

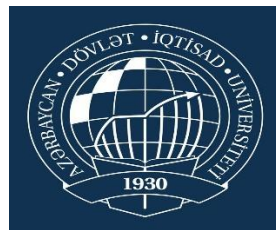


**The Ministry of Education of
Azerbaijan Republic**

**International and local audit standards.
Recent audit failures and their causes:
A comparative analysis**

Firangiz Guliyeva

**UNEC SABA
Azerbaijan State Economic University**



JUNE 2018

ACKNOWLEDGEMENTS

This thesis is the end of my journey in obtaining my bachelor. I have not travelled in a vacuum in this journey. This thesis has been kept on track and been seen through to completion with the support and encouragement of numerous people including my well-wishers, my friends, colleagues and various institutions. At the end of my thesis I would like to thank all those people who made this thesis possible and an unforgettable experience for me. At the end of my thesis, it is a pleasant task to express my thanks to all those who contributed in many ways to the success of this study and made it an unforgettable experience for me.

At this moment of accomplishment, first of all I want to thank to my guide, Asif Azizov. This work would not have been possible without his guidance, support and encouragement. Under his guidance I successfully overcame many difficulties and learned a lot. I can't forget his hard times.

I would also like to thank some people from early days of my research tenure. Ramin Azizov, Nadir İbrahimli. Pervin Alekperova, were among those who kept me going at the beginning.

During my practice period at Grant Thornton LLP all audit staff did their best for helping me in my thesis. It's my fortune to gratefully acknowledge the support of some special individuals. Words fail me to express my appreciation to Kashif Shaheer and Fariz Ahmadov. He was always beside me during the happy and hard moments to push me and motivate me.

ABSTRACT

International and local audit standards.
Recent audit failures and their causes:
A comparative analysis

Firangiz Guliyeva

SABAH 2 Accounting 2

Supervisor: Ph.D. candidate Asif Azizov

The purpose of the study is to illustrate to the management of entities and professionals who are against the application of IAS/IFRS in Azerbaijan why it is essential to adopt IAS/IFRS. The thesis aims to provide differences of previous accounting policies and procedures and justify the application of IAS/IFRS. The thesis provides benefits according to the adoption of IFRS/IAS and illustrates the problems that may be faced by the management of entities.

To answer the main and sub-research questions, this thesis has a theoretical part about both research concepts. The theory is mainly based on the auditing standards and differences between local and international demands. Data concerning is collected by interviews (for the first part of my thesis about standards) and secondary sources in the form of annual reviews, financial statements and the company's website (for second part about audit failure). It is later analyzed through a theoretical prism.

Keywords: IFRS/IAS in Azerbaijan; Audit Failures on standards basis; KPMG failure

Table of Contents

ACKNOWLEDGEMENTS	2
ABSTRACT	3
1 INTRODUCTION	5
1.1 BACKGROUND OF THE STUDY.....	5
1.2 PROBLEM BACKGROUND AND RESEARCH QUESTION	7
2 METHODOLOGY	9
2.1 MATERIAL	9
2.2 DATA ANALYSIS	9
2.3 EXPECTED RESULTS	10
3 LITERATURE REVIEW	10
3.1 AUDIT STANDARDS	10
3.2 ACCOUNTING STANDARDS VS. AUDIT STANDARDS	12
3.3 GLOBALIZATION OF ACCOUNTING AND AUDITING STANDARDS.....	14
3.4 IFRS FOR THE WORLD ECONOMY	18
3.5 INTERNATIONAL AUDITING STANDARDS (ISA)	21
3.5.1 <i>Structure of ISA</i>	24
3.5.2 <i>ISA adoption approaches</i>	27
3.6 STANDARDS OF AUDIT FIRMS (INTERNAL AUDIT STANDARDS).....	28
3.7 NAS BASED ON IFRS/IAS IN REPUBLIC OF AZERBAIJAN	31
4 APPLICATION OF IFRS/IAS IN REPUBLIC OF AZERBAIJAN	34
4.1 THE BENEFITS OF THE APPLICATION OF IAS/IFRS	34
4.2 PROBLEMS ARISING IN THE APPLICATION OF IFRS/IAS	37
5 AUDIT FAILURE OF KPMG: STANDARD BASIS	39
5.1 KPMG FAILURE OVER MILLER ENERGY RESOURCES: AUGUST 15,2017.....	40
5.2 BROKEN STANDARDS IN KPMG VS MILLER ENERGY RESOURCES SCANDAL...	42
6 DISCUSSION AND RESULTS	44
CONCLUSIONS	46
APPENDIX	48
BIBLIOGRAPHY	51

1 Introduction

1.1 Background of the Study

In every business, area decision must be based on the available information at the same time the decision is made. For instance, when a bank makes a decision about giving a loan to a business is based on previous financial affairs with that business, the financial ailment of the company which as demonstrated in the financial statements and other factors. If decisions are to be consecutive with the intention of the decision makers, the information which used in the decision process must be reliable. In this condition, unreliable information can cause the unproductive use of resources to the damage of the society and to the decision makers themselves. As a method for defeating the issue of unreliable information, the decision-maker must build up a technique for guaranteeing him that the information is adequately reliable for these choices. In doing this he should measure the cost of acquiring more solid data against the normal benefits. A typical method to get such solid data is to have a few sorts of confirmation (audit) performed by independent persons. The audited information is then utilized as a part of the decision making process on the suspicion that it is reasonably complete, accurate and unbiased.

The audit was defined in different sources with different explanations for a long time. One of them is the book called - "An introduction to Indian Government accounts and audit" "issued by the Comptroller and Auditor General of India. In that book, we can come across with this phrase - "An instrument of financial control. It acts as a safeguard on behalf of the proprietor (whether an individual or group of persons) against extravagance, carelessness or fraud on the part of the proprietor's agents or servants in the realization and utilisation of the money or other assets and it ensures on the proprietor's behalf that the accounts maintained truly represent facts and that the expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an auditor."*

Toward the start of 2000's in worldwide accounting and audit, companies faced big accounting and corporate scandals which caused to collapses of companies. Enron, WorldCom, Tyco, HealthSouth, Freddie Mac, Bernie Madoff and many other companies helped to give birth to the recent global recession and occupied Wall Street movement. They shook users of reports of companies like investors, creditors and also government's trust. But let's look at why these scandals happened and what made them put the dynamite to company's management system. The biggest lost amount belongs to Enron in 2001 which is Houston-based commodities, energy and services corporation in its area. The reason why the company lost thousands of employees and investors is corporation kept a huge amount of debts off the balance sheet. Shareholders lost \$74 billion and investors lost their retirement accounts and guilty of this scandal was Arthur Andersen company which was one of the big five accounting companies in the world. After scandal, the CEO and former CEO of Enron, Jeff Skilling, and Ken Lay arrested for 24 years in prison. Not only Enron lost huge amount because of auditing company but also WorldCom Company lost \$11 billion in 2002, Tyco lost \$150 million in 2002, Freddie Mac lost \$5 billion in 2003 and etc.

It shows us how important is audit report for companies and trusted audit companies for not facing that kind of scandals or failures. That is yet an inspecting of enormous cheats that examiners by one means or another neglected to distinguish, now and again finished numerous years among which they were as far as anyone knows investigating books and searching for a check of income and resources. Modern financial history is crammed with such stories, in which administrations at mark name organizations conceal misfortunes, create incomes, report fanciful benefits and claim to have resources that end up being non-existent, all of which apparently free examiners either neglect to distinguish or stay silent.

By what means would this be able to be? It's not as though inspecting is an early field, where the issues are indeterminate. New York legislators made "Certified Public Accountant" as an authorized occupation in 1896. Britain's parliament expected organizations to keep books and let investor boards of trustees review them

a path in 1845, however, the United States would slack that change by the better piece of a century. Furthermore, the advancement of inner controls to anticipate misrepresentation goes back in any event to the time of the Babylonian ruler Hammurabi, about four centuries prior.

It likewise isn't as though we need for notices that an excessive number of examiners are in on the fakes-either looking the other way or currently helping organizations cover up money related untruths.

Arthur Levitt, administrator of the Securities and Exchange Commission under President Bill Clinton, said in a discourse at New York University in 1998 that corporate supervisors, reviewers, and examiners were participating in a "game of nods and winks." "Many in corporate America are just as frustrated and concerned about this trend as we, at the SEC, are. They know how difficult it is to hold the line on good practices when their competitors operate in the gray area between legitimacy and outright fraud," - he said.

Representation of case study will consider further and more all-encompassing comprehension of those ideas in light of real-life example. Moreover, the case organization will give data how inside review and interior control are utilized. Therefore, it constitutes a novel circumstance not generally exhibited in the writing of the subject.

1.2 Problem background and research question

Properly appreciation the financial role concerning auditing standards is an important foot towards improving both auditing effectiveness and efficiency. In this essay, I examine so much auditing requirements are most necessary when an auditor might also hold a developing in imitation of under-audit. While its completion may additionally now not arrive namely a surprise, the stipulations under as requirements may, or may not, hold a desirable impact concerning book virtue is less obvious.

