

**LAW OF MONGOLIA  
ON AUDITING**

May 1, 1997  
Ulaanbaatar city

(Turiin medeelel # 6, 1997)

**CHAPTER ONE  
GENERAL PROVISIONS**

**Article 1. Purpose of the law**

The purpose of the law is to determine the principles of auditing activities and organizational legal grounds of auditing, and to regulate relations in respect of granting license to certified accountants and auditing firms to conduct auditing, controlling them, accepting their power, and implementing thereof.

**Article 2. Auditing legislation**

1. Auditing legislation consists of the Accounting law, this law and other legislation, which is consistent with these laws.

2. If any international treaty to which Mongolia is a party is inconsistent with this law, then the provisions of the international treaty shall prevail.

**Article 3. Legal definition**

The next legal terms shall be understood as the following meanings in this law:

1/ "Auditing activities" means independent activities conducted by an auditing organization according to an agreement concluded with legal entities and individuals running private business activities in order to monitor their accounting documents and operational and tax reports and provide them with professional advice.

2/ "Certified accountant" – a professional accountant authorized for certified public accounting which is provided from the authorized body according to the Accounting law and this law.

3/ "Auditor" means a certified accountant (hereinafter referred to as CA), who fulfills the requirements described under this law and who carries out auditing activities in an auditing organization.

4/ "Auditing organization" – a registered entity with auditing right issued by authorized bodies according to this law.

5/ "Financial statements" means balance sheet, profit and income statement, report on property modification, statement of cash flows and notes, disclosures and supplementary calculations attached to them.

6/ "Verification of financial statements" - issuing conclusion on the fairness of the financial statements of the legal entities or businessmen inspecting according to the standards.

7/ "Financial documents" means basic accounting documents and documents on property, debts, incomes, and expenditures and their notes and

disclosures, and other documents of business entities related to financial and economic issues.

8/ “ Contractor” means administrative, legal prosecution, financial, taxation, banking or customs authority that has the power to make decisions for conducting an auditing activity for a business entity or organization , or board of directors of a company /or shareholders’ meeting/, or shareholders possessing more 10 per cent of the company’s ordinary shares.

9/ “Client” – business entity, organization or sole proprietor who are receiving the auditing on contract basis.

10/“International auditing standards” means guidelines in a document comprising principles and rules for conducting auditing activities, approved by the International Union of Accountants.

11/“Auditing standards” means guidelines in a document consistent with the principles of the international auditing standards, approved by the competent authority.

12/“Internal standards of auditing services” means guidelines in a document which shall be approved by the auditing organization in accordance with international and national auditing standards and shall be respected by it.

13/“Work documents” means papers and other records such as copies of financial statements, accounts, calculations, reports, research materials, minutes of meetings and information materials that are accumulated during the auditing activities according to the internal standards of auditing services.

#### **Article 4.Auditing operation**

1. The followings are considered as “auditing operations”

1/ control and certification of financial statements of business entities, sole proprietor and individuals running private business activities, at the request of contractor and client.

2/ control tax, payment, fee and premium statements, make analyses and accord assistance for tax declaration.

3/ render assistance and service for evaluating and planning financial situations, and elaborating various projects, plans, capital and business evaluation on investment, loan and calculation.

4/ assist and advise for accounting, accounting verifications, preparing reports, and organizing cost and managerial accounting in accordance with the standards.

5/ assist in organizing internal financial control systems of business entities and organizations.

6/ consult on management issues of business entities and organizations.

7/ review and make analyses on economic calculations and research proposals for issuing securities.

8/ other activities described by the law belonging to the framework of the auditing activities.

2. Auditing activities described under Article 4, paragraph 1 of this law, shall not substitute control or examination conducted by the competent state authority.

#### **Article 5. Principles of auditing activities**

The following principle shall be observed in the auditing activities:

1) observe provisions of the law in auditing activities strictly and conduct auditing according to methods and forms which is consistent with international standards on auditing;

2) auditing activities shall be independent. Besides CA practice is reliable and independent, he/she shall foresee and avoid any pressure and domination that may create situations for violating his/her independence. It is prohibited for business entities, organizations, and officers to interfere in the auditor's activities or put pressure upon them.

