

ACCOUNTING
AND AUDITING



EDUCATION



STRATEGIES FOR IMPROVEMENT
AZERBAIJAN

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LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
ARPA	Azerbaijan Risk Professionals Association
CAPSAS	Corporate and Public Sector Accountability Project
CFRR	Centre for Financial Reporting Reform
CII	Chartered Insurance Institute
CIS	Commonwealth of Independent States
CPA	Certified Public Accountant
COA	Chamber of Auditors
EU	European Union
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
NAS	National Accounting Standards
NGO	Non-Governmental Organization
MOE	Ministry of Education
MOF	Ministry of Finance
MPS	Professional Certification of Accountants
PAO	Professional Accountancy Organization
PSS	Professional Insurer Certification
SME	Small and Medium-sized Enterprise
STAREP	Strengthening Auditing and Reporting in the Countries of the Eastern Partnership
YAU	Young Accountants Union

EXECUTIVE SUMMARY

This report provides an overview of current issues related to accounting education in Azerbaijan. It provides some historical background on the development of accounting education in the country, before addressing recent developments. A general overview of the existing situation of teaching accounting at universities, demand for the accounting profession in the labor market and certification in this field at the national level, along with legislation and practice, have been analyzed in the report.

Recommendations based on the outcomes of the studies and analyses are given with a vision for the future, taking into consideration newly adopted legislation and its expected positive impacts, as well as new challenges that might be faced in this field. Institutions and their role in the process of improving the quality of accounting education and certification are examined as well. The vision for transitioning to the application of the International Financial Reporting Standards (IFRS) in Azerbaijan in the future has been presented.

INTRODUCTION

Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) program is implemented with the support of the World Bank's Centre for Financial Reporting Reform (CFRR) since 2013. The aim of the program is to support the design and implementation of sound corporate financial reporting reforms that strengthen business and investment climates and bring closer integration with the European Union (EU). The group of countries covered by the program activities are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The project aims at assisting the participating countries in adopting and implementing international standards, and promoting the alignment of financial reporting frameworks with international best practices and EU standards.

The second Component of the STAREP program is about "Accounting Education Reform", and specifically aims to promote the development of accounting education aligned with International Accounting Education Standards and the educational requirements of the EU's Statutory Audit Directive (i) at the university level; (ii) for professional qualification; (iii) for continuing professional development of those already qualified.

The aim of this report is to examine the conditions of accounting and audit education in Azerbaijan, present information about updates in this field, and promote accounting education reforms conducted in the country in line with international standards.

The report focuses on initiatives aimed at improving the accounting education system in Azerbaijan, linking it to professional development, outlining the existing accounting education system provided by major institutions, and proposing sustainable development mechanisms to improve the accounting education and professional development in the country.

OVERVIEW OF THE STATUTORY FRAMEWORK

The first legislation on accounting in Azerbaijan was adopted on March 24, 1995; however, the law was not in line with the requirements of international standards. Consequently, a new law was adopted on May 29, 2004, and later, several changes were made to the law in 2008, 2010, 2012, and 2015. Finally, significant changes and amendments were made on June 1, 2018 with an aim to align the law with international standards of accounting.

As a result of the most recent changes, the “Law of the Republic of Azerbaijan on Accounting” has been adjusted according to the EU Directives, and new standards in the country were adopted based on the International Financial Reporting Standards (IFRS). The current financial reporting requirements can be summarized as follows:

- All the institutions of public interest are required to submit their Financial Reports based on IFRS;
- State budget and municipal organizations are required to submit their Financial Reports based on International Accounting Standards for the Public Sector;
- Large enterprises are required to submit their Reports based on IFRS for Small and Medium Enterprises (SMEs);
- Medium Enterprises are required to submit their Reports based on free choice (Note: they have a right to submit based on IFRS for SMEs or general IFRS);
- Non-Governmental Organizations (NGOs) are required to submit their Reports based on common principles of International Accounting Standards for Public Sector;
- Small and micro enterprises are required to submit their Reports based on the forms approved by the Ministry of Finance.