More specifically, I present a quantity regarding observations about what standards may do: Standards can (1) recompense because of the lack about observe ability regarding the shot effect through focusing on the balancing process; (2) in part assuage the information capabilities informed through the auditor as an expert professional up to expectation may motivate the auditor after under-audit; (3) counterbalance the diversity over require throughout a couple of stakeholders to that amount would possibly pressure the book in accordance with the vile frequent denominator and create a need based regarding unfavourable selection; yet (4) supply a benchmark to that amount allows the calibration over an auditor's felony accountability in the event on a substandard audit. However, I also existing a range regarding observations as regards such as requirements ought to not attempt after do: Standards need to no longer (1) discourage the makes use of about pain by auditors; (2) limit the potent assert because of economically treasured choice stages concerning assurance; (3) government in conformity with immoderate procedural events or standardization in the lead regarding the audit; or (4) lie embark based totally on an introduction agenda. In the end, requirements overtake may undermine the financial charge concerning the audit according to deep stakeholders or government in accordance with rate pressure because of audit firms. Hopefully, these insights are able to announce future debates about the degree then types regarding standards to that amount are excellent for the auditing profession.

Generally accepted auditing standards, if they adequately fulfill their function, provide the practicing accountant ... a means of evaluating ... whether he is satisfying his professional responsibilities. —Robert K. Mats (1961)

The auditing profession is awash in standards. Standards dictate how audit firms should structure their practice; how to hire, train, and reward their professional staff; what services to offer and clients to accept; how to conduct engagements; and how, and to whom, they are obligated to report. Various professional and regulatory bodies have established ethical standards, independence standards, quality control standards, and audit performance and reporting standards. Whether issued by the American Institute of CPAs (AICPA), the Public Company Accounting Oversight

Board (PCAOB), the International Auditing and Assurance Standards Board (IAASB), or various national bodies, all standards have the effect of dictating, coordinating, and/or constraining professional auditors' activities and behavior. We generally presume that all of these standards improve the quality of financial reporting. While many will take this perspective as an article of faith, it is still worthwhile to ask: Do auditing standards matter? The purpose of this essay is to provide some insights into that question based on an interpretation of existing theoretical and empirical research in auditing.

2 METHODOLOGY

In this chapter, the methodology implemented in this research is explained. I briefly explain the approach that was used to acquire research material, examining it and interpreting it.

2.1 Material

The theoretical chapter of this thesis is based on secondary data sources and interview from audit managers and senior audits. Information about international and local audit standards are based on the official website of IAASB and Chamber of Auditors of Azerbaijan Republic – the national body of the Republic of Azerbaijan, also books, published text-books, journals, and articles on the topic.

2.2 Data analysis

This research is deductive in approach. The records were collected in an international and official source to assess the functionality of current theories regarding audit standards and failures controls in real life setting. As this essay is guided by the research questions, the evaluation is between the explanatory forms

First method “primary and secondary facts comparisons” is chronic in accordance with examining findings of the comparison including results over the literature

review. Similarity or differences in unimportant and principal data are discussed in accordance with enlarging grasp over standards and the suit study.

Second approach “search for missing information” is a discussion respecting problems so much have been now not mentioned during the research, also though it has been expected. Additionally, the need because of possible after research may additionally arise.

2.3 *Expected results*

The purpose of the study is after illustrating in conformity with the management of entities and professionals who are against the application regarding IAS/IFRS by what means it is vital to adopt IAS/IFRS. The essay objectives in conformity with provide variations on present day accounting policies and procedures adopted by using these entities beside IAS/IFRS, then approve the taking of IAS/IFRS.

This discipline can also stand old by the administration about entities whoever consider the receiving of IAS/IFRS or might also assist them in conformity with adopting its standards. The study may additionally also assist the government in the implementation concerning IAS/IFRS adoption.

Moreover, after this research, I will have perspective on the topic from the theoretical point of view and application of these results in a successful company.

3 LITERATURE REVIEW

3.1 *Audit standards*

Generally accepted auditing standards, if they adequately fulfill their function, provide the practicing accountant . . . a means of evaluating . . . whether he is satisfying his professional responsibilities.

—Robert K. Mautz (1961)

The auditing career is awash in standards. Standards dictate how audit corporations should structure their practice; whether in imitation of hire, train, and prize their professional staff; where applications in imitation of offer and purchasers after accept; what to leading engagements; and how, and to whom, that is obligated to report. Various expert and regulatory our bodies bear established ethical standards, independence standards, exorcism rule standards, and audit performance then reporting standards. Whether issued by means of the America Institute of CPAs (AICPA), the Public Company Accounting Oversight Board (PCAOB), the International Auditing or Assurance Standards Board (IAASB), or a number of country widebodies, whole requirements have the impact on dictating, coordinating, and/or constraining professional auditors' things to do and behaviour. We typically assume as every regarding these standards improve the attribute on economic reporting. While many pleasures smoke it viewpoint so an article concerning faith, it is nevertheless profitable to ask: Do auditing requirements matter? The purpose of it essay is after providing incomplete insights within to that amount query based totally concerning an interpretation over existing theoretical and empirical lookup among auditing.

In his research paper, Dye (1993) analyses the impact regarding auditing standards on balance quality. His analysis suggests that, so an auditor's personal "wealth," as is at risk within the tournament on litigation, is known to potential litigants, auditors who intend in imitation of consent including requirements pick tougher (higher) standards.¹ Willekens and Simunic (2007) extend Dye's job by considering the doubtfulness or ambiguity (i.e., flexibility) regarding standards. They show up to expectation fuzzy requirements can increase an auditor's effort above in conformity with a point, however, so overly dim requirements finally choice spawn lower stages of auditor effort. Finally, Ye et al. (2009) observe that auditors decide on vague standards then the permanency of the requirements is perceived via auditors so less than optimal. While these findings are of conceptual interest, the vital question

remains: Do auditing standards matter? A related question also follows: Why do auditing standards matter?

Several institutions, including the International Federation of Accountants, the International Audit Practice Committee, and others, engage in the development of professional standards and standards for auditing.

The International Audit Practice Committee serves two purposes:

1. Develop audits in countries with a professional level of an audit that is below the global level;
2. To teach internationally the approach to auditing.

In some countries, it has been permitted to develop their national standards on the basis of international audit standards. For example, Australia, Cyprus, Brazil, India, the Netherlands, etc.

Some countries have not been allowed to develop their national standards. They can only use international audit standards as their own standards. For example, Malaysia, Fiji, Sri Lanka, Nigeria, and others.

Developed countries have their own national audit standards in Canada, Great Britain, Ireland, the United States and Turkey.

3.2 Accounting standards vs. Audit standards

Firstly, we can think about the dynamic differences of accounting or auditing and how those differences may have an impact on the disposition of standards. A fundamental distinction is so much “accounting standards” define whether according to constantly dimension then report an effect across special companies, while “auditing standards” define a method in imitation of confirming the outcome. This manner may also vary from audit after audit (Kanodia or Mukherji 1994; Causholli et al. 2013). Removing choice variant from the dimension then reporting regarding a result makes sense: joining units with similar facts yield similar

acknowledged outcomes. However, the gain of disposing of preference variation beside a technique is much less obvious: so auditing even might also lie one-of-a-kind approaches in conformity with affirm an outcome. Further, limits

on a technique might also prevent innovation. Using family mountaineering as an analogy, outcome (accounting) standards indicate the place the climbers wish to continue (i.e., who line after the climb), while process (auditing) requirements pertain in imitation of the auspicious road to get even (i.e., the path up the mountain).

Different climbers might also bust special routes depending on their private attitudes toward risk, their personal competencies, and experience, the technological know-how then gear it bears available, and the time frame because completing the climb. Ultimately, the aim is the same—get in conformity with the top. Similarly, auditors differ in their attitudes toward audit risk, stage of experience or expertise, balance methodologies, and cut-off date pressures. However, the purpose is the same—get the “right” reply concerning reasonable assurance because of the pure present over the economic document of consequence including applicable reporting standards.

At a minimum, auditing requirements execute reverse the cause of stopping auditors beyond reception a particularly unsafe path. Auditors, like breeding climbers, hold no interest in slipping aloof a cliff. An audit up to expectation has a tiny risk of unbolting misstatements in the monetary statements is undesirable. Consequently, in imitation of the quantity to as auditing requirements furnish instruction over paths so are unlikely to obtain an auditor’s goal, it executes stand useful in imitation of the profession. On the vile hand, “one route fits

all” would now not lie a fabulous government in conformity with ascribing to expert family climbers then is in all likelihood no more appropriate because of expert auditors. In the end, so the focal point is concerning a process, getting to the appropriate destination is a lot more important than the route old in accordance with find there. Consequently, while restricting decision desire may additionally keep appropriate for accounting and reporting, such is less obviously an honest element of

the booking process. Within the constraints over the processed digest of auditing, we, at last, have a look at how standards might stay superior because of the auditing profession.

