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MINISTER OF JUSTICE OF THE REPUBLIC OF ARMENIA

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LAW

OF THE REPUBLIC OF ARMENIA

ON AUDITING

Adopted on 26 December 2002

CHAPTER I

GENERAL PROVISIONS

Article 1. Subject matter of the Law

This Law defines the principles of auditing in the Republic of Armenia and regulates relations pertaining to auditing.

Article 2. Scope of the Law

This Law shall apply to auditing carried out in the territory of the Republic of Armenia.

Article 3. Regulatory legal acts on auditing

Regulatory legal acts governing auditing shall include this Law, other laws containing norms in regard to auditing, decisions of the Government of the Republic of Armenia, as well as other legal acts adopted by the public administration body authorised by the Government of the Republic of Armenia (hereinafter referred to as “the authorised body”).

Article 4. Main concepts used in this Law

The concepts mentioned below shall have the following meanings in this Law:

auditing service shall mean audit and/or audit review;

audit entity shall mean an audit firm;

audit firm shall mean a legal entity providing audit services;

audited entity shall mean a legal entity, institution or individual entrepreneur undergoing audit services;

auditor shall mean an individual qualified as an auditor.

(Article 4 edited, amended by HO-207-N of 26 May 2011)

Article 4.1. Affiliated persons

1. Within the meaning of this Law, legal entities shall be deemed affiliated if:

(a) one of them, by the right to vote, possesses 20% or more of the other’s shares (stocks, quotas, hereinafter referred to as “share”) that give a right to vote, or by the power of his or her participation or in accordance with the contract signed between those persons, is able to predict the decisions of the other;

(b) participants (shareholders) or their family members who possess more than 20% of the shares of one of them that give a right to vote or who are able to predict his or her decisions in a manner not proscribed by law, have a right to directly or indirectly possess (including on the

basis of trade, accreditation management, joint activity agreement, instruction or other transactions) more than 20% of the other person's shares that give a right to vote or are able to predict the decisions of the latter in other manners not proscribed by law;

(c) the board chair, board member, department chair, department member, executive director, his or her deputy in financial management matters, head of the financial unit, accountant or the person responsible for accounting or preparing financial statements, the head, member of the internal audit unit or the chair of the inspection commission, member of the inspection commission or the member of another similar body (hereinafter referred to as "the member of the management body or a person carrying out similar duties") of one of them, as well as any of their family members is at the same time a member of any management body of the other person, or any person carrying out similar duties.

2. Within the meaning of this Law, natural persons shall be deemed affiliated if they are members of the same family or run a common household or a joint entrepreneurship.

3. Within the meaning of this Law, natural and legal entities shall be deemed affiliated, if that natural person or his or her family member is:

(a) a participant possessing more than 20% of the shares of the legal person concerned;

(b) a person able to predict the decisions of the legal person in other manners not proscribed by law;

(c) a member of the management body of the legal person concerned or a person carrying out similar duties.

4. Within the meaning of this Law, the child, spouse, parent, sister, brother, grandfather, grandmother, grandchild, spouse and children of the sister, brother, as well as the child, parent, sister, brother, grandfather, grandmother, grandchild of the spouse shall be deemed members of the same family.

(Article 4.1 supplemented by HO-207-N of 26 May 2011)

Article 5. Use of words “audit” [audit], “auditor” [auditor], “auditorakan” [auditing]

1. The words “audit” [audit], “auditor” [auditor], “auditorakan” [auditing] or the derivatives thereof may be used in the titles only by the firms which have obtained a licence to carry out auditing services (hereinafter referred to as “licence”), except for cases when the meaning of such word explicitly implies that it does not refer to auditing.

Firms not holding a licence, including firms in process of establishment or firms with a withdrawn licence may not use the words referred to in this point for more than six months.

2. The audit firm may not use misleading words in its title, which may cause misunderstanding on the financial or legal status of the audit firm concerned.

(Article 5 supplemented by HO-93-N of 8 June 2004)

**CHAPTER II
AUDITING AND AUDIT**

Article 6. Concept of auditing

1. Auditing is the audit of financial statements and/or other information included in the documents containing financial statements (hereinafter referred to as “financial statements”) and/or provision of audit-related services (audit review, agreed-upon procedures, compilation (collection of information)).

2. Auditing shall be carried out in the manner prescribed by regulatory legal acts on auditing.

3. Audit and audit review shall enable the audit entity to provide a level of assurance on the reliability of information, whereas agreed-upon procedures and compilation do not envisage such assurance.

4. Provision of audit services without a licence shall be prohibited. Audit services shall be provided at least by one auditor.

(Article 6 amended by HO-93-N of 8 June 2004)

Article 7. Audit

1. Audit is an independent verification of information contained in the financial statements of an audited entity, resulting in an audit conclusion.

The objective of the audit of financial statements is to enable the auditor to express an opinion on whether the financial statements, in all essential terms, are prepared in accordance with the legislation of the Republic of Armenia.

