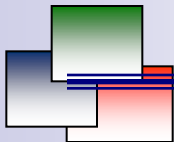
**Government regulation of public sector financial reporting  
in Azerbaijan in line with international standards**





Targeted reforms in some economic sectors have been carried out over the past few years in order to implement the Government's policy aimed at integrating Azerbaijani economy into the world economy.

Accounting reforms, which include the use of IAS and IPSAS, are one of the key priorities of this policy.



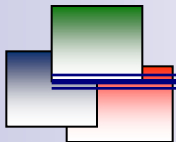


Accounting laws and regulations have been drafted and approved in order to implement this policy.

The law “on Accounting” entered into force through the Decree of the President of Azerbaijan of September 2, 2004.

Presidential Decree “on the application of the law “on accounting” of February 7, 2005” was signed, delegating the task of regulating the public accounting sector to the Ministry of Finance.

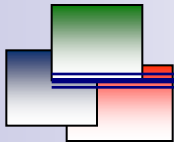
These laws incorporated on a conceptual level a gradual shift to new standards, which would harmonize the National Accounting Standards (NAS) with IAS and IPSAS, bearing in mind the following priorities of the public accounting policy:





**First stage** – Create a legislative and methodological framework to prepare financial reports in accordance with international accounting standards;

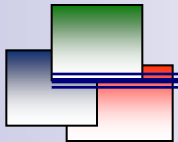
- Create a legislative and regulatory framework that would enable institutions to prepare and submit financial report in accordance with international standards;
- Draft methodological materials, recommendations, manuals and develop software on the use of new accounting standards.





**Second stage** – create efficient regulatory system for timely and submission of quality financial reports under the new standards;

- The respective agencies design and implement a range of measures within their legal authority to supervise the due submission of new financial reports by the accounting units.
- Carry out internal and external audit over the quality and timely submission of these reports, in accordance with the current legislation.

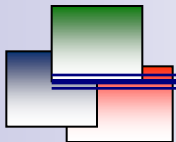




**Third stage** – Build the intellectual capacity to acquire knowledge on the use of IAS, IPSAS and NAS;

- Develop and implement a program for trainers on the use of financial accounting standards;
- Implement a program of continued learning in order to provide to the accounting units the basic skills and knowledge on preparing and submitting financial reports in accordance with international accounting standards.

Under some provisions of the Law “on Accounting” and the Presidential Decree “on the use of the Law “on Accounting”, the first stage of reforms has been completed.





The MoF, within the range of its competences to regulate the public accounting sector, has achieved the following results, set as targets for the first stage of accounting reforms:

Approved the official translation of IAS into the Azerbaijani language;

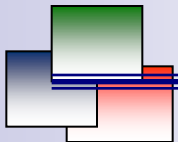
- Developed and approved NAS for private companies on the basis of IAS;

- Developed and approved Comments and Recommendations on the implementation of approved IAS for commercial organizations;

- Developed and approved NAS for public institutions in accordance with IPSAS;

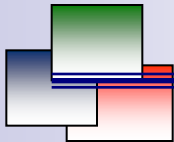
- Developed and approved NAS for NGOs in accordance with the general principles of IPSAS;

- Appointed Accounting Consultative Board to establish a transparent and democratic procedure for developing and approving NAS;





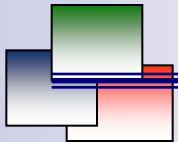
- Approved submission rules, reporting periods and publishing guidelines for financial reports by public entities and extra-budgetary public funds;
- Approved the format, content and procedure for submitting annual financial reports by NGOs;
- Approved submission rules, reporting periods and publishing guidelines for commercial companies in compiling and submitting annual financial reports and consolidated financial reports;
- Approved the requirements for the maximum volume of securities that can be issued by one issuing institutions;
- Approved the recommendations on the organization and conduct of accounting in accordance with the National Accounting Standards for public institutions;







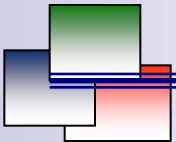
- Approved accounting rules for credit organizations;
- Approved simplified accounting rules for small businesses;
- Set administrative penalties for violations of current legislation on the preparation and submission of financial report and consolidated financial reports by accounting units;
- Compiled a manual on preparing financial reporting in compliance with National Accounting Standards for commercial organizations on the basis of IAS 2006
- Developed and approved accounting software on the basis of approved NAS for public institutions.