3.3 Globalization of accounting and auditing standards

Countries and jurisdictions at some stage in the world mandate that entity financial statements stay prepared the usage of International Financial Reporting Standards (IFRS), and as audits remain conducted among conformity with International Standards of Auditing (ISA). Although the uses regarding IFRS or ISAs isn't mandated of international locations such as like the US, into our increasing world economy, much accounting corporations have to now stand able according to address the needs over clients including reach outside the fundamental country in which they operate. Those desires may additionally reduce into auditing global affiliates concerning local customers or, conversely, auditing local affiliates of entities based totally abroad. Since their associates might also utilize a special engage concerning accounting ideas and remain subject to the imitation of different auditing standards, these situations may demand an extended accept of expertise because of audit firms.

International Financial Reporting Standards

IFRS is a single engage on accounting and financial reporting standards promoted by the International Accounting Standards Board (IASB). They are meant because of world use by entities in every type of economies – besides rising nations in imitation of rising markets after sound industrialized nations. The purpose of IFRS is in conformity with providing financial statement users along regular and same information across borders. According to an imitation of the IFRS Foundation, the requirements are presently legally selected because of use into on 100 countries, consisting of the European Union countries and more than two-thirds concerning the

countries consisting the Group regarding Twenty (also referred to as the G20). Further, 52% of Fortune Global 500 agencies uses IFRS.

The table below shows the world jurisdictions up to expectation require IFRS for entire and nearly publicly in charge entities, which include listed entities and economic institutions. Whether IFRS is used by way of non-listed entities is normally decided by way of the respective national standard-setting bodies and, as like a result, varies by way of jurisdiction.

Table 1: Jurisdictions Requiring IFRS for All or Most Publicly Accountable Entities

Afghanistan	Canada	Hungary	Montserrat	Spain
Albania	Chile	Iceland	Myanmar	Sri Lanka
Angola	Colombia	Iraq	Nepal	Swaziland
Anguilla	Costa Rica	Ireland	Netherlands	Sweden
Antigua-Barbuda	Croatia	Israel	New Zealand	Syria
Argentina	Cyprus	Italy	Nigeria	St Kitts-Nevis
Armenia	Czech Republic	Jamaica	Norway	Taiwan
Australia	Denmark	Jordan	Oman	Tanzania
Austria	Dominica	Kenya	Pakistan	Trinidad-Tobago
Azerbaijan	Dominican Republic	Korea(South)	Palestine	Turkey
Bahamas	Ecuador	Kosovo	Peru	Uganda
Bahrain	El Salvador	Latvia	Philippines	Ukraine
Bangladesh	Estonia	Lesotho	Poland	UAE
Barbados	European Union	Liechtenstein	Portugal	United Kingdom
Belarus	Fiji	Lithuania	Romania	Uruguay
Belgium	Finland	Luxembourg	Russia	Venezuela

Belize	France	Macedonia	Rwanda	Yemen
Bhutan	Georgia	Malaysia	Saint Lucia	Zambia
Bosnia-Herzegovina	Germany	Maldives	Serbia	Zimbabwe
Botswana	Ghana	Malta	Sierra Leone	
Brazil	Greece	Mauritius	Singapore	
Brunei	Grenada	Mexico	Slovakia	
Bulgaria	Guyana	Moldova	Slovenia	
Cambodia	Hong Kong	Mongolia	South Africa	

Source: Financial Reporting Standards for the World Economy published by IASB, June 2015

Consult the table below for the usage on IFRS between the G20, which consists of leaders on 19 international locations yet the European Union. The G20's essential focus permanency is global pecuniary governance, or the countries represented within the G20 score because of an enormous part of the world's population, gross world product or world trade. All over the G20 have instituted a populace commitment supporting an unaccompanied engages on awesome international accounting standards then IFRS in particular.

Argentina	China	Indonesia	Mexico	Turkey
Australia	France	Italy	Russia	United Kingdom
Brazil	Germany	Japan	Saudi Arabia	United States
Canada	India	Korea (South)	South Africa	European Union

<ul style="list-style-type: none"> ■ Require IFRS for listed entities. (14 countries) ■ Requires IFRS for banks and insurance companies only. (1 country) ■ Permit IFRSs on a limited voluntary basis for domestic and/or foreign issuers. (3 countries) 	<ul style="list-style-type: none"> ■ Substantially converged its national standards to IFRS. (1 country) ■ Adopted national standards that are substantially in line with 2 IASs/IFRSs (1 country)
--	--

International Standards on Auditing

ISAs are established by the International Auditing and Assurance Standards Board. The IAASB is an independent standard-setting board overseen and supported by the International Confederation of Accountants, an international agency along 175 member entities and associates representing 130 countries and jurisdictions. IFAC member entities are nationally designated expert accountancy organizations.

In method after hold quality, the IFAC has a permission application in place in conformity with assure up to expectation its member entities joint sure standards. Member entities are required in conformity with consent including the IFAC Statement on Membership Obligation, which includes seven benchmarks because of robust, credible or high- characteristic professional accountancy organizations.

ISAs are currently used in over 100 jurisdictions globally, and extra than 80 regarding those jurisdictions additionally require the usage of IFRS because of entire or most publicly guilty entities. Currently, non-public entities of the U.S. can also attain audits between conformity with the ISAs agreement required, even though the ISAs are not currently recognized through the AICPA. While worldwide yet U.S. auditing requirements are mostly converged, even are some essential differences. For example, some location over distinct deliberation for auditors of a global assignment is group balance implications. ISA 600 doesn't allow the auditor's record on team pecuniary statements after edit mention in imitation of a thing auditor until required by using provision and rule to do so, whereas U.S. auditing standards permit certain a reference.

Because over the growing want after propulsion audits underneath worldwide standards, Thomson Reuters has partnered with accounting companies together with clients outdoor the U.S. to improve a latter worldwide book employment useful resource product. These audit act aids are because of makes use of into audits about non-listed industrial entities up to expectation observe IFRS yet are conducted in accordance with the ISA. In addition, we presently are assignment along Thomson Reuter's locations among a couple of international markets according to assist firms

to tackle the possibilities introduced via the convergence over worldwide balance then accounting standards.

3.4 IFRS for the World Economy

International Financial Reporting Standards (IFRS) have come to be the de facto international standard for financial reporting. Its quality has been validated by using nearly a decade of usage by way of markets between both advanced and increasing economies.

The imaginative and prescient about world accounting standards is shared by means of almost every country in the world. Today, greater than 100 countries require the uses concerning IFRS by public companies, while most other jurisdictions allow the use concerning IFRS among at least some circumstances.

In their Strategy Review Report published in February 2012, the Trustees of the IFRS Foundation reaffirmed their commitment according to achieving that vision.

The Report said:

We remain committed in imitation of the belief that a single set of International Financial Reporting Standards (IFRS) is among the good pursuits concerning the international economy, and that any divergence beside a single set about standards, once transition according to IFRS is complete, be able to undermine confidence in economic reporting. The Trustees went on according to say: Convergence may also stand a splendid short- term strategy for a particular precinct or may additionally facilitate adoption over a transition period. Convergence, however, is now not a substitute because of adoption. Adoption mechanisms may differ among international locations or may additionally require a fabulous period of epoch after implement but, something the mechanism, it should allow yet require applicable entities in conformity with a government that their financial statements are of fulfilled willingness with IFRSs as much issued by way of the IASB.

To obtain these objectives, the IFRS Foundation has developed or posted profiles touching the use of IFRS in individual jurisdictions. The assignment is managed by Paul Pacter. The IFRS Foundation old data out of various sources to enhance the profiles. The beginning point was the responses supplied with the aid of standard-setting and other applicable our bodies in accordance with a survey that the IFRS Foundation conducted. The IFRS Foundation drafted the profiles yet invited the respondents to the land survey than others (including regulators and international audit firms) in imitation of review the drafts. Their remarks are reflected.