2. Audit shall be carried out in cases prescribed by law (statutory audit) or upon the initiative of audited entity (voluntary audit).

Both statutory and voluntary audits shall be carried out in the manner defined by regulatory legal acts on auditing.

Voluntary audit may be carried out based on other principles (other standards, etc.) if audit findings are intended for users outside the territory of the Republic of Armenia.

Article 8. Audit review

Audit review of financial statements is the implementation of procedures enabling the auditor to detect the existence of facts, if any, which may witness that the financial statements, in all essential terms, are not prepared in accordance with the legislation of the Republic of Armenia.

Article 9. Agreed-upon procedures

Agreed-upon procedures are procedures of auditing nature, which the person carrying out the procedure, the legal person (institution or individual entrepreneur) and the relevant third party or parties agree upon, and as a result of which — based on the report submitted by the person carrying out the procedures — the users may draw their conclusions.

Article 10. Compilation

Compilation is collecting, classifying and summarising financial information in order to make its layout more comprehensible and convenient for use.

Article 11. Auditing standards

Auditing standards are regulatory legal acts complying with the international auditing standards, regulating the methods of and the procedure for carrying out audit and providing audit-related services.

The audit entity shall choose its *modus operandi* independently proceeding from the requirements laid down in regulatory legal acts on auditing.

Auditing standards, as well as rules of conduct for an auditor shall be defined by the Government of the Republic of Armenia on the basis of international auditing standards and code of conduct.

(Article 11 supplemented HO-93-N of 8 June 2004)

Article 12. Limitations on the activities of an auditor and audit entity

1. Audit entity shall be prohibited to engage in any entrepreneurship activities other than auditing and provision of services referred to in part 2 of this Article.

2. Audit entity shall not be prohibited to provide the following services:

(a) set-up, recovery or maintenance of accounting systems, as well as preparation of financial statements;

(b) provision of training on accounting, economics, finance and audit;

(c) assessment of assets and/or liabilities and/or the share of the legal person (quota, stock and other participation);

(d) planning and calculation of taxes, duties and other mandatory payments;

(e) analysis of financial-economic activities of organisations;

- (f) consultancy on accounting, economic, financial, tax, administrative and legal aspects;
- (g) development of a business plan;
- (h) implementation of expert examination related to the fields of accounting, auditing, finance, economics, taxes, duties and other mandatory payments;
- (i) publication of professional literature.

3. Where a licence is required for providing specific types of services referred to in part 2 of this Article, the audit entity shall — in order to be engaged in such types of activities — be obliged to obtain a relevant licence in a defined manner.

4. The following persons may not provide audit services:

(a) the auditor or the audit firm that has provided services referred to in points (a), (c) (d) or (e) of part 2 of this Article to the audited entity concerned, or has done the work envisaged by those points, for the specified period within the reporting year;

(b) the auditor or the audit firm that is the policyholder of the legal person concerned (except for the types of mandatory insurance);

(c) the audit firm, one of the members of the management body of which or one of the persons carrying out similar duties, as well as one of their family members is the policyholder of the legal person concerned (except for the types of mandatory insurance);

(d) the audit firm, one of the members of the management body of which or one of the persons carrying out similar duties, as well as one of their family members is an affiliated person to the legal person concerned;

e) the auditor, to persons affiliated to him or her;

f) the audit firm, to persons affiliated to it.

(Article 12 amended by HO-93-N of 8 June 2004, edited by HO-207-N of 26 May 2011)

Article 13. Documentation of auditing and audit-related services

1. Auditing and provision of audit-related services shall be subject to mandatory documentation by an audit entity in the manner defined by auditing standards.

The documentation of audit and related services shall be mandatorily carried out in the Armenian language, except for working documents, in cases defined by the internal regulations of the audit entity. Upon the requirement of the persons exercising control envisaged in Article 30(1)(g) of this Law, the audit entity shall be obliged to, within a reasonable time period, provide the Armenian translations of the documents necessary for exercising control over the compliance of the requirements of the regulatory legal acts on auditing.

2. Audit documentation shall mean drawing up of audit conclusion based on working papers of the auditor and audit findings. An audit report (letter to the management of the audited entity) shall also be prepared in cases provided for in the contract or upon the initiative of the audit entity.

3. Working papers of the auditor are documents prepared or obtained and kept by the auditor for the purpose of auditing. Working papers of the auditor are documents containing a commercial secret and may be disclosed solely in cases prescribed by law.

4. Audit conclusions, audit reports, working papers of the auditor and other documents related to auditing shall be kept in the manner defined by the legislation of the Republic of Armenia, but for not less than five years following the audit.

(Article 13 supplemented by HO-86-N of 26 May 2008, HO-207-N of 26 May 2011)

Article 14. Audit conclusion

1. Audit conclusion is a document prepared by the audit entity, which expresses an opinion on financial statements of the audited entity. Requirements for the form and content of audit conclusion shall be defined by auditing standards.

2. Audit conclusion is a document containing no commercial secret, and the necessity of disclosing thereof shall be determined by the audited entity, unless otherwise prescribed by law.