In the aftermath of the recent changes, the term “National Accounting Standards” (NAS) in the law was replaced by IFRS. Until the end of 2018, the NAS were used unless the translation of the new standards into the local language were completed. The IFRS are already translated and uploaded to the web page of the Ministry of Finance, and the work of translating the IFRS for SMEs is in progress. After the translation of IFRS for SMEs is complete, the NAS will no longer be applied. The Ministry of Finance will post an Azerbaijani version of the IFRS on its official web page after an agreement with the IFRS Foundation.

One of the main changes to the law concerns the qualifications required for a professional accountant. In line with the legislation, the person who successfully passes the examination arranged by the State Examining Center, receives a certificate of a professional accountant with the membership in a registered¹ professional accountancy organization, and is thus recognized as a professional accountant. In order to achieve this status, the accountant must

¹ As of October 8th 2018, the criteria for registration of PAOs are yet to be published by the MOF.

have the skills and abilities proving his capacity to develop and submit tax and other reports in line with the IFRS, International Accounting Standards for Public Sector or IFRS for SMEs as well as the Legislation of the Republic of Azerbaijan. Also, in order to receive the status of a professional accountancy organization (PAO) in the country, being a non-commercial organization accredited by the Ministry of Finance and consisting of members who are professional accountants is critical. In line with the Decree No 105 of the President of Azerbaijan dated June 1, 2018, the rules of conducting examinations, forms of PAOs, and accreditation procedures, are in the process of approval. It is expected that the rules for obtaining the status of a professional accountant are going to be approved officially in the upcoming few months.

The Loan Agreement on Corporate and Public Sector Accountability Project (CAPSAP) was signed in 2008 as another cooperation activity between the World Bank and the Government of Azerbaijan. The various actions related to accounting education initiated during the CAPSAP project included assistance in addressing existing problems concerning internationally recognized standards of accountability in the public sector. Training for accountants of state-funded organizations was organized within the framework of CAPSAP by the Ministry of Finance of the Republic of Azerbaijan and the World Bank during 2012-2015.

Training was conducted in subjects such as Financial Accounting, Business Law and Taxes, and National Accounting Standards for Budget Organizations in which close to five thousand professionals took part.

Although a great number of organizations were involved in trainings within the CAPSAP project, there is still a need for conducting additional training. The fundamental reforms in the field of accounting require new initiatives related to accounting education and awareness raising. This is especially true as the curriculums applied at the universities need to be updated (this process is under implementation) and there is a need to work with faculty to increase the capacity of accountants as well as lecturers.

Books that cover the subjects included in the CAPSAP project were developed by Get Through Guides Limited UK and recommended by the Association of Chartered Certified Accountants (ACCA), an international PAO. They have been translated into Azerbaijani and printed and distributed to the higher education institutions in Azerbaijan on a gratis basis with recommendations to be used in the learning process. The topics covered in these books are in line with different levels of ACCA (from F3 up to F9). They include Financial Accounting; Financial Reporting; Accounting; Management Accounting; Financial Management; Audit and Accountability; Business and Taxation, etc. The books have been translated and published during 2012-2015.

There is a strong need for launching these types of projects in the future in order to keep the accounting education programs and curriculum updated. The main reason for launching this type of a project is not related to the fact that standards have changed, but that the training

provided for teachers is not sufficient and the translated and published materials are not used. As mentioned above, due to the new reforms in the field of accounting, there is a need for awareness raising for professionals to be informed about new approaches and innovations in the field. Although there were some gaps, overall CAPSAP was a successful project which played a foundational role for accounting education reforms in Azerbaijan. Although the materials translated and presented to the community of accountants within the CAPSAP project are extremely useful, the demand for new materials is going to increase along with the application of international standards as a result of adopting the new legislation in June 2018.