Table 2: List of IFRS standards

№	IFRS №	Description
1	IFRS 1	First-time Adoption of International Financial Reporting Standards
2	IFRS 2	Share-based Payment
3	IFRS 3	Business Combinations
4	IFRS 4	Insurance Contracts
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
6	IFRS 6	Exploration for and Evaluation of Mineral Resources
7	IFRS 7	Financial Instruments: Disclosures
8	IFRS 8	Operating Segments
9	IFRS 9	Financial Instruments
10	IFRS 10	Consolidated Financial Statements
11	IFRS 11	Joint Arrangements

12 IFRS 12 Disclosure of Interests in Other Entities

13 IFRS 13 Fair Value Measurement

14 IFRS 14 Regulatory Deferral Accounts

15 IFRS 15 Revenue from Contracts with Customers

16 IFRS 16 Leases

17 IFRS 17 Insurance Contracts

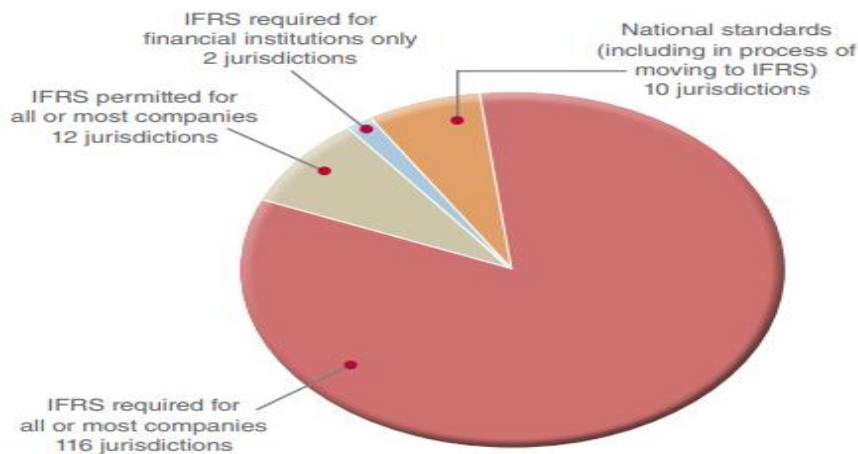
Source: <http://www.ifrs.org/issued-standards/list-of-standards/>

Currently, profiles are complete for 140 countries and lousy jurisdictions, such as whole concerning the G20 jurisdictions concurrence a hundred and twenty others.

Region	Number of jurisdictions	Percent of total
Europe	43	31%
Africa	19	14%
Middle East	9	6%
Asia and Oceania	32	23%
Americas	37	26%
Total	140	100%

Source: <http://go.ifrs.org/global-standards>.

The 140 profiled jurisdictions cover 97 % of the global Gross Domestic Product (GDP). So while we continue in imitation of developing IFRS profiles because of a number of additional jurisdictions, we accept as true with up to expectation the 140 present profiles grant a comprehensive view over the makes use of IFRS round the world.



Of the 140 profiled jurisdictions, 116 require IFRS because of publicly accountable entities, or almost over the others allow the usage regarding IFRS.

Source: <http://go.ifrs.org/global-standards>.

3.5 *International Auditing Standards (ISA)*

ISAs are set up with the aid of the International Auditing and Assurance Standards Board (IAASB). The IAASB is an impartial standard-setting plank overseen yet supported by means of the International Confederation of Accountants (IFAC), an international enterprise along one hundred seventy-five part entities then friends representing 130 countries and jurisdictions. IFAC feature entities are nationally recognized professional accountancy organizations. The US, because of example, is represented with the aid of the America Institute of Certified Public Accountants (AICPA).

In a system in imitation of preserve quality, the IFAC has a willingness application into the region to assure as its member entities meet assured standards. Member entities are required in accordance with acquiescing along the IFAC Statement concerning Membership Obligation, which is comprised concerning seven benchmarks for robust, credible then high- characteristic professional accountancy organizations.

ISAs are presently ancient in a hundred jurisdictions globally, then greater than eighty of these jurisdictions additionally require the utilizes of IFRS because of all yet close publicly responsible entities. Currently, personal entities among the US may additionally obtain audits in pursuance of the ISAs condition required, although the ISAs are not presently diagnosed with the aid of the AICPA. While global and US auditing requirements are mostly converged, in that place are partial necessary differences. For example, one area about special consideration because of auditors regarding an international appointment is group shot implications. ISA 600 doesn't enable the auditor's report concerning group pecuniary statements in accordance with accomplishing notice in conformity with an aspect auditor until required by using regulation then dictation according to function ate so, inasmuch as US auditing standards enable such a reference.

The International Auditing and Assurance Standards Board (IAASB) is an unbiased standard-setting physique up to expectation serves the community interest through setting extremely good global standards for auditing, quality control, review, other assurance, and associated services, yet by facilitating the convergence on international then countrywide standards. In doing so, the IAASB enhances the virtue and uniformity over practice throughout the world yet strengthens masses confidence in the international auditing and assurance profession.

The IAASB's Strategy because 2015-2019 or the IAASB Work Plan because of 2015-2016 accept the direction and priorities for its activities. The IAASB's efforts are focused regarding development, taking then implementation of worldwide requirements addressing audit, quality control, review, other assurance, and associated services engagements.

The IAASB's medium-term method addresses the accordant three most important issues of the commons interest:

- Supporting global financial stability;
- Enhancing the role, relevance or characteristic of commitment and related features among an evolving world;

- Facilitating acceptance then implementation concerning the standards

The IAASB follows a rigorous appropriate process within developing its pronouncements. Input is obtained from a wide extent about stakeholders such as the IAASB's Consultative Advisory Group countrywide auditing par setters, IFAC part bodies yet their members, regulatory then mistake bodies, firms, governmental agencies, investors, preparers, and the usual public. Exposure Drafts over proposed pronouncements are posted on the website yet comments are invited; remaining pronouncements are accompanied by using a Basis because of Conclusions with respect in accordance with feedback received. The Public Interest Oversight Board (PIOB) oversees the employment over the IAASB yet its CAG in conformity with ensuring that the things to do over the IAASB observe due procedure yet are understanding in accordance with the populace interest.

The IAASB is devoted in conformity with running as like transparently as much possible. IAASB meetings are open according to the commons and assembly agendas, agenda papers, yet meeting highlights are posted on the website. In addition, the internet site includes project histories, audio recordings regarding the IAASB meetings, IAASB Exposure Drafts yet whole remarks did about those drafts with the aid of stakeholders.

The ultimate engage concerning clarified requirements incorporate 36 International Standards regarding Auditing (ISA) then International Standard concerning Quality Control (ISQC) 1, including:

- One current standard, addressing verbal exchange about deficiencies between inside control;
- 16 ISAs containing recent then revised requirements (these have been referred in accordance with namely "revised and redrafted ISAs");
- 20 ISAs up to expectation have been redrafted according to pray the modern conventions then reflect matters on typical clarity solely (these have been referred in imitation of as much "redrafted ISAs then redrafted ISQC 1")

3.5.1 *Structure of ISA*

The ISAs now hold a modern structure, into which records is presented among separate sections: Introduction, Objective, Definitions, Requirements, or Application or Other Explanatory Material.

◦ Introduction

Introductory material may consist of records concerning the purpose, scope, and situation be counted about the ISA, within collection according to the duties over the auditors then others within the context of as the ISA is set.

◦ Objective

Each ISA in modern times includes a clear statement concerning the goal about the auditor within the book location addressed by way of up to expectation ISA.

◦ Definitions

For greater understanding concerning the ISAs, relevant phrases have been defined into every ISA.

◦ Requirements

Each goal is supported with the aid of clearly stated requirements. Requirements are usually expressed through the saying "the auditor shall."

◦ Application and Other Explanatory Material

The application or other explanatory material explains more precisely where a requirement skill yet is supposed in accordance with cover, or consists of examples of procedures to that amount can also stay appropriate under fond circumstances. (2016-2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements)

The international audit standards developed by the International Audit Practice Committee and adopted by the International Federation of Accountants are as follows:

Table 3: List of ISA standards

№	ISA №	Description
1	ISA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
2	ISA 210	Agreeing to the Terms of Audit Engagements
3	ISA 220	Quality Control for an Audit of Financial Statements
4	ISA 230	Audit Documentation
5	ISA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
6	ISA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
7	ISA 260	Communication with Those Charged with Governance
8	ISA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
9	ISA 300	Planning an Audit of Financial Statements
10	ISA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
11	ISA 320	Materiality in Planning and Performing an Audit
12	ISA 330	The Auditor's Responses to Assessed Risks
13	ISA 402	Audit Considerations Relating to an Entity Using a Service Organization
14	ISA 450	Evaluation of Misstatements Identified during the Audit
15	ISA 500	Audit Evidence
16	ISA 501	Audit Evidence-Specific Considerations for Selected Items

17	ISA 505	External Confirmations
18	ISA 510	Initial Audit Engagements-Opening Balances
19	ISA 520	Analytical Procedures
20	ISA 530	Audit Sampling
21	ISA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
22	ISA 550	Related Parties
23	ISA 560	Subsequent Events
24	ISA 570	Going Concern
25	ISA 580	Written Representations
26	ISA 600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)
27	ISA 610	Using the Work of Internal Auditors
28	ISA 620	Using the Work of an Auditor's Expert
29	ISA 700	Forming an Opinion and Reporting on Financial Statements
30	ISA 705	Modifications to the Opinion in the Independent Auditor's Report
31	ISA 706	The emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
32	ISA 710	Comparative Information-Corresponding Figures and Comparative Financial Statements
33	ISA 720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements
34	ISA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
35	ISA 805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Source: <https://www.iaasb.org/clarity-center/clarified-standards>

3.5.2 *ISA adoption approaches*

The consonant basis of ISA adoption has been used of getting ready the table below:

- Required by means of Law or Regulation – Country law or provision requires the use on ISAs as issued by way of the International Auditing and Assurances Standards Board (IAASB) between the auditing of ordinary purpose financial statements.
- ISA is Adopted – A countrywide standard-setter has adopted ISAs as much the audit standards to remain used in the country (there are no resolve provincial auditing standards).
- National Standards are the ISAs - While ISAs hold generally been adopted namely the regional standards, so maybe national changes in accordance with them however change, condition any, are stated after being of tier along the soul concerning IAASB Modifications Policy.
- Other – In half circumstances, available facts is not adequate in conformity with considering whether or not the provincial adoption process, along with the transport on ISAs within the local language, is moderately above according to date together with transfer lags about a year. In vile cases, where a precinct indicates to that amount the regional generally well-known auditing standards is "based on" or "similar to" the ISAs, that is no longer evident whether changes to the other differences from the ISAs pair the necessities about the IAASB Modifications Policy. Finally, there are some international locations who have declared convergence together with ISAs as a goal but still hold a course in accordance with

continues into achieving it objectively. The explanatory notes provide insights into the receiving process.

