

**STATE ENERGY AGENCY
OF THE GOVERNMENT OF THE KYRGYZ REPUBLIC**

Auditing in the Power Sector

Department of Prices and Tariffs
Dzhekshek Sydykov, Department Head
September 2004

- *Auditing* is a commercial activity that involve the independent verification of the financial statements of corporations and individual businessmen, together with the rendering of ancillary services.
- *Objective of auditing* is to form an opinion concerning the compliance of all the substantive aspects of financial statements to established principles.

Legal and Regulatory Aspects of Auditing

Auditing is performed and regulated by the laws of the Kyrgyz Republic. The principal document governing the relations that arise during the performance of auditing is the Law On Auditing.

Auditing is performed by individual registered auditors (private auditors) pursuant to the laws of the Kyrgyz Republic and/or by auditing firms.

Types of Audits

Mandatory audits – audited entities that are subject to annual mandatory audits are obligated to enter an agreement with a private auditor and/or an auditing firm for the performance of audit, to assist such auditor in the timely and thorough inspection, and to submit on request all the documents needed in order to perform an audit.

Pursuant to the laws of the Kyrgyz Republic, the following businesses are subject to mandatory audits:

1. Banks and other organizations licensed by the Bank of the Kyrgyz Republic
2. Insurance firms
3. Issuers of public securities
4. Other entities as provided for by the legal regulatory documents of the Kyrgyz Republic

Proactive audits can be performed at the decision of a private businessman, or the competent management body of a firm, as provided by law, as well as at the request of other audited clients.

Procedures for Submitting Documents for an Audit

Financial statements are prepared based on International Accounting Standards or other accounting standards in accordance with which financial statements have been prepared.

Statement relevance is a degree of financial statement data accuracy that makes it possible for the user of the financial statement to reach correct conclusions based thereon concerning the financial standing, property status, and the results of the operations of the business being audited, and to make educated decisions based on these conclusions.

Ancillary auditing services are services that an auditor or an auditing firm renders over the course of performing an audit. They include:

- financial statement review
- negotiated responsibilities
- gathering and processing of financial information

Confidentiality of Information

Auditing firms and private auditors must ensure that the information and documents they obtain and/or prepare over the course of auditing is safeguarded and is not subject to transfer (originals or copies thereof) to third parties of any kind, with the exception of the client, or to divulge the information contained therein without the written consent of the entity for which an audit has been performed and ancillary services have been rendered, ergo the client, unless he is not the entity being audited, with the exception of the cases provided law

Auditing Quality Requirements

Auditing Standards

Auditing standards are construed to mean the standardized requirements imposed on the procedure for performing, finalizing the results, and controlling the quality of an audit, as well as ancillary auditing services.

As a rule, the Government of the Kyrgyz Republic approves auditing standards.

Procedure for Performing Audits and Providing Auditing Services

Restrictions

Auditors may not be performed by individuals who are founders (partners), shareholders, or employees of the entities being audited, individuals who are closely related thereto by blood or marriage (parents, spouses, brothers, sisters, and children, as well as the brothers, sisters, parents, and children of spouses), and a given auditor who has a relationship of any kind with the entities being audited, other than performing audits and rendering ancillary services, or who has a proprietary interest therein.

Restrictions

Auditors, who within the two years immediately preceding an audit, have rendered services in restoration and maintenance of accounting records, or the preparation of financial statements for business or individuals may not audits these entities.

Restrictions

Auditing firms may audit:

- entities that are their founders (partners) or shareholders, or that have another proprietary interest in these auditing firms;
- entities in which a given auditing firm is a founder (partner) or shareholder, or has another proprietary interest, other than the performance of audits and the rendering of ancillary services, and;
- the subsidiary organizations, branch offices, or representative offices of these audited entities

SEA

State
Energy
Agency

Regulation of Auditing

A specially designated federal executive agency regulates auditing entities.

Currently such agency is the State Commission on Accounting Standards and Audits of the Government of the Kyrgyz Republic.

Functions of the Authorized Agency

The agency:

- supports the drafting of auditing work standards and their submittal to the Government of the Kyrgyz Republic for approval
- publishes regulations, which govern a certification system, the training and advanced training of auditors in the Kyrgyz Republic, and the licensing of auditing work
 - monitors compliance with auditing standards

Functions of the Authorized Agency (cont.)

- determines the extent and defines the procedures for the submittal of auditing reports, as well as financial statements, to the authorized federal agency, and
- maintains registers of auditors, auditing firms, individual auditors, and professional auditing associations pursuant to the regulations governing the maintenance of registers, and furnishes the information contained in the registers to interested parties

SEA

State
Energy
Agency

Powers of the State Energy Agency

As a government agency, which, pursuant to the Law of the Kyrgyz Republic On Licensing, licenses energy market participants, the State Energy Agency is entitled to request annual or unscheduled audits of the operational, financial, and commercial operations of licensees.