3) a CA shall have sufficient qualification in order to perform auditing service at high quality.

4) Subscriber and client shall have right to choose an auditor who perform examination, attestation and tender professional assistance, and a reject the appointed auditor in case mandatory attestation if there is grounds provided in this law.

5) The business entity who conducts auditing is obliged to compensate losses or damages of related party by its own assets resulting from incorrect performance of examination, attestation and certification.

6) Maintain information confidentiality in auditing activities. The auditor shall not share with others and reveal to third party or personally use any information of client obtained in the course of his professional service unless otherwise provided for the laws.

7) unfair competition shall be prohibited in auditing activities. Advertisements of CA, auditor, and auditing firm should be objective and shall not mislead others and impair or slander reputation of other auditors or auditing firms and make comparison with them.

8) An auditing organization which controlled and certified financial statements of certain business entity or organization for three consecutive years, shall not conduct any further auditing for three years.

#### **Article 6. Grounds for conducting auditing activities**

1. Auditing organizations shall conduct auditing in the following cases:

1) If provision of the law specified for compulsory certification of financial statement;

2) If owner or manager of business entities and organizations requested and concluded an agreement

3) If client accepted subscriber's decision on audit service and selected an auditing firm to perform and concluded an agreement with the auditing firm.

2. The client shall pay the service charge at the rate as concluded in the agreement.

#### **Article 7. Organizations which financial statements to be certified**

1. Financial statements of the following entities or organizations are subject to verification:

1/ all types of shareholding companies registered at the stock exchange

2/ companies applied for stock exchange registration

3/ Business entities and organizations amounting to or above 50 million Tugrug capital assets.

4/ Business entities and organizations being restructured, liquidated, or intended to sell all its capital by auction.

5/ If not otherwise stipulated by the law and international treaties of Mongolia, foreign invested business entities and organizations.

6/ cooperatives conducting savings and loan disbursement activities.

7/ banking, financial and insurance organizations

8/ securities companies carrying out brokerage and dealer activities and companies running investment funds.

9/ Funds described under Article 36, paragraph 2 of the Civil Code.

10/Political parties

11/Organizations similar to the business entities and organizations specified under provisions 1-10, paragraph 1, Article 7 of this law.

2. Other organizations not listed in part 1 of this article can make verification by auditing company by its own initiative.

3. The entities listed in part 1 of this article should have the verification of their financial statements within the following date:

1) Shareholding companies – prior to the annual shareholders meeting on financial issues

2) Business entities and organizations being restructured, liquidated, or intended to sell all its capital by auction within one month since this activities started;

3) Other business entities and organizations shall submit their year-end financial statement within the first quarter of the next year.

### **Article 8. Audit standards**

1/ International auditing standards shall be followed in the auditing activities.

2/ National auditing standards shall be approved by the competent authority in accordance with the principles of the international auditing standards.

### **Article 9. Certification of financial statements and documents**

1. Financial statements and documents of business entities and organizations shall be audited by auditing firm.

2. An auditor shall seal statements and financial documents examined or reviewed by his own stamp, and his/her conclusion shall be certified by the Director of that auditing firm with his/her sign and stamp thereon.

### **Article 10. Contract and terms of reference**

1. Client and the auditor shall conclude auditing contract in written form. The contract shall be valid from the date when authorized persons of the client and auditing firm sign and stamp thereon.

2. Mutual duties and obligations relating with auditing activities, work scope, duration, service charges, procedure of submitting report and ending the contract shall be stipulated in the contract.

3. An auditor, who is assigned to perform any types of auditing activities within the valid and long-term contract concluded between the client and auditing firm shall have terms of reference shall be fully consistent with content of the contract.