At the second stage of reforms, after the key accounting laws and regulations envisaged at the first stage entered into force, the following institutions started to prepare and submit respective financial reports and consolidated financial reports:

- Institutions which are of public significance - on the basis of IAS;
- Commercial organizations (except for institutions which are of public significance and small businesses), on the basis of NAS and IAS;
- Public institutions and extra-budgetary public funds on the basis of NAS in accordance with IAS;
- NGOs on the basis of NAS in accordance with general principles of IAS.

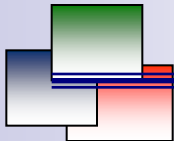




The experience accumulated in compiling financial reports in a number of organizations, primarily those that are of public significance, points to certain successes in the reform implementation process.

Companies affiliated with the Government Oil Company of Azerbaijan, insurance companies, AzərCell Telecom have all achieved a certain degree of success in implementing the key part of the program to shift to IAS, including the acquisition of new knowledge and skills by employees of specialized departments (accounting, IT), as well as providing to these employees the necessary materials on the preparation of financial reports and the technical tools to use the software and automatize accounting.

Under the rules contained in the “Requirements for the maximum volume of securities that an issuer may issue”, which were approved in 2010 by a Government Decree, the issuer of securities must provide an annual financial report accompanied by an auditor statement whenever he applies for government registration of the securities issued.



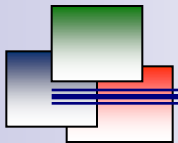


Public institutions have started work to compile financial reports using recommendations on the organization and conduct of accounting, in compliance with the National Accounting Standards for public organizations, and the new Chart of Accounts, as well as accounting records which comply with NAS.

In some public institutions, financial reports are prepared on the basis of accounting software, which meets the above requirements and which is available on the MoF website.

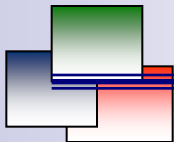
The following steps have been taken to improve and bring into line with international standards the legal and methodological framework, which was created at the first stage of the reform

- IAS as of 2011 have been translated into the Azerbaijani language and posted on the MoF website;





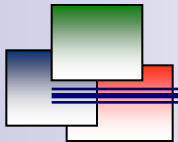
- IPSAS as of 2011 have been fully translated into the Azerbaijani language;
- Regulation “on the organization and conduct of accounting in compliance with the National Accounting Standards for public institutions” has been approved.
- Currently, the MoF, together with the World Bank, is implementing the project “Reporting in the corporate and public sectors” to make reporting automatic for all public institutions and create an electronic depository for reports, as well as implement a program of continued training and certification of public sector accountants, which would meet the requirements of IAF.





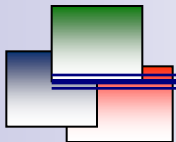
At the same time, successes have not always included all modern-day methodological and practical aspects of accounting which have been adopted and used internationally. However, this should not demean the positive results achieved by Azerbaijan in providing financial reports in line with IAS and IPSAS.

The existing gaps in the use of international accounting and audit standards include:



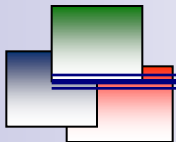


- 1. Targeted training of accounting specialists to provide them with fundamental knowledge about the use of IAS and IPSAS;**
- 2. Reorganization of institutional accounting capacity in line with IAS and IPSAS;**
- 3. Restructuring of financial departments at institutions;**
- 4. Creating an efficient coordination system between the supervisory agencies in order to ensure the timely provision of quality financial reports;**





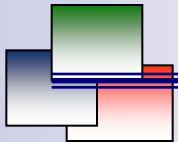
- 5. Use of respective software in order to make accounting automatic, as well as prepare and submit financial reports in line with IAS and IPSAS;**
- 6. Insufficient involvement by institutions of professional accounting and audit agencies in the preparation of financial reports on the basis of IAS and IPSAS;**
- 7. Financial problems related to the use of IAS and IPSAS.**







# Questions and answers





Thank you for your attention