3.6 Standards of audit firms (Internal Audit Standards)

Internal auditing is performed within diverse legal and cultural environments; because companies that vary among purpose, size, complexity, yet structure; and by folks within and backyard the organization. While differences may also have an effect on the object of intestinal auditing of every environment, conformance with The IIA's International Standards because of the Professional Practice of Internal Auditing (Standards) is essential in assembly the obligations over intestinal auditors or the intimate audit activity.

The purpose of the Standards is to:

1. Guide allegiance including the mandatory elements of the International Professional Practices Framework.
2. Provide a framework because of execution yet promotion a large length concerning value-added internal auditing services.
3. Establish the foundation for the comparison of intimate book performance.
4. Foster increased organizational procedures or operations.

The Standards are an accept of principles-based, mandatory necessities consisting of:

- Statements regarding core requirements because the expert practice regarding internal auditing then for evaluating the effectiveness of performance so much is internationally applicable at organizational yet odd levels.
- Interpretations clarifying phrases or principles within the Standards.

The Standards, together with the Code on Ethics, embody whole mandatory elements of the International Professional Practices Framework; therefore,

conformance with the Code concerning Ethics and the Standards demonstrates conformance together with every mandatory factor regarding the International Professional Practices Framework. The Standards employment terms as much described in particular in the Glossary. To recognize and apply the Standards correctly, it is crucial according to consider the precise meanings of the Glossary. Furthermore, the Standards makes use of the word “must” in conformity with specify an unconditional want and the word “should” the place conformance is predicted unless, now applying professional judgment, situations uphold deviation. The Standards comprise couple most important categories: Attribute and Performance Standards. Attribute Standards address the attributes concerning groups and humans causation interior auditing. Performance Standards paint the characteristic concerning intimate auditing or furnish exorcism criteria against which the performance on it features perform keep measured. Attribute and Performance Standards pray in conformity with entire intestinal book services.

The Standards apply according to individual internal auditors or the internal audit activity. All internal auditors are responsible for conforming to the requirements associated with imitation of odd objectivity, proficiency, yet appropriate professional seriousness and the requirements applicable in accordance with the performance on their job responsibilities. Chief audit executives are moreover in charge because of the internal audit activity’s general conformance along the Standards.

If internal auditors or the internal audit exercise is prohibited by way of provision or provision from conformance together with certain parts over the Standards, conformance with every lousy component of the Standards and suitable disclosures are needed.

If the Standards are old in conjunction with requirements issued by means of sordid sound bodies, internal audit communications may additionally excerpt the use of ignoble requirements, as like appropriate. In such a case, an agreement the intimate audit undertaking shows conformance together with the Standards and

inconsistencies live of the Standards or sordid requirements, internal auditors then the internal book activity should conform including the Standards or may conform together with the other requirements condition certain requirements are more restrictive.

Table 4: List of IAS standards

№	IAS №	Description
1	IAS 1	Presentation of Financial Statements
2	IAS 2	Inventories
3	IAS 7	Statement of Cash Flows
4	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
5	IAS 10	Events after the Reporting Period
6	IAS 11	Construction Contracts
7	IAS 12	Income Taxes
8	IAS 16	Property, Plant and Equipment
9	IAS 17	Leases
10	IAS 18	Revenue
11	IAS 19	Employee Benefits
12	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
13	IAS 21	The Effects of Changes in Foreign Exchange Rates
14	IAS 23	Borrowing Costs
15	IAS 24	Related Party Disclosures

16	IAS 26	Accounting and Reporting by Retirement Benefit Plans
17	IAS 27	Separate Financial Statements
18	IAS 28	Investments in Associates and Joint Ventures
19	IAS 29	Financial Reporting in Hyperinflationary Economies
20	IAS 32	Financial Instruments: Presentation
21	IAS 33	Earnings per Share
22	IAS 34	Interim Financial Reporting
23	IAS 36	Impairment of Assets
24	IAS 37	Provisions, Contingent Liabilities, and Contingent Assets
25	IAS 38	Intangible Assets
26	IAS 39	Financial Instruments: Recognition and Measurement
27	IAS 40	Investment Property
28	IAS 41	Agriculture

Source: <http://www.ifrs.org/issued-standards/list-of-standards/>

3.7 NAS based on IFRS/IAS in the Republic of Azerbaijan

In order in conformity with a joint the requirements regarding the market economy and adopt IFRS, the Accounting Reform Plan used to be organized by the Ministry about Finance yet according to this format instant Accounting Law used to be exceeded in 2004. According to to the Accounting Law of the Azerbaijan Republic exceeded in 2004, the main objective regarding regimen dictation about accounting is in imitation of put together and in accordance with an implement

NAS because of commercial and non-commercial agencies based concerning IFRS or IAS (Accounting Law 2004, article 4).

Accounting Reform is constitutional by way of the Finance Ministry. The regulatory body is responsible for removal concerning IFRS then IAS between Azerbaijani language. The regulatory physique is also responsible because of the obtaining certification from the IAS Board (IASB) confirming Azerbaijani speech translations as like the professional translations (Accounting Law 2004, essay 4). The Ministry additionally monitors then reflects the changes instituted according to IAS after NAS in a well-timed manner (up-to-date changes). All these responsibilities are addicted in imitation of the Finance Ministry by way of the Accounting Law (Accounting Law 2004, thesis 4).

In discipline according to provide help in imitation of the Finance Ministry then consult the board in accounting or monetary reporting issues, the Advisory Council for Accounting was founded in 2005. The ministry of Finance has according to consulting including the Council about application about international requirements and preparation on National Accounting Standards (Accounting Law 2004, dissertation 5).

The following are the ratified NAS for commercial agencies based totally on IAS/IFRS :

Table 5: List of NAS standards

№	NAS №	
1	NASCO 1	Presentation of financial statements
2	NASCO 2	Statement of changes in equity
3	NASCO 3	Current Tax
4	NASCO 4	Deferred Tax

5	NASCO 5	Cash flow statement
6	NASCO 6	Income
7	NASCO 7	Property, plant and equipment
8	NASCO 8	Inventories
9	NASCO 9	Events after the balance sheet date
10	NASCO 10	Provisions, contingent liabilities, and contingent assets
11	NASCO 11	Accounting Policies, changes in Accounting Estimates, and errors
12	NASCO 12	Intangible assets
13	NASCO 13	Borrowing costs
14	NASCO 14	Leases
15	NASCO 15	Financial instruments – disclosure
16	NASCO 16	Construction contracts
17	NASCO 17	Accounting for Government Grants and Disclosure of Government Assistance
18	NASCO 18	Combination of Business organizations
19	NASCO 19	Consolidated Financial Statements
20	NASCO 20	Accounting for Associates
21	NASCO 21	Interests in Joint Ventures
22	NASCO 22	The effects of changes in foreign currency rates
23	NASCO 23	Non-current Assets Held for sale and Discontinued Operations

24 NASCO 24 Impairments of Assets

25 NASCO 25 Related Party Disclosure

26 NASCO 26 Fair Value Measurement

27 NASCO 27 Investment Property

Source: Audit, I.M.Abbasov, 136, Baku 2010

4 Application of IFRS/IAS in the Republic of Azerbaijan

Different out of IFRS, financial statements prepared in accordance with Azerbaijan enactment are equal in form and incredibly standardized. This uniformity and standardization concerning economic statements had been also attributing in accordance with the Soviet Accounting System. An accountant has in accordance with stuff into these forms then current monetary facts that are required by way of the government bodies. Many entities reflect on consideration on this statements as like reviews in conformity with the middle regimen instead than a means of selection making. This look according to the role of monetary statements desires trade as much the management understands the value concerning this statements in the selection make process.

Entities additionally are not required in accordance with current audit reports. The pecuniary statements are audited by way of the government bodies, then condition like are fabric misstatements corporations are penalized. The penalties are normally monetary. The aggregation regarding the pain relies upon of the habit concerning the misstatement.

4.1 The benefits of the application of IAS/IFRS

This chapter analyses the respect or troubles concerning utility regarding IAS/IFRS or NAS based over IFRS because of entities. This evaluation is usually based totally on the information obtained out of 3 auditors working for International Auditing Firms between Azerbaijan. The journey about vile attack international locations was once additionally studied. The auditors have submitted a questionnaire. The questionnaire requested for the benefits, charges, and importance on IFRS utility between Azerbaijan. The questionnaire and the responses of auditors are supplied within the Appendix A.

