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THE DEVELOPMENT, TYPES OF FINANCIAL SUPERVISION AND AUDIT IN PUBLIC SECTOR AND THE WAYS OF IMPROVEMENT IN AZERBAIJAN

Abstract

In the context of the transition to a market economy, there arose a need to improve the outdated financial oversight mechanisms inherited from the previous economic system. The shift to the new system necessitated the development of modern legislative acts in line with global practices to regulate this area. This study focuses on the legal, institutional, and procedural changes undertaken to create a more transparent, efficient, and accountable framework for public financial control. Special emphasis is placed on the creation and role of the Chamber of Accounts, as well as the analysis of the implementation of internationally recognized audit types-such as financial, compliance, and performance audits.

In addition, the paper discusses the integration of modern technologies in financial oversight mechanisms, the application of international best practices, and the need for continuous professional development and training for employees working in the field of financial control to improve their professionalism and work quality. These actions will contribute to further improving the state audit sector. The findings suggest that significant progress and results have been achieved in the field of state auditing, with the application of contemporary global practices. However, it is essential to implement new practices and leading audit activities in order to enhance the effectiveness, reliability, and sustainability of financial supervision.

Keywords: *financial supervision, public audit, financial control, compliance audit, financial audit, performance audit, external public financial control, Chamber of Accounts.*

INTRODUCTION

Financial supervision and auditing in the public sector represents one of the current significant research directions in the modern economic sphere. The analysis of the development of auditing is a critical issue of our time. Measuring audit assurance, examining the methods used, and analyzing the techniques employed in planning financial control will provide relevant information for the detailed, structured, and multifaceted implementation of audit activities.

In the aftermath of Azerbaijan's independence, the country embarked on a comprehensive transformation across various sectors, including its financial supervision and public sector auditing systems. This transitional period necessitated the development of new institutional frameworks and mechanisms aligned with the principles of a market economy. The legacy of centralized economic management and outdated financial oversight structures posed significant challenges, particularly in ensuring the transparency, accountability, and efficient use of public resources. Consequently, there emerged an urgent need to reform and modernize the financial supervision infrastructure to meet the demands of a dynamic and evolving economic environment.

Establishing an effective public financial oversight system became a fundamental component of the nation's broader governance reform agenda. In response to these imperatives, Azerbaijan undertook significant legal, institutional, and procedural reforms aimed at strengthening state financial control. Among these were the drafting and adoption of new normative legal acts, the clarification of roles and responsibilities of supervisory institutions, and the establishment of the Chamber of Accounts as the supreme audit institution. These initiatives were designed not only to align domestic practices with international standards but also to ensure a more transparent and accountable management of state funds. Furthermore, the study highlights the importance of integrating international best practices, advancing institutional capacities, and leveraging information technologies to enhance the effectiveness and efficiency of financial oversight. The analysis underscores the pivotal role of transparent and accountable financial supervision in promoting economic development, strengthening public trust, and ensuring the sustainable management of public resources.

This paper explores the historical evolution, current structure, and types of financial supervision and public sector auditing in Azerbaijan. It also examines the key challenges and offers policy recommendations for further improving the system. Emphasis is placed on enhancing legal frameworks, adopting international standards, increasing institutional transparency, and building professional capacity within state audit institutions. By evaluating Azerbaijan's progress and identifying areas for improvement, this study aims to contribute to the ongoing discourse on strengthening public financial accountability and governance.

THE THEORETICAL FRAMEWORK OF RESEARCH

Financial supervision and the development of auditing in the public sector were considered one of the inevitable issues In the 1990s, after gaining independence, like many other sectors of the economy, there was a need for fundamental and innovative reforms in the financial supervision and auditing sphere. The transition to a new economic system and the change in the management system created the necessity to reform and improve the financial supervision system.

In line with the requirements of the modern market economy, the creation and implementation of a new and efficient state financial supervision mechanism was one of the significant issues in this area. One of the most important steps in the field of state financial supervision and auditing was the adoption of normative legal acts, the preparation of new draft laws, and the determination of the powers and rights of the state bodies operating in the field of financial supervision and auditing. Additionally, in order to conduct a more flexible financial supervision and auditing process, the creation of new external state financial control bodies in accordance with international best practices and the organization of their activities were essential elements of this process. The implementation of this process required the development of new normative legal acts.