### **Article 11. Rights and obligations of client**

1. The client shall have the following rights:
  - 1) select auditing organization;
  - 2) request an auditing firm to provide explanation regarding the auditor's conclusion;
  - 3) appeal to court if it does not agree with auditor's conclusion.
2. The client shall have the following obligations:
  - 1) Makes up conditions and possibilities for conducting audit;
  - 2) submit documents and information required for the examination;
  - 3) submit a representation to the auditor for confirming that all economic and finance activities of the organization were shown properly in accounting and financial statements according to the standards; documents, materials, and explanation related with them were fully expressed; any responsibilities may arise in respect of them will be borne;
  - 4) promptly correct errors and infringement related with bookkeeping and financial statements which were detected in the course of auditing;
  - 5) not put obstacles in examination from the management of the client;
3. The auditing firm shall be responsible for certification of financial statements.
4. An officer of the client shall be fairness and objectivity of the financial documents submitted to the auditor.

## **CHAPTER TWO CERTIFIED ACCOUNTANTS**

### **Article 12. Qualification for candidates for CA examination**

The candidates willing to take CA examination should meet the following requirements:

- 1) graduates from universities, institutes, and colleges with Bachelor degree in accountancy or equivalent degree training;
  - 2) accountants working at business entities and organizations, faculty members teaching at professional institutions, persons working at state organizations as well as taxation agencies and auditing firms as a professional at least 2 years;
  - 3) persons who graduated from professional universities, institutes, and colleges as an accountant before the enactment of this law shall complete seminars on financial and Cost accounting, Accounting Information Systems, Audit and Management Advisory Services.
2. Persons who have degree in other areas than accounting for the CA should meet the following requirements:
- 1/ Completed the accounting credits as its standard included in training programs of university, institute or college;

2/ who worked as an accountant for more than 4 years.

### **Article 13. Institute of CA and CA Examination**

1. Institute of CA is a non governmental and social-serviced organization that adopts an Conduct Rule of CA's and has a right to implement it nationwide

2. Institute of CA is responsible for organizing training, for CA examination and support audit organizations by methodological management, consulting and information.

3. Member of Cabinet who is in charge of Finance shall approve the CA certifying of successors passed the CA Examination.

4. The rules of the CA examination shall be approved by the Member of Cabinet who is in charge of finance.

### **Article 14. CA certificate and personal seal**

1. The accountants who passed the CA examinations shall be granted a certificate and personal seal by the resolution of the Government member in charge of finance.

2. Name and surname of the holder, issue date, and certificate number shall be written on the Certificate and signed by the Government member who is in charge of finance.

3. The mandate of the CA shall be granted for 2 years upon passing the first level exam, for 5 years upon passing the second level exam, and for lifetime upon passing the third level exam.

4. The private seal of the CA shall have the words "Certified accountant" in a frame where his or her name and certificate number shall be written.

5. The regulation of authorizing the mandate of the CA for unlimited time for the person who successfully passes CA examination organized by a professional international organization either in Mongolia or abroad, shall be approved by the government member in charge of finance.

6. It is prohibited for any person who is not a CA to misuse the title of CA.

### **Article 15. CA oath and etiquette**

1. The CA shall take an oath stating: "I hereby solemnly swear I will strictly follow laws, regulations and professional ethics while performing the duty of CA".

2. The citizen, who swears the oath, should write the oath taken date, location, and full name on the written oath and sign it.

3. The CAs shall have Conduct Rule.

### **Article 16. Invalidation of CA rights**

In the following cases, it is regarded that CA right was terminated;

- 1) death
- 2) rejection of a CA himself;

3) the person who does not pass or does not take without justifiable reason the next level examination, or his or her mandate of CA has been removed due to infringements of professional ethics.

### **Article 17. Auditor**

1. CA who fulfils the following requirements could work as auditor in auditing organization.

1/ successor who passed the second and third level of CA examination

2/ Not violated the Conduct Rule after took the accounting profession

3/ Worked as practitioner of auditor not less than 3 years.

2. The auditor shall exercise auditing activities independently.

### **Article 18. Publishing**

The Professional Council shall publish the information on newly registered and removed CAs and auditors on designated public newspapers.