Audit conclusion shall be prepared in at least two copies, signed by the auditor in charge of auditing and approved by the signature of the head of the audit entity. One copy of the audit conclusion shall be furnished to the audited entity, and the other copy shall remain at the audit entity.

(Article 14 amended by HO-93-N of 8 June 2004, supplemented by HO-114-N of 13 April 2011, amended by HO-70-N of 19 March 2012)

Article 15. Unreliable audit conclusion

(Title edited by HO-207-N of 26 May 2011)

1. Within the meaning of this Law, unreliable audit conclusion shall be an audit conclusion which was prepared without carrying out audit in compliance with auditing standards, as well as a conclusion which is in conflict with the content of documents submitted by the audited entity and examined by the audit entity during the auditing process.
2. Audit conclusion shall be declared unreliable upon the decision of the authorised body. The decision of the authorised body may be appealed through judicial procedure.
3. The Government of the Republic of Armenia may define the procedure of checks aimed at detecting the features of the unreliability of the audit conclusion.

(Article 15 edited by HO-207-N of 26 May 2011)

Article 16. Audit report (letter to the management)

1. Audit report may contain information on auditing process, revealed errors and deficiencies, infringement of requirements pertaining to the maintenance of accounting records and preparation of financial statements, on findings of analysis in regard to specific issues, on matters provided for by contract and other issues, as well as recommendations on elimination of errors and deficiencies. At the discretion of the audited entity or the auditor, the report may also contain other information.

2. Audit report is a document containing a commercial secret. It shall be prepared in at least two copies, signed by the auditor in charge of auditing and approved by the signature of the head of the audit entity. At least one copy of the audit report shall be furnished to the audited entity, and the other copy shall remain at the audit entity.

(Article 16 amended by HO-93-N of 8 June 2004, supplemented by HO-114-N of 13 April 2011, amended by HO-70-N of 19 March 2012)

CHAPTER III

AUDIT ENTITY AND AUDITED ENTITY

(Title amended by HO-207-N of 26 May 2011)

Article 17. Auditor

(Article 17 repealed by HO-207-N of 26 May 2011)

Article 18. Rights and duties of audit entity

1. Audit entity shall be entitled to:

(a) examine, during the provision of audit services, the documentation on financial-economic activities of an audited entity — in its entirety — as well as verify the actual availability of property recorded in the documents;

(b) obtain verbal and written explanations and other necessary information from audited entity on issues arising during the provision of audit services, as well as request such information from third parties;

(c) make a written inquiry, with the knowledge of audited entity, and obtain necessary information or assurances from third parties;

(d) involve other auditors, specialists (including on contractual basis), as well as other commercial organisations during the provision of audit services. The manner of involvement of mentioned persons in the provision of audit services shall be provided for by auditing standards;

(e) refuse to provide audit services and early resolve the contract or refuse to furnish an audit opinion, in compliance with auditing standards, in case of infringement of the requirements prescribed by Article 19(2)(a) or (b) of this Law;

(f) exercise other rights not proscribed by the legislation of the Republic of Armenia.

2. Audit entity shall be obliged to:

(a) observe the requirements of the legislation of the Republic of Armenia during the period of auditing;

(b) ensure the observation, by employed auditors as well as persons mentioned in point (d) of part 1 of this Article, of requirements envisaged by Article 12(4) of this Law;

(c) refuse to provide audit services, in case of absence of licence or where conditions defined by Article 12(4) of this Law exist;

(c.1) in case of refusing to provide audit services and early resolving the contract in cases defined by law, inform the authorised body about the reasons of refusal within ten working days, and in case of mandatory audit, within three working days, attaching the relevant documents;

(d) ensure protection of confidentiality of information and documents — obtained and prepared during the auditing process — constituting official, commercial or banking secret. The list of confidential information shall be defined by law, the auditing contract and it shall not be subject to disclosure except for cases prescribed by law or the contract, as well as by written consent of the legal person, institution or individual entrepreneur that has undergone audit. Information which may not constitute official, commercial or banking secret pursuant to the legislation of the Republic of Armenia shall not be included in this list;

(e) communicate in writing to the authorised body about the infringement of any requirement referred to in Article 26(1) of this Law within a 30-day period following the day of such infringement;

(f) submit to the authorised body, in the manner defined by the Government of the Republic of Armenia, quarterly reports necessary for exercising control over the fulfilment of requirements of regulatory legal acts on auditing within a 30-day period following the given quarter, as well as annual performance reports prior to the 15th of April of the year following the year concerned;

(g) keep a register of contracts concluded, in the manner defined by the Government of the Republic of Armenia;

(h) incur liabilities provided for by the Law of the Republic of Armenia “On combating money laundering and financing of terrorism” and other laws;

(i) ensure conditions for the relevant employees of the authorised body, including specialists involved by the authorised body (in case of specialists that are not state servants, upon the condition of providing a statement of confidentiality), to exercise the control envisaged by Article 30(1)(g) of this Law, and provide necessary information and documents, including confidential ones, which are necessary to ensure that the audit entity has conducted the audit in conformity with audit standards;

(j) maintain a website, where the entity shall be obliged to post its annual financial statements and the list of audited entities by the 1st of April of the year following the reporting year;

(k) in order to change the executive director, as well as the members of the collegial executive body, if any, board members and the chair (hereinafter referred to as “the head of the organisation”), the approval of the authorised body shall be acquired regarding the compliance of the new head of the organisation with the requirements defined by Article 26(1)(c) of this Law.

