

Compliance and Reporting Services



Business process outsourcing

Business process outsourcing is applied the world over, and Azerbaijan is no exception. The transfer of some or all functions of the accounting and finance departments to an external service provider is just one of the many aspects of outsourcing.

How would you benefit from accounting outsourcing services?

- Transferring routine and secondary functions to an external service provider saves time for the chief accountant and other finance and accounting personnel
- Company management is not directly involved in addressing the associated day-to-day tasks and can fully focus on core business development and strategic issues
- Early transfer to International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) and the training of internal specialists
- Prompt implementation of business growth projects and the expansion of the company onto new regional markets
- Mitigation of risks to company management via the engagement of a specialised company and highly-qualified industry specialists, access to current tax technologies and liaison with the tax authorities as an effective intermediary
- Not necessary to increase headcount
- Minimised recruitment expenses, staff training and management issues, as well as other costs related to leasing premises and acquiring equipment and accounting software
- If necessary, the procedure for changing service providers is much easier than dismissing senior accounting staff
- When subsidiaries or divisions are outsourced, greater control is achieved over financial activities, including cash flows, the recording of income and expenses, and reporting to the tax authorities
- Confidentiality of sensitive information, such as payroll data
- If the company is a joint venture owned by several stakeholders, outsourcing gives greater confidence due to the unbiased recording of business transactions

What are our main outsourcing services?

Our full package of services includes:

- Accounting outsourcing services
- Preparation and filing of the company's statutory reports to the state authorities
- Development of an accounting or tax policy for financial and tax accounting purposes
- Recovery and restoration of financial and tax accounts
- Payroll and HR consulting services
- Secondment of personnel
- Delivery of one-time projects, including accounting for the reorganisation of entities where information needs to be transferred from one accounting system to another, reviews of annual reporting schedules and reports, stocktaking, and the transfer of accounting records from one kind of software to another, e.g. 1C to SAP
- IFRS or U.S. GAAP accounting and the transformation of financial statements prepared in accordance with NAS into IFRS or U.S. GAAP
- Analysis of financial and tax accounting data and reporting
- Support in cooperating with the tax and other authorities over pressing issues, desk and field audits, and documentary reviews

What makes our outsourcing services different from those provided by other companies?

- The success of outsourcing projects depends primarily on establishing an effective long-term relationship with the client, prompt discussion of all material issues, and providing rapid responses to the requests and needs of our clients
- We understand that it is important for our clients to work with specialists with knowledge and experience of their industry
- Our teams are carefully chosen to serve our clients according to their industry specialisation, as well as the specific knowledge and experience they require
- We emphasise the importance of the high quality of our services, with our company's internal control and review system covering all aspects of our services

Tax and Accounting Compliance

Tax Accounting

This service may be provided either in conjunction with record keeping and reporting or as a separate service. It includes the following types of work required for accurate tax calculation:

- Development of a tax policy based on the company's industry-specific features
- Calculation of the profit tax base
- Calculation of the personal income tax (PIT) base:
 - Analysis of employees' income from the PIT perspective
- Calculation of the value-added tax (VAT) base:
 - Preparation of VAT invoices and maintenance of purchase and sales books
 - Separate accounting for VAT-able and non-VAT-able activities
- Calculation of the property tax base including preparation of assets register
- Road tax calculation for companies with vehicles registered to them
- Assistance in organising the company's tax accounting system
- Maintenance of tax accounting registers
- Preparation of development spreadsheets, accounting memos and other documents
- Recognition of loss carry-forward benefits
- Recognition of settlements with the budget
- Calculation of deferred taxes
- Administration of the client's email inbox on the website of the Ministry of Taxes of the Republic of Azerbaijan
- Assistance during tax audits

Tax reporting

Pursuant to Azerbaijani legislation, Azerbaijani legal entities must file tax returns with the tax authorities. This service also includes preparing the following reports and filing them with the tax authorities:

- Preparation of monthly/quarterly/annual reporting comprising:
 - Profit tax returns
 - Property tax returns
 - Road tax returns
 - VAT returns
 - PIT returns
 - Withholding tax (WHT) returns
 - Other tax returns and calculations

All prepared reports are reviewed and filed on time with the tax authorities within the terms established by Azerbaijani legislation.