### **Article 19. Auditor's obligation**

The auditor shall have the following duties and obligations

1) conducts auditing at high professional skills with legislation and adopted standards;

2) refrain from an engagement where conflict or perception of conflict of interest may be occurred and/or to inform immediately the client or auditing firm where other auditor or expert is required;

3) not to take any action that impair or slander of other CAs;

4) not to use the information obtained in the course of auditing for personal benefit and not to release the information to others otherwise stated in the law. This provision shall be valid even after completion of his service

5) explain the results of the examination and legal grounds for the conclusion on financial statements at the request of the client.

6) Deleted.

### **Article 20. Auditor's rights**

The auditors shall have the following rights:

1) require the client to submit all necessary financial documents and legislative acts related to the contracted work, take physical count of cash, securities, tangible and intangible, assets, ask for explanation on any issues arisen in the course of examination;

2) request relevant commercial banks and other financial or business entities to provide him documents and review them;

3) refrain from engagement when the client does not provide necessary documents and explanations fully;

4) an auditor may have an assistant. The assistant shall not conduct auditing. Relations between the auditor and assistant shall be regulated by an employment contract under relevant legislation.

### **Article 21. Limitation on auditor's rights**

1. Auditor shall refrain from certification of the financial statements and documents of the following business entities and organizations.

1) Business entity or organization which currently employs or provided employment for the last two years;

2) Business entity or organization, which currently has or had financial interests (own more than over 5% of issued stocks and contributed capital of the company or any financial relationship in the form of loan, payment, and investment) for the last one year;

3) Business entity or organization, where immediate relatives (father, mother, spouse, children, brother and sister) of an auditor have executed positions (owner, chairman, director, deputies, chief accountant, or similar level of executives)

2. Auditor is prohibited from the following activities:

1) To work at any business entity on full time basis or work at another auditing firm as full time employee;

2) To work at another auditing firm under contract while working at an auditing firm under a contract;

3) To compete each other for the purpose to persuade clients for the auditors working at the same auditing firm.

### **Article 22. Disciplinary penalties**

1. CA and auditor who violates law, legislation, and code of ethics shall be fined by following penalties:

1) Warning;

2) Terminate the license for auditing activities

3) Expel CA's right

2. Expelled CA or auditor may apply a request for taking rights newly after three years according to prescribed rules;

3. If sanction specified in sub paragraph 2,3 of paragraph 1 of this article has been imposed it should be publicized.

4. Where the decision on penalties is not acceptable, the CA concerned may appeal to court.

5. Disciplinary sanctions shall not be imposed if six months have been passed from the date of detecting the violation and one year passed since this violation actually took place.

7. If disciplinary sanctions are not imposed at second time within one year from the date of preceding imposition, the CA concerned shall be considered as without any disciplinary sanctions.

## **CHAPTER THREE**

### **AUDITING FIRM**

#### **Article 23. Auditing firm**

An auditing firm shall be a business entity which carries out the activities described in Article 4 of this law and organized any form of business entities other than shareholding company or cooperative.

**Article 24. Title of auditing firm**

1. The word "Audit" should be written after the name of the organization.
2. A business entity other than audit organizations is prohibited to use the word "audit" and similar words those which could lead to misunderstanding.

**Article 25. Requirements to the auditing firm**

Auditing firm must satisfy the following requirements:

- 1) Individuals who carry out auditing activities must be only auditor
- 2) Management (chairman, director) or the firm and other authorized person who has power to make professional decision must have an license without delay and also be an auditor
- 3) Must have two or more full time auditors
- 4) be provided with working accommodation and equipped with suitable equipment
- 5) shall not conduct the activities other than set out in article 4 of this law or any activities that may affect its independence.
- 6) has internal standards of audit service
- 7) If founder of the audit firm is foreign citizen at least 70 percent of employees should be Mongolian nationals.

**Article 26. Special permission for the establishing an auditing firm**

1. Business entities, where are intended to establish auditing firm or conduct auditing activities, shall submit the following documents:

- 1) application contained a request for special permission;
- 2) if applicant is a business entity then the certificate of state registration
- 3) Brief CV of CAs;
- 4) Agreement for establishing auditing firm, and
- 5) Charter of partnership or company
- 6) The internal standard of audit.