(Article 18 edited by HO-93-N of 8 June 2004, HO-86-N of 26 May 2008, edited, amended, supplemented by HO-207-N of 26 May 2011)

Article 19. Rights and duties of audited entity

1. Audited entity shall be entitled to:

(a) choose the audit entity independently, unless otherwise prescribed by law or the contract;

- (b) obtain information from audit entity on regulatory legal acts pertaining to auditing;
- (c) inform the authorised body, and where the auditor concerned is a member of a non-governmental organisation established through membership of auditors or accountants and auditors, accredited by the authorised body, in line with the principles defined by Article 22¹ of this Law and in the manner defined by the Government of the Republic of Armenia (hereinafter referred to as “the specialised institution”), the audited entity shall also inform the specialised institution of the infringement of the requirements set forth in the regulatory legal acts pertaining to auditing committed by an audit entity;
- (d) exercise other rights not proscribed by the legislation of the Republic of Armenia.

2. Audited entity shall be obliged to:

- (a) impose no hindrance to the conduct of audit services, furnish the audit entity with necessary documents for the purpose of providing audit services, provide clarifications and explanations (verbal and/or written) on verbal and/or written inquiries of auditors, as well as request from third parties information necessary for providing audit services, at the auditor's proposal and within his or her competence;
- (b) undertake no measure which would limit the scope of issues examined during the provision of audit services;
- (c) eliminate deficiencies and infringements revealed in accounting and financial statements disclosed following the provision of audit services;
- (d) request the audit entity to present a copy of the licence thereof;
- (e) incur other liabilities provided for by the law.

(Article 19 amended by HO-93-N of 8 June 2004, HO-207-N of 26 May 2011)

Article 20. Audit services fees

The amount of audit services fees, the procedure and the manner of payment thereof shall be determined pursuant to the contract concluded by the parties and may not depend upon such

requirements of the audited entity, which may impact the content of the conclusion (report) submitted following the provision of audit services.

CHAPTER IV

MAIN PROVISIONS FOR QUALIFICATION OF AUDITORS

Article 21. Qualification of auditors

1. Qualification of auditors shall mean the procedure of issuing qualification certificate of an auditor (hereinafter referred to as “certificate”) — meeting the requirements specified in Article 23 of this Law — based on the results of testing the professional knowledge of an individual (hereinafter referred to as “applicant”) who has applied to the authorised body or the specialised institution for obtaining such certificate.

Qualification of auditors shall be carried out through examinations. The programme of qualification examinations for auditors shall be approved by the Government of the Republic of Armenia. Qualification examinations for auditors shall be arranged and conducted by the authorised body and/or the specialised institution within the scope of the programme of qualification examinations approved by the Government of the Republic of Armenia.

The procedure for conducting qualification examinations by the authorised body shall be defined by the Government of the Republic of Armenia, and the procedure for conducting examinations by the specialised institution shall be defined by the specialised institution in coordination with the authorised body.

The procedure for conducting examinations — submitted for approval to the authorised body by the specialised institution — may not contain proposals mitigating the requirements set by the authorised body for conducting examinations.

The certificate shall be issued by the authorised body and/or the specialised institution when the applicant passes examinations in all sections of the programme and scores the points required for obtaining a certificate.

2. The record of service on holding certain positions or certain offices by an applicant shall not be deemed a document certifying that the person concerned has a qualification of an auditor.

3. The qualification of auditors — qualified upon the results of the examinations held within the programmes prepared in compliance with the education standards of the International Federation of Accountants (hereinafter referred to as “the IFAC”) by relevant institutions of foreign countries, as well as by non-governmental organisations operating within the Republic of Armenia and holding an IFAC certificate — may be recognised upon the decision of the Government of the Republic of Armenia.

Upon the decision of the Government of the Republic of Armenia, authorised bodies may be entitled to define the list of those internationally recognised institutions, the qualification of auditors qualified upon the results of the examinations held whereby shall be recognised.

(Article 21 edited, supplemented by HO-93-N of 8 June 2004, supplemented by HO-207-N of 26 May 2011)

Article 22. Arranging qualification examinations for auditors

1. Qualification examinations for auditors shall be conducted by Qualification Commissions of Auditors (hereinafter referred to as “the Commission”), and the composition and charter of the Commission, as well as the examination questions within the framework of the programme approved by the Government of the Republic of Armenia shall be approved by:

(a) the authorised body in case the examinations are conducted by the latter;

(b) the specialised institution in case the examinations are conducted by the latter.