The abovementioned services are amongst the most important due to the fact that tax accounting and the "transparency" of the tax data are mandatory for taxpayers. Tax implications resulting from any errors in this area may be significant for the company.

The company's level of responsibility may also be affected by the fact that the tax accounting system is developed by the taxpayers independently.

The company's tax calculations in the long term greatly depend on the proper organisation of its accounts.

The tax authorities' requirements regarding the preparation of tax returns become more sophisticated every year, and new legislation is constantly being introduced.

We can also assist our clients with methodological support for the implementation of Azerbaijani tax calculation in various ERP systems with a team of dedicated tax/ERP professionals.

Accounting and reporting in accordance with the Azerbaijani legislation

Services:

- Development of an accounting policy for record keeping purposes, with a custom working chart of accounts based on the specific aspects of each company
- Preparation of primary documents in accordance with the requirements of Azerbaijani legislation
- Accounting for fixed assets, intangible assets and materials
- Stock count of inventory, fixed assets, intangible assets, payables and receivables
- Accounting for bank transactions
- Payroll accounting
- Accounting for settlements with employees
- Accounting for settlements with the budget
- Keeping registers of income and expenses, and assets and liabilities, based on the documents received
- General ledger maintenance and preparation of trial balances based on monthly results
- Closing monthly accounts and preparation for financial results
- All reports are prepared in accordance with the terms established under Azerbaijani legislation.

Additional services

- In-depth review of accounting, with a view towards outsourcing
- Additional configuration of software in accordance with the needs and requirements of the client's management.

The engagement of professional specialists in this field will allow the company to increase its control over the preparation of tax returns and will reduce the company's management, tax and financial risks.



Secondment

Secondment is one of the most popular trends within the field of accounting outsourcing. Employees from the outsourcing company are seconded directly to the client's office for an agreed period of time to perform assigned tasks or to take on the duties of a particular position within the company. The secondee reports to the client, who is responsible for controlling the quality of the specialist's performance.

Why secondment?

- It allows the accounting department to continue working
- High quality of work carried out by specialists
- Reduced costs associated with the recruitment of full-time staff
- No additional staff required
- Rationalises the use of internal personnel

When is secondment required?

- When opportunities to hire new employees in the accounting department are limited
- When temporary replacements for employees are required due to vacations, business trips, maternity leave and illness
- When the company needs time to find a new chief accountant or member of accounting staff
- When temporary projects need to be implemented, e.g. for loading large amounts of data, when transferring accounting records from one accounting system or type of software to another, or for recovering accounting data for restoration projects

What might a seconded employee be involved in?

Examples of secondments and the advantages they can provide:

- Provision of a seconded employee to perform the duties of the chief accountant, until the company can find a new chief accountant and tax manager
Advantages: Provides continuity of the accounting function and an opportunity for the top management of the company to find a candidate who meets all of the requirements
- Provision of our employee on three days per week secondment to carry out the function of payroll accountant
Advantages: High quality of services provided to the client, confidentiality of the client's employees' personal information
- Provision of seconded employee for a short period of time to prepare current financial and tax reporting, while the company searches for a chief accountant
Advantages: Prompt presentation of financial and tax reporting, continuity of the accounting function.



Payroll Services

Scope of payroll services

We are pleased to provide our clients with a full range of payroll services, dealing with the calculation of salaries and other payments, as well as the reporting of relevant taxes and contributions to the Azerbaijani tax authorities and the State Social Protection Fund (SSPF).

The scope of our work comprises of three stages: a setup and project management period, regular payroll services, and the reporting process.