2. Special permission shall be issued in accordance with the Law on special permission.

**Article 27. Registration of auditing firm**

Upon taking the special permission set out in article 26 of this law, the auditing firm shall be registered at the State Registration under the law of Company and Partnership.

**Article 28. Registration of changes in charter**

The auditing firm shall submit any proposed changes in its charter to the Professional Council for review and then register at the State Registration.

**Article 29. Limitation on activities of auditing firm**

1. Auditing firm is prohibited to certify the financial statements and documents of the following business entities and organizations:

- 1) Has an investment from the auditing firm;
- 2) Have relations in respect of assets or capital;
- 3) accounting and financial statements are carried out by the auditing organization

**Article 30. Termination of license on auditing activities**

1. In following cases the license for auditing activities shall be deemed void by a decision of the Government member in charge of financial issues:

1/ Not collecting documents in accordance to accounting and international auditing standards;

2/ Avoid to show the office, documents, files and inform other relevant statements when required during the auditing control of qualification

3/ Revealed that confirmation of financial statements were false

4/ Not satisfy the requirements for auditing firms of the present Law to auditing

2. If special permission for auditing activities deemed void, it shall inform about termination to relevant State Registration Office

**CHAPTER FOUR**

**PENALTIES FOR BREACH OF THE AUDITING LAW**

**Article 31. Penalties imposed to auditor or auditing firm**

1. The Council shall impose fines in the following amount taking into account of the nature of offend, where any person of auditing firm is guilty in offences against the legislation on audit and where the misconduct does not constitute a criminal offence:

1/ 30000 Tugrug to 40000 Tugrug for an auditor and 150000 Tugrug to 200000 Tugrug for an auditing firm in case of breach of article 21 and 30 of this law;

2/ in case of financial or physical losses have been occurred to clients ad other parties dire to incorrect audit of financial statements, the loss shall be reimbursed by the auditing firm and plus fines in amount of / 40000 Tugrug to 50000 Tugrug for an auditor and 200000 Tugrug to 250000 Tugrug for an auditing firm; and

3/ in case of breach of article 17 of this law, the income earned from such activities shall be confiscated shall be subject to fines of 20000 Tugrug to 30000 Tugrug and auditing firm 100000 Tugrug to 150000 Tugrug .

2. Shall be subject to penalties as set out in related laws regulation in case of breach of paragraph4 in article 19 of this law.

**Article 32. Responsibilities of subscribers and clients**

1. The court shall impose the following liabilities taking into account of the nature of offence , where any subscriber or client is guilty in offences against this

law other legislation and where the misconduct does not constitute a criminal offence:

1/ to impose a fine 20000 Tugrug 30000 Tugrug to the official(s) and 100000 to 200000 Tugrug to the organization that purposely avoid to engage certification of its financial statements as set out in article 7 of this law and

2/ to impose a fine 30000 to 40000 to the official(s) and 150000 to 250000 Tugrug to the organization that internationally impede the certification of financial statements and other documents.

### **Article 33. Penalties imposed to other parties**

1. If official (s) or organization that have business relations with the client refuse to provide with adequate data and other material required for certification a fine 20000 to 30000 shall be imposed to guilty official(s) and fine of 100000 to 200000 to the organization.

2. If persons or organizations without adequate license and engaged in auditing activities, the income earned from such a business shall be confiscated and individual shall be subject to fines 40000 to 50000 and organizations 200000 to 250000.

3. If the business entity which violate paragraph 2 to of this article for the second consecutive time, the activities of such an entity or individual shall be liquidated by the court decision according to the legislation.

4. The Court shall impose a fine of 25000 to 50000 to the person guilty in offences and a fine of 200000 to 250000 to the organization against article 36 of this law.

The numbers of paragraphs and articles were amended by the Law of 12 January 2006.

### **Article 34. Entry into force**

This law shall come into force on 1 September 1997.

CHAIRMAN OF THE  
STATE IKH KHURAL

R. GONCHIGDORJ