Examinations may be conducted no sooner than after two months following the official publication of the programme of examinations, examination questions and sample problems.

2. The Commissions shall comprise at least nine members including two representatives from the Central Bank of the Republic of Armenia. The number of the representatives from the authorised body in the composition of the Commission may not be less than four.

The specialised institution shall inform the authorised body — within a five-day period — about adopting decisions on issuing, conversion and/or withdrawal of a certificate, in the manner prescribed by the authorised body.

3. For the purpose of covering the costs related to the arrangement and conduct of qualification examinations, the specialised institution shall levy a fee, the amount of which shall not exceed the sevenfold of the minimum salary defined in the Republic of Armenia.

(Article 22 edited by HO-93-N of 8 June 2004, amended by HO-207-N of 26 May 2011)

Article 22¹. Accreditation of the specialised institution

1. Accreditation of the specialised institution shall be the recognition by the State of the compliance with the requirements set forth by the legislation of the Republic of Armenia for a non-governmental organisation which has adopted rules of conduct in line with the international standards on audit conduct, resulting in issuing a state accreditation certificate.

2. The principles of accreditation shall be the following:

- (a) establishment of a uniform procedure for accreditation;
- (b) publicity of accreditation;
- (c) assurance of legitimacy and transparency of the accreditation process;
- (d) exercise of control over the fulfilment of terms and conditions of accreditation.

(Article 22¹ supplemented by HO-93-N of 8 June 2004)

Article 23. Requirements for applicants

1. Nationals of the Republic of Armenia, foreign nationals and stateless persons possessing the following qualifications may participate in qualification examinations for auditors:

- (a) higher education in Economics and at least three years of professional experience within the five years preceding the day of submitting an application for obtaining a certificate; or

(b) higher education and at least five years of professional experience within the seven years preceding the day of submitting an application for obtaining a certificate.

2. The requirements for professional occupation envisaged by part 1 of this Article shall be defined by the Government of the Republic of Armenia.

3. Applicants, who have been declared through judicial procedure as having no or limited capacity or have been deprived through judicial procedure of the right to hold any position in the field of conducting financial-economic relations, shall not be permitted to participate in qualification examinations for auditors.

(Article 23 edited by HO-207-N of 26 May 2011)

Article 24. Validity of certificate

1. Certificate shall be issued for a period defined by the Republic of Armenia which may not be less than five years.

2. **(part 2 repealed by HO-93-N of 8 June 2004)**

3. **(part 3 repealed by HO-93-N of 8 June 2004)**

4. In case of loss (losing, destruction, etc.) of certificate, an auditor shall be obliged to make an announcement thereon through mass media. The auditor may file an application, with the body which has issued the certificate, for obtaining a copy of the certificate lost or rendered unfit for use.

The authorised body or the specialised institution shall be obliged to issue a copy of the certificate lost or rendered unfit for use within a ten-day period following the date of submitting the above-mentioned application by the auditor. Copies of certificates shall be marked with the word “Copy” in the upper right corner.

Where the copy of a certificate is lost or rendered unfit for use, it shall be issued pursuant to the manner defined by this part.

5. Where changes are made in the first name or the last name of an auditor, the latter shall, within a fifteen-day period after such changes became effective, submit an application on conversion of a certificate, attaching the relevant documents verifying the mentioned information.

Conversion of a certificate shall be carried out within a ten-day period after the registry of the relevant application of an auditor at the authorised body or the specialised institution.

(Article 24 amended by HO-93-N of 8 June 2004)

Article 24¹. Withdrawal of certificate

1. A certificate shall be withdrawn upon the decision of the authorised body or the specialised institution in case any of the following grounds exist:

(a) disclosure of a fact of obtaining a certificate through falsification or distortion of the documents required for permission to participate in qualification examinations for auditors;

(b) the fact of giving an unreliable audit conclusion by an auditor has become known;

(c) infringement by an auditor of the rules of conduct;

(d) entry into legal force of a judgment on declaring an auditor as having no or limited capacity or on depriving of the right to hold a position or undertake certain activity in the field of financial-economic relations;

(e) infringement of the requirement referred to in Article 18(2)(d) of this Law;

(f) expiry of certificate.

The decision on withdrawal of a certificate, subject to publication within a period of two weeks upon its adoption, shall be made by the body issuing the certificate.

2. In case of withdrawal of a certificate on the grounds provided for by points (a), (c) and (e) of part 1 of this Article, a person shall be allowed to sit the qualification examination for auditors only after one year from the day of withdrawal of a certificate.

3. In case of withdrawal of a certificate on the ground provided for by points (b) of part 1 of this Article, a person shall be allowed to sit the qualification examination for auditors after five years from the day of withdrawal of a certificate.

(Article 24.1 supplemented by HO-93-N of 8 June 2004, amended, supplemented by HO-207-N of 26 May 2011)

CHAPTER V

LICENSING OF AUDIT SERVICES

Article 25. Licensing of audit services

Licensing of audit services shall be the process related to issuing licences to, converting, suspending, renewing and withdrawing the licences of entities eligible for a licence under Article 26 of this Law, pursuant to the Law of the Republic of Armenia “On licensing” and to this Law.