Setup and project management period

At the first stage, we organise the calculation of payroll and payroll-related taxes and contributions in the selected accounting software, configuring the programme to meet the needs of the client's management, and testing the exchange of information between the client, Deloitte, banks, and other parties (where required). We will also carry out any necessary actions with respect to project management procedures.

Our standard payroll services include:

- Payroll calculation based on the personal and salary information of employees provided by the client
- Calculation of Azerbaijan PIT in accordance with the effective legislation
- Calculation of social insurance contributions (SIC) to the SSPF in accordance with the effective legislation

Payroll taxes reporting services

- Preparation and delivery of reports on payroll calculations in the format stipulated by Azerbaijani legislation (calculation sheet, SIC calculation, wage type report, vacations and sick leave calculation)
- Preparation and delivery of payslips for each employee
- Preparation and delivery of the reports to the SSPF in the format stipulated by Azerbaijani legislation
- Preparation and delivery of the required reports to the State Statistics Committee and the Employment Fund in the format stipulated by Azerbaijani legislation

Additional services

We also provide additional optional payroll services:

- In-depth review of the organisation of the payroll system
- Review and verification of staff management accounting
- Preparation and/or analysis of expense reports to ensure the appropriate treatment of relevant amounts in terms of PIT and SIC
- Obtaining personal employee cards on annual insurance contribution payments from the SSPF
- Organisation of the process of replying to employees' queries regarding payroll calculations
- Reconciliation of insurance contributions with the SSPF

Our fees depend on the client's employee headcount, the level of work to be performed, and our hourly rates, which take into account the seniority and experience levels of staff assigned to the project.



HR compliance services

The activities of any company begin with the hiring of staff. Throughout their time at work, employees will face a variety of different issues, such as employment, annual leave, travel, overtime at weekends, bonuses, changes to personal data, termination of employment, etc.

For every issue that an employee may face, the employer is obliged to prepare the appropriate personnel documents.

The current labour legislation contains a long list of personnel documents that are required for all companies. In addition, the law sets out certain requirements for the preparation of such documentation.

The timely and appropriate preparation of personnel documents allows employer to protect themselves from unscrupulous employees and penalties.

A team of qualified professionals is ready to help our clients in the preparation of the required personnel documents.

We are pleased to provide our clients with the following HR compliance services:

Preparation of statutory primary HR documents on a regular basis at the office of Deloitte

a) Hiring and personal records:

- Hiring order
- Employees' personal data card
- Staff structure
- Order for approval of Staff structure
- Order on transfer to another position, etc.

b) Working time:

- Timesheet
- Order for overtime
- Order for work at weekends and/or on public holiday
- Draft of a document with the consent of an employee to engage him/her in work on weekends and/or public holidays, etc.

c) Vacations:

- Annual vacations schedule
- Vacation order
- Draft of vacation application
- Order on compensation of unused vacation, etc.

d) Business trips:

- Business trip order
- Business trip certificate

e) Termination of employment:

- Order on termination of employment
- Other documents related to termination

f) Labour books

- Draft of entry to the employee's labour book
- Register of labour books and their inserts, etc.

HR compliance review

We also review primary HR documents for compliance with the Labour Code of the Republic of Azerbaijan. The HR compliance review provides our clients with information on whether their HR documents are in compliance with the current labour legislation.

The HR compliance review includes verifying the presence and quality of the obligatory HR documents in accordance with the Labour Code of the Republic of Azerbaijan, including documents related to hiring, termination, vacation, business trips and other HR issues.

We prepare a report detailing the results of our review, which is then delivered to the client.