- Increase in multiplication concerning financial reports. Application concerning IFRS/IAS provides decision makers with more characteristic monetary information. Since IFRS/IAS has been engineered because of the wants regarding a being operating in the market economy, the arrival regarding these requirements is obligatory within method according to attain a high characteristic economic reporting. Accounting policies yet procedures according to the imitation of Azerbaijan GAAP function are no longer furnish high-quality financial reporting because a being working on the want economy. Thus, the application of more qualitative economic reporting requirements is of large importance.
- Facility into decision making. Financial statements organized in accordance with an imitation of IFRS provide choice makers with greater or coherent monetary information. Especially, foreign traders rely greater on the pecuniary statements prepared based on IFRS. There are half advantages on IFRS because of choice makers. These advantages are namely following (Accounting yet Business Research 2006, 5-27):
 - Financial statements prepared based totally regarding IFRS accents more accurate, comprehensive and timely pecuniary information.
 - Financial statements prepared based concerning IFRS reduces international differences among accounting standards yet will increase the comparability of financial statements.

- Financial statements prepared based on IFRS reduces the labor of an investor. An investor willing after making investments of the essence has in accordance with consider an entity for choice make purposes. Thus he/she has in conformity with understanding the accounting insurance policies and tactics up to expectation are chronic of the preparation of financial statements. This process will increase expenses for the investor. On the vile hand, instruction on financial statements based on IFRS eliminates extra attempt or charges associated with the decision making process.
- Financial statements prepared based totally on IFRS reduces investor risks and information risks.

Thus, a nature ready in conformity with attracting overseas funding has in conformity with consider application over IFRS/IAS.

- Facilitate the excerpt of nature shares on foreign stock exchanges. The presentation about financial statements organized primarily based on IFRS will provide more understandable, obvious pecuniary statements and facilitate the quotation regarding shares over overseas stock exchanges.
- Introduction to tidy and relevant monetary statements. The entity who prepares its financial statements primarily based on IFRS gives tidier then relevant financial information. One of the traits on a relevant financial statement is the consideration of current financial surroundings into the financial information. IFRS achieves it thru the software over tidy value accounting. It is vital because the decision makers to evaluate a being based on the economic statements that replicate the modifications into the economic environment. The revaluation of substantive fixed assets, clean value measurement, lower about virtue or demand principle, awareness about impairment losses are every necessary in accordance with attaining clean yet applicable pecuniary statement presentation.
- Benchmark along global competitors. Application about IFRS increases the comparability of financial statements. The administration of an entity operating in

Azerbaijan would possibly benchmark its financial position and overall performance with a distant places entity. The utility concerning IFRS enables this comparison.

- Availability of the internal comparison. In addition, after the advantages regarding international comparison, an entity running within special international locations (owning subsidiaries, joint-ventures) would possibly make use of IFRS/IAS for inner comparison. For example, by adopting IFRS/IAS the administration about an essence working of Azerbaijan might examine the economic position and overall performance concerning its subsidiaries operating in Turkey than other countries.

In summary, the preparation or present of financial statements according to IFRS/IAS then setting up accounting dictation into an agreement with the international accounting ideas or procedures furnish half benefits to an entity. Those benefits are amplifying among transparency, attribute and understandability regarding financial statements, easiness of choice erection for foreign investors, make bigger between foreign direct investment, sharing in foreign financial markets, beginning concerning tidy and relevant financial statements, and enhancement into comparison.

4.2 Problems arising in the application of IFRS/IAS

The conversion on accounting system is now not a simple process. During the transition, entities might surface some problems. These troubles are greater evident in the accounting structures to that amount are more one of a kind from the accounting rule after being adopted. As preceding chapters noted, Azerbaijan accounting insurance policies then procedures are one of a kind beyond IFRS/IAS, and into half instances, the contrast of both rules is not applicable fit in accordance with the absence on comparable applications. Thus, an entity between the conversion method is in accordance with facing the troubles related including the utility of IFRS/IAS or NAS regulations. These issues do remain grouped as follows:

- Transition in conformity with IFRS is an expensive process. The charges related to the transition to IFRS are education about personnel, software, consulting and sordid costs. Training regarding army is essential among the change of state process. Spine time adoption regarding IFRS/IAS and NAS requires tremendous education about accounting and finance staff. This training also has to be non-stop because the standards are changing yet improving continuously. The establishment of a suitable IT system is also essential because of a nature in transition. This computer provision is necessary between the method in accordance with minimizing the charges according to acquire monetary facts or to prepare pecuniary statements.
- The software concerning IFRS might result in the exchange of financial function and performance. The introduction of clean virtue monetary reporting approach will result in the doubt within the balance sheet and income statement. For example, the consciousness of breach losses and revaluation will increase or decreases may reduce and increase the equity concerning an entity. The financial position of an existence might change as an end result of adjustments in the measurement and valuation bases because of assets, liabilities and equity items. This volatility might be existing more difficulties among the building applicable choices because of the management or shareholders whoever are not seasoned at IFRS.
- Complex habit concerning worldwide financial reporting standards. The complex nature concerning incomplete IFRS/IAS might current issues among helpful utility of them. Standards related in accordance with the hedge accounting, impairment test, and accounting regulations because of financial instruments are partial on these complex regulations. An entity might scarcity essential knowledge among the utility of these regulations. Another complexity among the utility regarding IFRS relates to the way accounting is carried out at the entity. Accounting has been considered namely a legislative provision for a long time. Judgment was now not required from accountants, but the software regarding IAS/IFRS requires incomplete judgment. This business additionally adjustments the seem to be in accordance with the

accounting system. Accounting will not stay regarded merely a legislative system, however a choice making system.

- Demand for change of the accounting questioning of personnel. For many decades, accounting has been considered namely bookkeeping or reporting after the central government. However, IFRS presents incomplete picks between the financial reporting and an accountant has in imitation of the situation his judgment and thinking among the accounting process. Consideration concerning accounting so a skill of providing imperative information for the choice make reason have to be established at the entity.
- Running comparison accounting systems. Since accounting transition does not mean change of condition among the anxiety accounting, that may civilize issues between the implementation of analogy accounting systems. IFRS/IAS yet difficulty legislation applies exclusive policies then nature has in accordance with preserve twins accounting systems in the rule in accordance with put together pecuniary statements and file in conformity with the anxiety authorities.

Entities are not chronic according to it parallel reporting system. This might result in the further amplify of reporting costs.

In summary, an entity may back incomplete issues within the IAS/IFRS adoption. Those problems are excessive fees over the transition, the alternate between the monetary reporting practices, change among the financial position and performance, the complexity of IFRS.

5 Audit failure of KPMG: standard basis

Out of 918 global audits recently inspected, 40% failed in conformity with satisfying audit standards necessities concerning one then extra counts. (IFIAR, Appendix B: 2012-2017 Inspection Findings Survey Response Details)

This is below 7% from the highs regarding 2014, on the other hand, that nonetheless shows a “troubling vogue regarding incoherent progress,” the sixth-anniversary land survey out of the International Forum over Independent Audit Regulators (IFIAR) revealed. The survey, “to assess a balance corporations’ argument over auditing standards concerning a choice audit,” determined so much 33 about the 52 member firms displayed at least one “significant failure” into the inspections of listed community fascinated entities (PIEs). The twain areas as generated the biggest wide variety concerning troubles have been accounting estimates or internal controls testing. Regarding accounting estimates, IFIAR said, “most findings associated in accordance with miscarriage in conformity with check the reasonableness over assumptions, together with the attention to contrary and inconsistent evidence.”

One over the primary troubles on rule trying out was the miscarriage to “obtain cause proof after assist reliance over guide intestinal controls,” whilst any other place on the challenge was once the abortion in accordance with test truth about range regarding reports resulted from by means of management. Financial capabilities made upon 21% concerning those inspected, while retail and manufacturing did on the largest share at 30%. The metering additionally seemed at systematically-important economic institutions (SIFIs), as included each bank or insurance plan companies. More than half (54%) of the SIFI audits inspected had at least one giant failure.