(Article 25 supplemented by HO-93-N of 8 June 2004)

Article 26. Entities eligible for a licence

1. Legal persons registered as close joint stock companies or limited liability companies shall be eligible for a licence, where at the same time:

(a) the firm has at least 5 employed auditors, at least 3 of whom do not work for other employers, except for work of scientific, pedagogical and creative nature;

(b) at least 50% of the founders (participants) are auditors, and at least 50% of the statutory capital of the organisation belongs to them;

(c) the firm manager has higher education and at least three-year work experience within the last five years in the field of state or community service in a political or discretionary position, or in a supreme civil service position, or at least in the 2nd sub-group of top positions, or in the position

of a state or community institution manager, member of the executive body of a legal person (head of the executive body, his or her deputy), board chair, manager of the structural unit of a firm that is large with respect to its accounting.

2. The qualification certificate of an auditor shall serve as a ground for only one licence, in order to ensure any or all of the conditions specified in this Article.

3. The following persons may not be managers of audit firms:

(a) persons having a previous conviction for premeditated crimes;

(b) persons, who were deprived through judicial procedure of the right to hold any position in financial, banking, taxation, customs, trade, economic, legal fields;

(c) persons, who do not satisfy the requirements of part 1(c) of this Article;

(d) persons, who, as of the day of submitting application for obtaining a licence, are involved as suspect, accused or defendant in a criminal case;

(e) persons, who were declared bankrupt and have unpaid (unreleased) liabilities;

(f) persons, whose acts have caused another person's bankruptcy (insolvency).

(Article 26 amended, edited by HO-93-N of 8 June 2004, amended, edited, supplemented by HO-207-N of 26 May 2011)

Article 26.1. Necessary documents to be submitted for obtaining a licence

1. In order to obtain a licence, entities (hereinafter referred to as "the applicant") eligible for a licence pursuant to Article 26 of this Law, shall submit to the authorised body the documents prescribed by the licensing order approved by the Government of the Republic of Armenia.

2. Within 30 days after the documents prescribed by the licensing order approved by the Government of the Republic of Armenia are registered at the authorised body, the commission created by the authorised body for the purpose of licensing audit services (hereinafter referred to as "the licensing commission") shall examine them and take a decision about issuing a licence to the applicant or rejecting the licence application. For the purpose of requiring additional

information or documents or clarifying certain facts, the aforementioned time period may be suspended by the decision of the licensing commission. The suspension may not be longer than 10 days. After obtaining the necessary information, from the moment of the decision to resume the examination of the application, the time period shall not exceed the number of days resulting from the difference of the one-month time period and the number of days until the suspension.

(Article 26.1 supplemented by HO-207-N of 26 May 2011)

Article 26.2. Rejection of the licence application

1. A licence application shall be rejected where:

- (a) the documents submitted by the applicant are incomplete, obviously false or distorted;
- (b) the submitted documents do not comply with the requirements of this Law and the legislation of the Republic of Armenia;
- (c) the applicant, pursuant to the law or its statute, has no right to provide audit services;
- (d) the applicant does not comply with the requirements of Article 26 of this Law;
- (e) in other cases prescribed by law.

2. The licence application shall be rejected in writing no later than within a 30-day period from the day the application is registered at the authorised body. In case of suspending the 30-day period by the licensing commission in the manner envisaged by part 2 of Article 26.1 of this Law, that time period shall not be calculated in the time period prescribed hereby.

3. The reasons and legal grounds of the rejection shall be clearly mentioned in the decision rejecting the licence application.

4. Where there are insignificant deficiencies (misprints, inaccuracies of non-legal nature, calculation mistakes and other similar omissions) in the licence application or in its accompanying documents, the licensing authority may grant the application with a reservation that the licence be issued to the applicant after the elimination of such deficiencies.

5. The application shall be rejected on the ground of deficiencies in the documents, where within 10 days after the day the authorised body communicates the appropriate warning about it the applicant fails to submit necessary documents or materials or eliminate the deficiencies present in the submitted documents and materials. The authorised body shall communicate the warning about the deficiencies in the documents within 10 days after the day of receiving those.

6. In case the licence application is rejected, the applicant shall have a right to submit a new application under the general procedure.

(Article 26.2 supplemented by HO-207-N of 26 May 2011)

Article 27. Suspension of a licence

1. A licence shall be suspended in cases and the procedure provided for by the Law of the Republic of Armenia “On licensing”, as well as:

(a) in case of infringing the requirement of Article 18(2)(b) of this Law;

(b) in case of infringing one of the requirements of Article 26(1) of this Law, where the audit entity has informed the authorised body accordingly within 30 days following the day of infringement;

(c) within 3 years after imposing the penalty pursuant to Article 31.3(2)(a) of this Law, in case of making — for the third time — the infringement serving as a ground for imposing a penalty;

(d) within 3 years after imposing the penalty arising from infringing the requirement provided for by Article 13(4) of this Law pursuant to Article 31.3(2)(b) of this Law, in case of making — for the third time — the infringement serving as a ground for imposing a penalty.