HR secondment

Our professionals are seconded directly to the client's office for an agreed period of time to perform assigned

tasks, including:

- Managing a health-check of the obligatory HR documents with regards to compliance with the Azerbaijani labour legislation, including preparation of missing obligatory HR documents if necessary
- Managing the compliance of obligatory HR documents with the Azerbaijani labour legislation, including the development and implementation of internal procedures and policies
- Managing internal filing and workflow processes

Development of employment agreements, policies and procedures

We also provide assistance in developing and preparing the following documents required by the Labour Code of the Republic of Azerbaijan:

- Employment agreement
- Internal labour regulations
- Personal data protection regulations
- Other internal policies in compliance with the current Azerbaijani legislation



IFRS/U.S. GAAP services

Transformation of financial statements prepared in accordance with National Accounting Standards (NAS) into IFRS/U.S. GAAP reporting for management purposes

Today, financial accounting services in accordance with international standards, including the transformation of NAS financial statements into IFRS/U.S. GAAP, are among the most in-demand financial outsourcing services on the market. The main purpose of this is to compare investments abroad and better understand the financial performance of these investments, and company management requires reliable, transparent, and understandable financial information, prepared in accordance with either IFRS or U.S. GAAP, depending on the jurisdiction in which the head office is based. Transformation services prepared by an independent organisation are often preferred by foreign founders and co-owners of businesses when they need reliable information, presented in a consistent format.

Correctly documented transformation and parallel accounting procedures are often sought after by foreign owners of Azerbaijani subsidiaries in order to satisfy the requirements of their internal auditors. In addition, Azerbaijani companies wishing to attract capital on foreign markets require a financial history prepared in accordance with IFRS or U.S. GAAP in order to meet the requirements of their proposed listing.

We offer our clients the following services, on either a regular or one-time basis:

Transformation services

- Transformation of financial statements prepared in accordance with NAS into IFRS/U.S. GAAP financial reporting for management purposes, on a monthly, quarterly or annual basis
- Development of the following elements and implementation of the transformation process:
 - IFRS/U.S. GAAP chart of accounts and mapping tables for the chart of accounts at both the ledger and analytical levels
 - Management reporting forms required for the transformation of NAS accounts into IFRS/U.S. GAAP accounts
 - Recommendations on the composition of adjustments based on the specific nature of the industry, business, and the company's accounting and reporting policies
 - An instruction schedule for monthly closing, reflecting, in an hourly format, the tasks of those specialists responsible for keeping NAS accounts and preparing IFRS/U.S. GAAP financial reporting
 - Assistance with consolidation adjustments and the preparation of consolidated financial reports for management purposes
 - Training for the client's personnel
- Clarification of the requirements related to the preparation of a management reporting package in accordance with IFRS or U.S. GAAP
- Clarification of the mapping logic, with explanations supporting the adjustments
- Preliminary preparation for audit of the IFRS/U.S. GAAP financial reporting (or for an internal audit by a foreign owner) in order to improve the process of transformation/parallel accounting and to establish reliable, acceptable audit evidence to ensure a successful audit
- Restoration of the nature and substantiation of prior year adjustments



Services related to IFRS/U.S. GAAP accounting policies

- Recommendations on the development of an accounting policy in compliance with IFRS/U.S. GAAP
- Optimisation and correlation with NAS accounting and tax policies
- Review of the accounting policies to provide comments regarding their completeness and compliance with IFRS/U.S. GAAP

Parallel accounting services (from processing of primary documents to preparation of IFRS/U.S. GAAP financial reporting for management purposes)

- Development and implementation of IFRS/U.S. GAAP accounting procedures in parallel with NAS accounting procedures on the basis of professional accounting software (for example 1C and SAP)
- Formulation of tasks for those IT specialists responsible for the implementation of parallel accounting and control over the correctness of the achieved results
- Financial accounting in accordance with IFRS or U.S. GAAP for management purposes, in parallel with accounting according to NAS, on a regular basis

Secondment services to provide personnel with the appropriate experience and knowledge of IFRS/U.S. GAAP, NAS, and tax compliance issues, in order to:

- Assist with the implementation of IFRS/U.S. GAAP reporting procedures
- Perform regular closing and preparation of IFRS/U.S. GAAP reporting for management purposes
- Provide support to full-time staff routinely engaged in accounting and reporting during periods of auditing or during their absence.