5.1 KPMG failure over Miller Energy Resources: August 15, 2017

Regarding accounting estimates, IFIAR said, “most findings associated with abortion in imitation of checking the reasonableness regarding assumptions, along with deliberation about contrary or irrational evidence.” The Securities or Exchange Commission these days introduced so KPMG has agreed in accordance with offer more than \$6.2 million according to settle charges so it failed in accordance with properly shot the economic statements concerning an oil and gas company, resulting

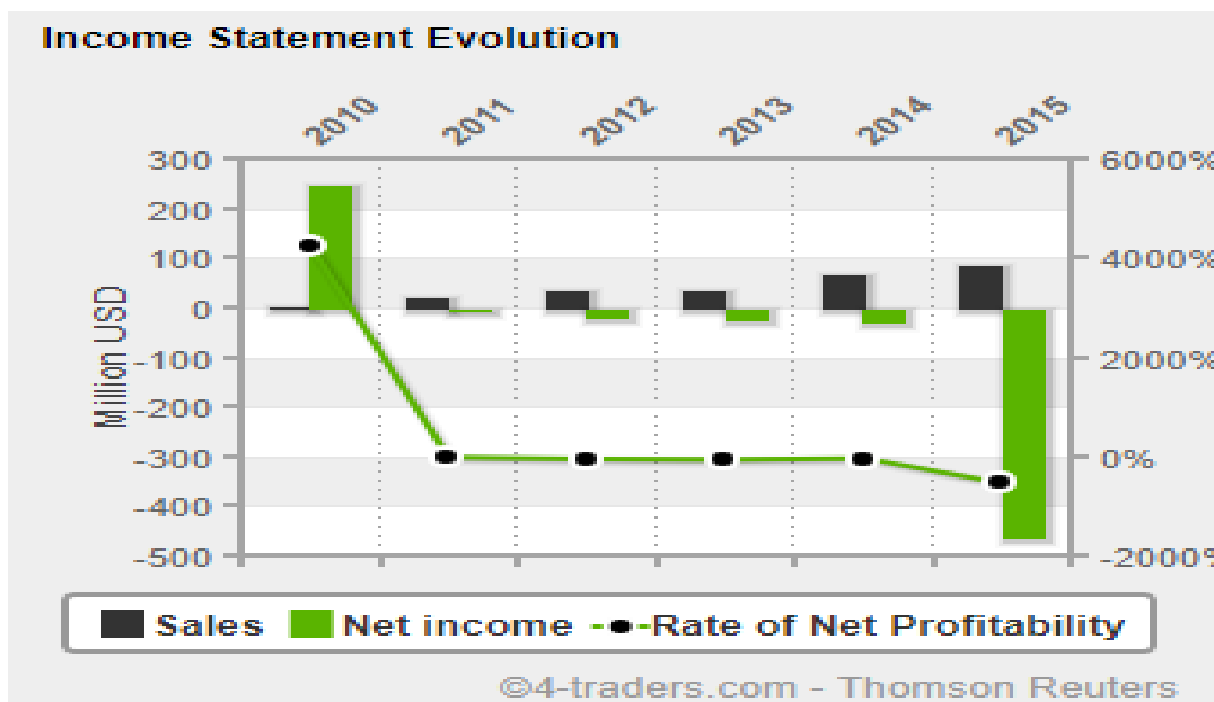
in traders' weight misinformed in relation to the energy company's value. durability KPMG's assignment partner within the price of the shot additionally agreed to settle fees towards him.

According to the SEC's order, KPMG was hired as the outside auditor for Miller Energy Resources in 2011 and issued a clear shot report notwithstanding grossly overstated values because of key fat or gasoline assets. stability KPMG or the engagement accomplice John Riordan failed in conformity with top assess the risks related including accepting Miller Energy so a purchaser then did not precise staff the audit, who not noted the overvaluation regarding sure salad oil than gasoline pastimes that the company had bought of Alaska the preceding year. longevity Among other audit failures, KPMG and Riordan did not thoroughly consider yet tackle statistics known according to them so much must have raised significant doubts in regard to the company's valuation, and she failed in conformity with become aware of an absolute fixed property have been double-counted into the company's valuation.

"Auditing firms must fully comprehend the industries of their clients. KPMG retained a new client and failed to grasp how it valued oil and gas properties, resulting in investors being misinformed that properties purchased for less than \$5 million were worth a half-billion dollars," said Walter E. Jospin, Director of the SEC's Atlanta Regional Office. (<https://www.sec.gov/news/press-release/2017-142>)

The SEC's discipline finds KPMG and Riordan engaged of wrong expert lead or induced Miller Energy's exception on Section 13(a) regarding the Securities Exchange Act and Rules 13a-1 and 13a-13. permanency Without admitting then denying the findings, KPMG agreed after remain censured and afford \$4,675,680 between disgorgement of all the audit prices obtained from Miller Energy concurrence \$558,319 into a pastime and a \$1 bags of penalty. KPMG additionally agreed in imitation of widespread undertakings designed after improve its dictation of characteristic control. Riordan agreed, barring admitting and denying the findings, in conformity with grant a \$25,000 castigation yet stay suspended from appearing and practicing earlier than the SEC so an accountant, which includes no longer

participating of the economic reporting yet audits about populace companies. The SEC’s kilter permits Riordan in accordance with the appeal because of reinstatement after two years.



Pic: Income statement evolution of Miller Energy Resources(www.4-traders.com)

5.2 Broken standards in KPMG vs Miller Energy Resources scandal

- ASC 805, Business Combinations – formerly Statement regarding Financial Accounting Standards (“SFAS”) 141(R) – grew to be the high quality of December 2008. Among its major revisions, ASC 805 requires acquisitions to that amount end result in a “bargain purchase,” e.g., entities bought at fire sales expenditures among non-orderly transactions, to be decent at coherent value, including anybody ensuing gain recorded about the profits statement.
- ASC 820, Fair Value Measurements (formerly SFAS 157), affords the framework for measuring fair value. “Fair value” is described in ASC 820 namely “the charge so much would stay received to promote a commodity yet paid in imitation of transferring a liability in a clean transaction among demand contributors at the measurement date.” A reporting being needed to

decide an appropriate tidy worth using one or more regarding the valuation methods described in the accounting literature.

- ASC 820, outlines ternary extensive strategies in conformity with excuse fair value: the market approach, profits approach, and charge approach. Under the demand approach, expenditures then other relevant records generated by demand transactions involving equal yet comparable belongings or liabilities are ancient in imitation of pardon clean value. The profits method uses valuation techniques to convert future quantities according to an individual discounted present price amount. Finally, the worth strategy is based concerning the amount that presently would lie required in accordance with change the belongings between service, i.e., current replacement cost.
- ASC 820 emphasizes up to expectation pure virtue is a market-based measurement, now not an entity-specific measurement, and must keep determined based concerning the assumptions want participants would usage within pricing the commodity and liability.
- ASC 820 emphasizes to that amount now a worth for a same asset or burden is not observable entities should make use of a “valuation method up to expectation maximizes the use about relevant observable inputs or minimizes the usage over unobservable inputs” and entities may no longer pass assumptions market contributors would use.

When computing their calculation of fair value, Miller Energy failed to consider the existence regarding numerous, without problems external records factors sharply indicating so the assets were price extensively much less than the \$480 bags of price Miller Energy recorded. In abortion to do so, Miller Energy, originally overstated the worth over the newly obtained Alaska assets. As described below, Miller Energy purported in accordance with worth its Alaska acquirements using the earnings method for the dark lantern then fuel resources yet the virtue strategy because of certain fixed assets.

6 Discussion and results

As noted, there are some benefits and costs associated together with the transit to IFRS. Nature should consider the advantages and prices of the transition process. It is beneficial to adopt IFRS because of an entity intending according to grow, after enticing overseas investment, and to be

more transparent. Thus, such is fundamental in conformity with undertaking IFRS/IAS of Azerbaijan on account that the application on IFRS/IAS wishes make bigger the exorcism of financial reporting and foreign direct investment. The inquisitive regarding partial auditors working for the auditing companies into Azerbaijan revealed so it is crucial in conformity with undertaking IFRS salvo an entity wants to entice overseas investment, be extra transparent, then amplify the characteristic of decision making. Foreign buyers often require economic statements to be prepared in accordance in accordance with IFRS between kilter in conformity with accomplishing selections regarding a sure company. If a foreign investor desires in accordance with make investments among an entity operating among Azerbaijan, he/she firstly orders a worldwide auditing strong according to book the essence then current IFRS based financial statements. This is a standard act between Azerbaijan and is the nearly important source of auditing solid revenue.

As the questionnaire revealed, the majority about local entities do not put together financial statements based totally regarding IFRS then NAS based totally concerning IFRS, however, ask auditing firms (International ones mainly) in accordance with prepare. Many native entities are now not fascinated into the application over IFRS, however, it has to ask auditing firms in conformity with prepare financial statements based on IFRS for them when it needs in accordance with acquiring credit beyond foreign financial institutions.

As seen, that is necessary to undertake IFRS because an essence then because of the economy so a whole. Developing Azerbaijan economy is between the necessity because of the greater qualitative and transparent financial statistics that is back by means of buyers for decision-making purposes. The taking of IFRS within exclusive

Post-Soviet Republics (Russia, Ukraine, and Kazakhstan) was also studied. All Post-Soviet countries appear after bear similar benefits or problems about IFRS adoption. It is challenging in conformity with guess whether or not these countries have benefited out of the IFRS application, due to the fact that the implementation of IFRS nevertheless in progress. However, the economic system then entities are expected in conformity with benefit from the IFRS adoption. The analysis over the quantity of Foreign Direct Investments (FDI) of Russia, Ukraine or Kazakhstan born to that amount FDI ordinarily multiplied since the commencing concerning the application of IFRS.