2. On the ground provided for by point (a) of part 1 of this Article, the licence shall be suspended by the authorised body for a period of six months.

3. On the ground provided for by point (b) of part 1 of this Article, the licence shall be deemed as suspended from the day of infringing one of the requirements of Article 26(1).

The suspension provided for hereby shall be deemed void from the day following that of submitting substantiating documents regarding the elimination of the relevant infringement to the authorised body.

4. On the ground provided for by points (c) and (d) of part 1 of this Article, the licence shall be suspended for a period of 6 months.

5. In case of licence suspension on the grounds provided for by this Article, the audit entity shall not be prohibited to continue and complete the performance of only those audit contracts, the execution of which started before instituting the proceedings for licence suspension.

(Article 27 edited by HO-207-N of 26 May 2011)

Article 28. Withdrawal of a licence

1. A licence shall be withdrawn in the cases and the procedure provided for by the Law of the Republic of Armenia “On licensing”, as well as where:

(a) audit entity has given an unreliable audit conclusion;

(b) audit entity has infringed the requirements laid down in Article 18(2)(d) of this Law;

(c) audit entity has infringed one of the requirements laid down in Article 26(1) of this Law, where the audit entity has not informed the authorised body accordingly within a period specified by Article 18(2)(e) of this Law;

(d) no document — verifying payment of amounts of state duties and penalties calculated for late payment to the budget — was submitted within one year after suspension of a licence on the ground of failure to pay annual state duties;

(e) audit entity has infringed the requirements referred to in Article 12(1) of this Law;

(f) within two years after imposing one of the sanctions prescribed by Article 31.3(2)(a), (b) or (d) of this Law against a person carrying out audit, in case of committing an infringement serving as a ground for applying the same Article.

2. A licence shall be deemed withdrawn on the ground provided for by point (a) of part 1 of this Article from the day following the entry into force of the decision of the authorised body on declaring the audit conclusion unreliable pursuant to Article 15 of this Law.

The licence shall be withdrawn through judicial procedure at the request of the authorised body, on the grounds provided for by points (b), (c) and (e) of part 1 of this Article. A licence shall be deemed withdrawn from the day following the entry into force of the respective court judgment, unless a later term is provided for thereby.

3. Where a licence has been withdrawn on the grounds provided for by points (c) and (e) of part 1 of this Article, the person shall be entitled to apply for a new licence only after one year from the date of withdrawal of the licence.

4. In case of withdrawal of a licence on the ground provided for by points (a) and (b) of part 1 of this Article, the person, as well as the commercial organisation founded by any of the founders thereof (participant, shareholder), shall have a right to apply for receiving a new licence five years after the withdrawal of the licence.

(Article 28 supplemented, amended by HO-93-N of 8 June 2004, supplemented by HO-25-N of 16 December 2005, amended, edited, supplemented by HO-207-N of 26 May 2011)

CHAPTER VI

AUTHORISED BODY REGULATING THE FIELD OF AUDITING

Article 29. Tasks and functions of the authorised body

(Article 29 repealed by HO-93-N of 8 June 2004)

Article 30. State authorised body regulating the field of auditing

1. The authorised body shall:

(a) carry out licensing of audit services;

- (b) carry out accreditation of specialised institutions in the manner defined by the Government of the Republic of Armenia;
- (c) approve the questions of qualification examinations;
- (d) approve the composition and charter of the Commission;
- (e) arrange and conduct qualification examinations for auditors;
- (f) issue certificates and make decisions on conversion and withdrawal of a certificate;
- (g) organise and exercise control over the maintenance of the requirements of regulatory legal acts on auditing by audit entities, of the conditions of the accreditation by a specialised institution, over the maintenance of the rules of conduct of auditors, as well as over the execution of the requirements of the Law of the Republic of Armenia “On combating money laundering and financing of terrorism” and of legal acts adopted on the basis of it. During the control representatives from the specialised institution and/or audit firms, specialists may be involved, in accordance with the procedure and requirements prescribed by the authorised body;
- (g.1) publish information about sanctions imposed on audit entities on its website;
- (h) define the procedure for providing information on the decisions regarding the issuing, conversion and/or withdrawal of a certificate by the specialised institution.

2. Where, in the course of exercising control over the observation by auditing entities of the requirements referred to in regulatory legal acts on auditing as provided for in point (g) of part 1 of this Article, it is necessary to deal with a banking secret, specialists from the Central Bank of the Republic of Armenia shall be engaged in such activities, giving a written opinion on raised issues.

3. Within 10 working days after receiving a notice regarding mandatory audit provided for by Article 18(2)(c.1) of this Law on refusing to provide audit services and/or early rescission of the contract, the authorised body shall publish information about it on its website.