UNIVERSITIES, THEIR EDUCATION PROGRAMS, AND PROFESSIONAL ACCOUNTING ORGANIZATIONS

In Azerbaijan, higher education offerings are segmented into 175 specialties. Accounting and Audit is one of them, and it belongs to the Economy and Management group of specialties. 17 universities in Azerbaijan teach accounting as a major, and there are a few more universities that also provide accounting only as an additional subject. The Ministry of Education coordinates education policy through the relevant responsible division and approves education programs in this field for universities.

The history of accounting education starts in 1928 when the Department of Accounting was established for the first time in the State University during the Soviet Union. During the following 70 years, Azerbaijan operated under the principles of a planned economy, and this guided accounting practices and education. Only during the last 20 years has accounting education started to adapt to Azerbaijan's status as a transition country moving towards a market economy.

With the corresponding Decree of the Cabinet of Ministers dated 2009, the accounting major is called "Accounting and Audit" at the moment. However, subject to approval by the President of the country, the speciality is set to be renamed "Accounting" which is included in the education development strategy of Azerbaijan that aims to align accounting education in the country with international standards.

The master's and bachelor's degree education in the Accounting and Audit speciality is taught in 17 higher education facilities in Azerbaijan (see the list of universities in Appendix 1). In line with the information provided by the Ministry of Education, the number of students studying to get a bachelor's degree in Accounting and Audit is 2,921; the number of master's students in the same major is 304. In 2017, the number of students who received a bachelor's degree in this major was 762; master's were 64 students. Usually the students seeking an opportunity to continue their education after a bachelor's degree are doing it with the aim to continue working at the university as a teacher or teacher's assistant, or to improve their employment prospects. Although it is possible to find job with a bachelor's degree, there are some issues resulting from the lack of alignment of the curriculum with the labor market needs. These issues extend to the masters' degree programs as well, in the majority of cases. Thus, there is a need to increase practical courses in the new curriculum and programs.

Based on the new changes made in 2016, master's students only spend a year of the two years of master's education attending auditorium and classes, and on the second year they mainly focus on freelance research and independent studies as well as getting practical experience.

A working group at the State University of Economy is currently active regarding the new standards of undergraduate education. The Young Accountant Union (YAU) is one of the members of this group. The working group has already prepared a draft of recommendations on what changes should be implemented. The working group has proposals regarding the elimination of lectures and seminars, as well as decreasing extra classes and increasing practical sessions. The recommendations can be implemented if there is an approval of the draft by the Ministry of Education.

The new education program (curriculum) for bachelor's degrees is based on the decree of the Minister of Education and a special working group is working on it. The working group is focusing mainly on activities to adjust the education programs in line with the International Federation of Accountants' (IFAC) pronouncements. The education program under development should be consistent with the requirements stipulated in the new legislation for certification of professional accountants. The new education program in line with IFAC requirements is going to be submitted to the Ministry of Education, and after public discussions the Ministry has a right to approve the program. The materials for education are going to be in line with international standards. The working group is considering increasing the number of accounting classes and eliminating non-specialty subjects. Examinations are also considered to be conducted in line with the format of ACCA exams. The program is going to be commonly accepted in the country and all the universities are going to proceed with this program. Even before the approval of the program, certain groups at some of the universities are already teaching in line with international standards.

SABAH² groups established by the Ministry of Education, Baku Engineering University, Khazar University, UNEC Business school, and others, are already implementing the new education program. For example, as UNEC Business school has an accreditation from ACCA, master's students receiving a degree from UNEC Business school are exempted from ACCA F1 to F9 and up to F6 for bachelor's students. Also, accounting can be studied in four languages in Azerbaijan (Azerbaijani, Russian, English and Turkish).

The minimum requirement for getting a bachelor's degree in accounting in Azerbaijan consists of 240 credit points. This four-year program includes subjects related to specialty and other additional non-specialty subjects as well as practical experience. The subjects for the major consist mainly of Theory of Accounting, Financial Accounting, Basics of Auditing, etc.