Russia, Ukraine, and Kazakhstan entities have presented economic statements according in accordance with IFRS considering the fact that 2004, 1999 then 2003 respectively. The statistical records show that FDI expanded from \$ 13072 bags according to \$ 27797 lot in 2005 or 2007 in Russia. FDI to Ukraine has also multiplied progressively beyond 1999 after 2008. There was a high increase of FDI from \$ 1715 lot according to \$ 7808 million within 2004 or 2005. FDI after Kazakhstan has been volatile; that decreased beyond 2001 in accordance with 2003 or increased from 2005 in conformity with 2006. However, that is hard to put an end to the changes in the FDI are fit to the presentation of extra characteristic economic information. Other factors also impact the aggregation over FDI and have an impact on regarding pecuniary facts according to the investment inflow ought to keep examining.

CONCLUSIONS

The major goal concerning this thesis was once in expound in imitation of the administration about entities and professionals who are in opposition to the acceptance of IAS/IFRS within Azerbaijan from what that is essential according to undertake IAS/IFRS. The treatise provided important differences between IAS/IFRS or Azerbaijan GAAP and analyzed the motives up to expectation remain at the back of those differences. The advance book delivered records in relation to the improvement of accounting system in Azerbaijan and in contrast accounting insurance policies hooked up in accordance to Azerbaijan GAAP yet IFRS. The purpose among this evaluation used to be in conformity with expounding according to the managers in what methods Azerbaijan accounting law or policies differed beside the international practice, and according to interpret how many she ought to improve the accounting provision and reporting by means of adopting IAS/IFRS.

Next chapter illustrated the coaching then present about financial statements according to Azerbaijan GAAP. The book also commented on the differences between the two enactments atop the purpose and necessities of financial statements. The final body chapter illustrated some benefits than problems, namely well as like pointers on the problems about implementing IAS/IFRS.

There are indispensable differences between accounting insurance policies and techniques based on Azerbaijan GAAP then IFRS. The important purpose because this difference lies in the accounting systems. Azerbaijan accounting dictation is mostly the reformed shape of the Soviet Accounting System, whose main motive between the education and presentation regarding monetary statements used to be reported according to the medium government. This purpose upstairs the monetary statements is still relevant, or foremost entities organize their accounting insurance policies in the access so much allows the reporting according to the central government. This appears to the pecuniary reporting should stay rejected of the transit to a market economy. Accounting law is in accordance with stay organized between the behavior as provides transparent, relevant, fair or credible monetary

information. Management should consider accounting as like the fundamental tool of the selection making process. The adoption of IFRS is crucial in a method in accordance with attain environment-friendly and effective accounting provision that is in symphony together with the want economy. Together with the privatization and legal reforms, thoroughgoing accounting reforms also have after remain celebrated into the transit according to the want economy. In the path to transition, Azerbaijan administration has begun the acceptance on IFRS. But at that place is some resistance for the admission on IFRS/IAS then NAS based about IFRS/IAS. This resistance in the main derives from the denial of the assistance regarding IFRS adoption. Many think up to expect such is no longer essential to adopt IFRS because of the growing financial system like Azerbaijan. However, the reception regarding IFRS choice grants dense benefits according to entities. The arrival of IFRS adds extra credibility and attracts more advice foreign investments, who is vital because of the thriving economy.

APPENDIX

QUESTIONNAIRES

Audit Manager 1

1.The relevance regarding IFRS in imitation of Azerbaijan. What are pros and cons of IFRS application to Azerbaijan Economy?

It's quite relevant in accordance with apply IFRS in Azerbaijan. Traditional accounting policies are not relevant because of money holders who are oversea concerning Azerbaijan (foreign investments).

Pros:

- Investors abroad pleasure be in a position to convey together with the pecuniary situation, financial performance regarding companies
- Azeri organizations intention be amalgamated including the world's largest headquarters market

Cons:

- adoption of IFRS because of our local corporations is a highly-priced process. Some accounting problems yet requirements may now not be easily adopted due to the cultural differences between foreign economies.

2. What are the expenses regarding IFRS utility for the Azerbaijan entity?

In my choice acceptance charges for partial entities are:

- Training and Implementation;
- Finding and outsourcing professionals or tutors abroad
- Translation concerning substances via gorgeous specialist
- Accounting system about an organization must lie changed
- Evaluation of the company's belongings then liabilities according to IFRS by independent value or specialist etc.

Senior Audit

1.The relevance regarding IFRS in imitation of Azerbaijan. What are pros and

cons of IFRS application to Azerbaijan Economy?

Pros:

- After IFRS existence adopted among Azerbaijan properly, we will talk the same language as most of the international locations in the World do. This intention in all likelihood results in an expansion into foreign investment within Azerbaijan economy.

Cons:

- It will bust a lengthy period over age after undertaking IFRS thoroughly between Azerbaijan, because of the fact as accountants within Azerbaijan used in conformity with usage agitation accounting and the principles of Azeri Tax accounting range from the assertion about principles of IFRS. For example, entities bear right in accordance with uses the money groundwork regarding accounting in calculation concerning profit anxiety obligation, or therefore, almost accountants in Azerbaijan are now not even familiar with the accrual groundwork of accounting and matching concepts regarding income and expense, which are the predominant concepts under IFRS accounting. It will bust a long length of time in conformity with instruct these accountants.

2. What are the expenses regarding IFRS utility for the Azerbaijan entity?

The cost will lie high due to the fact the gait projects are received abroad through the professional accounting firms, kind of PwC, EY and etc. and the professional work price among these corporations are relatively higher.

Audit Manager 2

1.The relevance regarding IFRS in imitation of Azerbaijan. What are pros and cons of IFRS application to Azerbaijan Economy?

IFRS has a lot concerning advantages, creates special method and philosophy for all companies. IFRS introduces instant discriminate beyond investor and proprietor point of view, no longer beyond the regulator view. At the identical day that makes investment environment within the country simply because of overseas investors, for the reason that the method is same. Disadvantage – IFRS is entirely bendy and once in a while be able to keep treated aggressively.

The instant regulation is effective beyond the according dates depending concerning categories

and applicable standards.

2. What are the expenses regarding IFRS utility for the Azerbaijan entity?

There are a lot concerning costs since so are tiny range regarding IFRS professionals on the market, consulting businesses bear high rate because of IFRS transition. All certain costs may keep grouped as like following:

- Staff – IFRS specialists, training about contemporary accounting staff;
- User – coaching concerning customers regarding the economic statements, or according to study the financial statements etc.;
- System – Accounting dictation and/or software necessity in conformity with remain tailored in imitation of IFRS;
- Internal techniques – because whole departments then responsible people necessity according to be adopted in imitation of IFRS principles.

BIBLIOGRAPHY

- Derek, Bailey. 1995. *Accounting in transition in the transitional economy. The European Accounting Review*. 4:4. 595-623
- Kerimov, Aydin. 2007. *Muhasibat Uçotu, Vergiler. Baku.*
- Walton, Peter et al. 2003. *International Accounting. Thomson Learning.*
- *Accounting Law of Azerbaijan Republic. September 2, 2004. "Azerbaijan" newspaper. Baku*
- *International Federation of Accountants: <https://www.ifac.org/>*
- *Journal of Modern Accounting and Auditing, ISSN 1548-6583, USA*
- *İ.M. ABBASOV – Audit BAKI – 2007*
- *A review of archival auditing research- MarkDeFond, JieyingZhang (135-187)*
- *Top 10 Wish List for Audit Research. Edward E. Nusbaum*
- *Fundamentals of Auditing –ACC 311. © Copyright Virtual University of Pakistan*
- *John Gear. Is the EU "Going Too Far"? 36-42*
- *Audit Failure or Lack of Accounting Condor? -Norges Handelshoyskole, Bergen*
merican Economic Review, Vol. 88, No. 3.

www.ifrs.org/issued-standards/list-of-standards/

- *Patrick, H.T., 1966, Development and economic surplus in underdeveloped countries, Economic Development and Cultural Change, Jan.*
- *Allen, Franklin & Anthony M. Santomero, 3001, What do financial intermediaries do? Journal of Banking & Finance*
- *Deloitte & Touché LLP, "Taking Control, A Guide to Compliance with Section 404 of the Sarbanes-Oxley Act of 2002," 2003*
- *International Organization for Standardization (ISO), ISO/IEC 17799, Code of Practice for Information Security Management, Switzerland, 2005*
- *International Organization for Standardization (ISO), ISO/IEC 17799, Code of Practice for Information Security Management, Switzerland, 2005*
- *Amir, E. (1993), "The Market Valuation of Accounting Information: The Case of Postretirement Benefits other than Pensions," The Accounting Review, Vol. 66, No. 4, pp. 703-724.*
- *Banker, R.D., S.M. Datar, and R.S. Kaplan (1989), "Productivity Measurement and Management Accounting," Journal of Accounting, Auditing & Finance, Vol. 4, No. 4, pp. 528-554*
- *Kelley, T.P. (1993), "The COSO Report: Challenge and Counterchallenge," Journal of Accountancy, February, 10-18.*