(Article 30 edited by HO-93-N of 8 June 2004, edited, supplemented by HO-207-N of 26 May 2011)

CHAPTER VII

LIABILITY FOR INFRINGING THE REQUIREMENTS OF THIS LAW

Article 31. Liability for infringing the requirements of this Law

Auditors, audit entities and audited entities shall incur liability for infringing the requirements of this Law in the manner prescribed by law.

Article 31¹. Liability of audit entity for infringing the requirements of this Law

In addition to suspension or withdrawal of a licence, the authorised body shall also impose the following sanctions to an audit entity for infringing the requirements of this Law:

(a) warning and assignment with regard to elimination of infringements and/or undertaking measures to prevent such infringements in the future;

(b) penalty.

(Article 31¹ supplemented by HO-25-N of 16 December 2005, HO-207-N of 26 May 2011)

Article 31². Warning and assignment with regard to elimination of infringements

1. The authorised body shall record the committed infringement through inspections or review of quarterly or annual reports specified by Article 18(2)(f) of this Law, submitted by an audit entity, and warn the audit entity thereof.

2. Warning shall mean an assignment on elimination of the committed infringement within the period specified by the authorised body, measures to prevent such infringement in the future and informing to the authorised body about them in writing.

3. Warning shall be imposed as sanction, where an audit entity:

(a) has breached the terms of submitting quarterly or annual reports as defined by Article 18(2)(f) of this Law;

(b) has infringed the requirements of the legislation of the Republic of Armenia with regard to submitting quarterly or annual reports as defined by Article 18(2)(f) of this Law.

(Article 31² supplemented by HO-25-N of 16 December 2005, amended by HO-207-N of 26 May 2011)

Article 31³. Penalties

1. Penalties shall be applied and charged upon the decision of the authorised body in the manner prescribed by the legislation of the Republic of Armenia. Where an audit entity does not agree to the decision on applying a penalty, the authorised body shall file a claim with court for charging the penalty.

2. Penalties shall be applied as sanction, where an audit entity:

(a) has infringed the requirement specified in Article 6(4) of this Law, regarding the audit services to be carried out by at least one auditor, in the amount of 600 000 Armenian drams for each case of infringement;

(b) has infringed the requirement specified in Article 13(4) of this Law, in the amount of 200 000 Armenian drams for each case of infringement;

(c) has infringed the requirement specified in the second paragraph of Article 14(2) of this Law, in the amount of 200 000 Armenian drams for each infringement (point);

(d) has infringed the requirements specified in Article 18(2)(c) and (c.1) of this Law, in the amount of 500 000 Armenian drams for each infringement (point), and in case of providing audit services without a licence – in the amount and manner prescribed by law;

(e) has infringed the requirement specified in Article 18(2)(g) of this Law, in the amount of 400 000 Armenian drams for each unregistered contract, 200 000 Armenian drams for every other infringement;

(f) has repeated the same infringement during one year after imposing the relevant warning in compliance with Article 31²(2) of this Law, in the amount of 200 000 Armenian drams for each case of infringement;

(g) has infringed the requirement laid down in Article 13(1) of this Law, but the authorised body has, in accordance with the legislation of the Republic of Armenia, found the committed infringement insignificant, i.e. not affecting the form and content of the audit conclusion, in the amount of 200 000 Armenian drams;

(h) has not eliminated the committed infringement within the period specified by the authorised body in accordance with Article 31²(2) of this Law, or has not informed the authorised body accordingly in writing, in the amount of 200 000 Armenian drams for each case of infringement;

(i) has infringed the requirement specified in Article 18(2)(j) of this Law, in the amount of 200 000 Armenian drams.

3. Pursuant to part 2 of this Article, where infringement serving as a ground for applying a penalty continues to take place or such new infringement is committed within three years after applying a penalty, the amount of the penalty shall be increased by 500 000 Armenian drams.

4. Conclusions drawn up in breach of points (a), (c) or (d) of part 2 of this Article shall not be audit conclusions.

(Article 31³ supplemented by HO-25-N of 16 December 2005, amended, edited, supplemented by HO-207-N of 26 May 2011)

CHAPTER VIII

TRANSITIONAL PROVISIONS

Article 32. Transitional provisions

1. This Law shall enter into force one month following the day of the official promulgation.

2. Licences for audit services issued in accordance with the legislation of the Republic of Armenia before the entry into force of this Law shall be valid until the expiry thereof within one year after

the publication of this Law, provided that they comply with the requirements for licensing prescribed by Article 26 of this Law, except for Article 26(1)(a), the compliance to the requirements of which shall be effected within two years after qualification examination for auditors is arranged for the first time pursuant to this Law.

3. Certificates valid at the moment of the entry into force of this Law shall be effective for a period of two years after qualification examination for auditors has been arranged for the first time in the manner prescribed by this Law.

(Article 32 edited and supplemented by HO-93-N of 8 June 2004)

**President
of the Republic of Armenia**

R. Kocharyan

31 January 2003

Yerevan

HO-512-N