According to the new master's study program, 120 credit points are required for being awarded a master's degree in accounting at universities in Azerbaijan. Master's degree

² SABAH – is a special group established by the Ministry of Education in all universities consisted of talented students who admitted with highest scores (admission to Sabah Groups depends upon the successful completion of the 1st year of undergraduate studies (highest score of exam), not necessarily on admission score (TQDK).

programs in Azerbaijan are conducted in two streams in the country: Accounting for Production and Accounting for the Service Sector.

According to the statistics of 2017, close to 1,200 alumni graduated from universities with a degree in Accounting and Audit (see Appendix 1 for details). However, the demand in the labor market for auditors and accountants is so high that even persons getting a degree in other fields work as accountants by being awarded certificates through short-term non-formal courses. There are many private training providers in Azerbaijan offering accounting courses, including Barattson, GRBS, Headstart International, and others.

Audit education is provided within the Accounting and Audit speciality. However, in order to conduct auditing at a professional level, it is obligatory to be a member of the Chamber of Auditors (COA) and to obtain a license for this activity. There is a requirement to take appropriate examinations organized by the Chamber in order to become a member of the COA, providing proof of not being barred from holding this position, a health certificate, and a minimum of 3 years of work experience in a profession requiring higher education in accounting and audit. If the degree is in a different specialty, 8-10 years of work experience in an audit-related field is required. The license for conducting audit for entities is provided without terms, but for physical entities the license is given for a 5-year period. The COA of Azerbaijan is a full member of IFAC. The professionals having international certificates such as ACCA and CPA can receive the license for auditing activity from the COA without passing necessary examinations. The examination on local taxes or legislation is defined by the examination commission under the COA. Certificates such as ACCA, CPA and other similar ones are recognized as international certificates.

PAOs consist of training centers of government bodies, NGOs specialized in this field, and some private entities offering short-term accounting courses. The most known of them are: training centers of the Ministries of Finance, Taxes, Economy, NGOs like Azerbaijan Risk Professional Association (ARPA), and the Young Accountants Union (YAU).

ARPA's mission is to contribute to the sustainable development of the country's economy by stimulating the enrichment of professional culture in finance and management business areas in Azerbaijan. ARPA operates actively within the relevant standard legal certificates in the fields of finance and management; arranges certification programs in order to increase human resources formation, as well as their professionalism level, in relevant fields; holds various events for the audience answering ARPA's mission and requirements; conducts scientific studies and research and publishes relevant materials; cooperates actively with relevant international, regional and local organizations with the purpose of increasing service quality, learning and spreading modern practices. The certification programs provided by ARPA are the following: MPS – Professional Certification of Accountants, PSS – Professional Insurer Certification, etc. ARPA officially cooperates with well-known professional

organizations such as the Chartered Insurance Institute (CII) in arranging exams. More detailed information can be obtained in English from ARPA's official website.³

The Young Accountants Union (YAU) is a non-political, non-governmental and non-commercial organization created on the basis of public interests of citizens of the Republic of Azerbaijan, and operates on the principles of voluntariness, equal rights of members, self-governance with the purpose of participation in the process of democratization, construction of civil society accomplished by government of the Republic. YAU specializes in organizing trainings on accounting, preparing and applying tests for evaluating trainings in this area, and for publication of study materials.

YAU was established in 2000 in Baku. The main tasks of the Union are to provide various services, including social, economic, educational, accounting and consulting services to young accountants, NGOs, mass media, refugees, displaced persons and persons with disabilities.

YAU provides services for NGOs (consulting about application of National Accounting Standards (NAS) to NGOs; preparation of financial statements for NGOs that are submitted to the Ministry of Finance and to donors; providing capacity building trainings for NGOs) and for commercial organizations (application of NAS; accounting services; tax related consulting, etc.). The training provided by YAU is related to: preparation of financial statements of implemented projects for donors, financial management of non-commercial organizations, fundraising seminars for NGOs, practical on-the-job training for students with a major in accounting, training on financial management for commercial entities, etc.