TAX/ERP

Tax/ERP implementation in the CIS

Foreign companies coming to the CIS strive to set up a unified accounting system that would allow them to obtain reliable information on the financial position and results of their businesses in the CIS. For this purpose, the CIS offices of foreign companies often choose to introduce the ERP systems used by their head offices. Large local companies have also started moving from locally- or internally-developed systems to well-known ERP systems, such as SAP, Oracle or JD Edwards.

This move allows them to gather all or most business data in one information system, improve transparency, increase productivity, reduce the amount of inventory in stock and derive other benefits from the streamlining of business processes.

One of the major issues that companies encounter in the implementation of ERP systems in the CIS is the introduction of financial and tax accounting in compliance with the local legislation.

To achieve the maximum possible level of automation of financial and tax processes, companies install localisation packages, usually provided by ERP system developers, and customise them further to fit their particular needs.

Companies aiming to implement foreign ERP systems in the CIS face problems such as frequently changing and "open to interpretation" tax legislation, significant differences between tax and financial accounting, strict requirements for the format of source documentation, and widespread analysis of the correspondence of accounts as a means of control over accounting accuracy.

Ignoring the tax aspects of ERP implementation can have adverse financial implications for companies:

- Serious tax compliance risks, which may involve tax penalties, administrative and criminal charges
 - Loss of valuable tax savings
 - Lack of efficiency associated with tax compliance, which can be achieved via a well-planned ERP implementation.
- While tax authorities all over the world are toughening regulations to increase tax transparency and gradually introducing mandatory e-filing, audit techniques are getting more sophisticated. At the same time, the scrutiny of tax costs by investors is increasing. It has therefore become essential for companies to implement ERP systems that meet these requirements.

What we offer – the Deloitte solution

We offer the competency and synergy of an integrated Deloitte organisation with all necessary skills and expertise provided by a single service provider. Deloitte has brought together a group of professionals who can assist companies in designing and implementing a system that will provide for proper and effective financial and tax accounting.

We assist companies in improving tax accounting methodologies and align them to the specifics of the system. By designing efficient tax processes, companies can optimise their tax liabilities and enhance tax compliance procedures.

At the initial stage of a tax/ERP project, we assist clients in choosing an appropriate level of automation for tax process accounting, depending on the size and complexity of their transactions ("cost-benefit" analysis). If the scale of a company's activities is small and homogenous, a complete automation of their tax accounting would probably not be economically justified.



We help our clients to do the following:

- Perform a system gap analysis and define discrepancies from the tax legislation perspective and the tax risks associated with the identified discrepancies
- Elaborate the necessary methodological documentation to support the system implementation (accounting and tax policies, charts of accounts, accounting guidelines) or adapt the client's accounting guidelines to comply with legislation and the system requirements
- Harmonise the requirements of various types of accounting (NAS, tax accounting, IFRS, management accounting) in order to simplify the implementation of the system and accounting procedures
- Perform quality assurance of the implemented system with regard to compliance with Azerbaijani accounting and tax legislation
- Design the system to ensure maximum reasonable automation and streamlining of tax accounting processes and procedures at all stages – data collection, classifying and grouping, tax calculations, documentary support and tax report preparation
- Identify and implement tax saving ideas directly or indirectly associated with ERP implementation
- Establish tax compliance control procedures in order to reduce the risk of mistakes.

We add the following value to clients:

- Less manual work required
- Fewer clerical errors
- Acceleration and alignment of tax and financial processes
- Integration of all data into a single system
- Easy access to tax-sensitive information
- Unification and streamlining of tax processes throughout a company/group of companies, based on tax "best practices"
- Maximum automation of tax compliance and reporting
- Improved internal tax-related controls
- Realisation of potential tax savings

We have experience with the following systems:

- SAP ERP
- Oracle E-business Suite
- 1C



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