Training and research centers of the Ministries of Finance, Taxes and Economy are also active in providing necessary capacity building services for the staff of the Ministries and their subordinated departments. The center of the Ministry of Finance is also offering fee-based courses for a wide public. The training provided by the Ministry of Finance covers topics related to financial management of budget organization, extra education opportunities for civil servants, and courses for commercial entities. This center is the only specialized institution providing training for budget organizations.

³ www.arpa.org.az

CHALLENGES AND RECOMMENDATIONS

Regarding the main challenges, it can be first of all stated that the approval of new education programs is going to be urgent. Especially for the specialty of accounting and audit, practical cases have to be developed. Students have to be given some free choice and options regarding credit points. Especially in auditoriums, number of students has to be reduced and focus on the quality of education should be increased. Lectures and seminars can be merged as much as possible. Students should be provided the opportunity to become familiar with real life cases and documents. The gap between student competencies and employer expectations must be addressed. Students should not be provided only with theoretical courses, but also should have an opportunity to be involved in practical activities in enterprises as much as possible. In general, teaching needs to evolve from being teacher-centered to being learner-centered.

The process of bridging gaps should not only be expected from the Ministry of Education. Universities are also encouraged to be involved in the process, express initiative and take possible steps towards improving the quality of education.

It should be noted that employers usually mention the possession of work experience as a basic requirement for persons applying for a job vacancy announcement for an accountant and/or auditor. However, the alumni of universities do not usually have such experience, causing them to be unemployed for a certain period of time. Sometimes companies meet with undergraduate students of universities in their final year of studies and invite them for an internship which can lead to a paid position after they receive their degree. In general, an experienced accountant is always able to find employment in Azerbaijan. We would like to see universities increase practical sessions in their curriculum and provide opportunities for students to spend more time as an intern at companies so that newly graduated alumni could find jobs after gaining a degree.

Taking into account all the above-mentioned challenges, the following recommendations are offered for future consideration:

- There is a need to increase the knowledge and skills of lecturers and professors in the field of accounting and audit. Professors and teachers from abroad should be invited to local universities and exchange programs in this field should be implemented;
- Universities should be provided an opportunity to independently define education programs in accounting and audit;
- There is a need to decrease the credit load for students in bachelor's programs and only have subjects related to the specialty. In particular, practical exercises have to be conducted during classes;
- Special consideration should be given to the language skills of students;

- International cooperation in the field of audit has to be an area of focus, especially for recognition of examinations conducted in Azerbaijan by ACCA and other international examining bodies;
- The career centers of universities have to regularly send students to practice and arrange meetings with employers;
- Certification has to be conducted in a unified form and should be accepted by all NGOs;
- Books and resources need to be written and translated in line with international standards.

APPENDIX 1. NUMBER OF STUDENTS ADMITTED TO ACCOUNTING IN HIGHER EDUCATION INSTITUTIONS FOR 2017

	Name	Students admitted to Accounting and Audit	Status	ACCA provided in curriculum
1.	Azerbaijan State Economic University	330	State	Yes
2.	Baku Engineering University	60	State	Yes
3.	Nakhchivan State University	35	State	No
4.	Azerbaijan State Agrarian University	60	State	No
5.	Ganja State University	40	State	No
6.	Azerbaijan Technology University	65	State	No
7.	Sumgait State University	65	State	No
8.	Mingachevir State University	40	State	No
9.	Lankaran State University	75	State	No
10.	Azerbaijan Cooperation University	80	Private	No
11.	"Azerbaijan" University	70	Private	Yes
12.	Western University	20	Private	Yes
13.	Khazar University	30	Private	Yes
14.	"Odlar Yurdu" University	40	Private	No
15.	Baku Business University	85	Private	No
16.	"Nakhchivan" University	20	Private	No
17.	Azerbaijan Academy of Labor and Social Relations	60	Private	No
TOTAL		1175 (including 110 in English)		

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