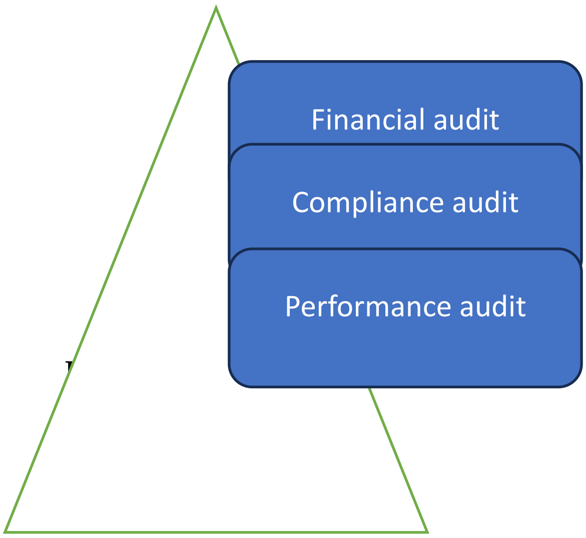
During this period, the increasing number of inefficiently conducted state financial supervision measures in various sectors of the economy, including state institutions, departments, enterprises, and organizations, required the formation of a new financial supervision practice.Along with this, the systemic crisis arising from the change in the economic system, as well as the inability of the previous management system to adapt to the dynamic and changing economic situation, and the existing financial supervision form not meeting international practices and modern requirements, necessitated the regulation of these processes by legislation that would meet the modern requirements of the new economic relations in the country.

Additionally, specific efforts were made to establish legislation that would ensure audits are conducted based on generally accepted principles. As a result, the number of repetitive, parallel, and unnecessary audits in the field of state financial supervision was significantly reduced. Numerous negative instances that could have negatively affected the development of the market economy during that period were prevented. Significant measures were taken to protect the legal interests of both individuals and legal entities.

Due to the transitional period in Azerbaijan's economy, the inspection and control mechanisms carried out by state bodies had not yet been fully improved to meet modern requirements. Therefore, there was a great demand for the implementation of adequate measures in line with modern standards.[8] Given the exceptional role of supreme state financial supervision bodies in ensuring the targeted and efficient use of funds in global practice, it was necessary to create a specialized institution independent of the executive authorities and accountable to the legislative body. In accordance with the legislation of the Republic of Azerbaijan, audit refers to the independent examination of accounting records and financial statements in enterprises engaged in the production and sale of goods, provision of services, and performance of work. [1], [7]

As a result of the development of financial supervision and auditing and the reforms carried out, the Law on the "Chamber of Accounts" of the Republic of Azerbaijan was adopted. With the adoption of this law, a financial supervision institution was established in the country to carry out external state financial control measures in the field of state audit and the Chamber of Accounts of the Republic of Azerbaijan was established. As one of the main normative-legal acts in the field of financial supervision and public audit, the Law on the "Chamber of Accounts" is a fundamental legislative act for external state financial control. In accordance with the requirements of this law, the Chamber of Accounts, alongside conducting state financial control and public audit, has also increased financial discipline. The audit of the state budget and the consolidated budget, is carried out by the Chamber of Accounts of the Republic of Azerbaijan. [2]

Based on international practices and the legislation of the Republic of Azerbaijan, several types of audits are distinguished in the public sector [9]. These audit types differ depending on their form of implementation and the subject of the examination. The types of audits carried out in the public sector can be clearly seen in the following graph.



Financial audit – This type of audit involves determining whether the financial information in an entity's financial statements is presented in accordance with the financial reporting standards and the relevant legal and regulatory framework [3]. In the context of fair presentation, the auditor assesses whether the financial information is fairly presented. In the evaluation of compliance, the auditor determines to what extent compliance with the applicable laws, regulations, and standards has been achieved.

Financial audit is presented as an audit activity aimed at verifying the compliance of the financial information prepared by a financial control object with the requirements of applicable legislation and financial reporting standards [10]. The subject of financial audit includes the financial statements and related information. The goal of conducting a financial audit is to increase the level of assurance that the parties interested in the financial statements and the intended users of those statements have regarding their reliability. This increased assurance is achieved when the auditor, carrying out the financial audit, evaluates the financial statements from all significant aspects and provides an opinion that the financial statements give a true and fair view, in accordance with the principles underlying financial reporting, which are recognized by international practices or the applicable financial reporting standards. [4]

Compliance audit is a type of audit that involves the independent evaluation of whether the subject of the audit complies with the requirements set out in relevant guiding documents, which are established as criteria [3]. A compliance audit reflects the process of assessing whether the activities, financial operations, and information being audited are in accordance with the guiding documents that regulate the operations of the external public financial control entity, considering all significant aspects.

Recently, the diversification of the field of auditing has led to the development of various types of audits. As a result, the number of activities carried out within different types of audits has increased. Through the following chart, it is possible to clearly observe the distribution of conducted public audits by years.

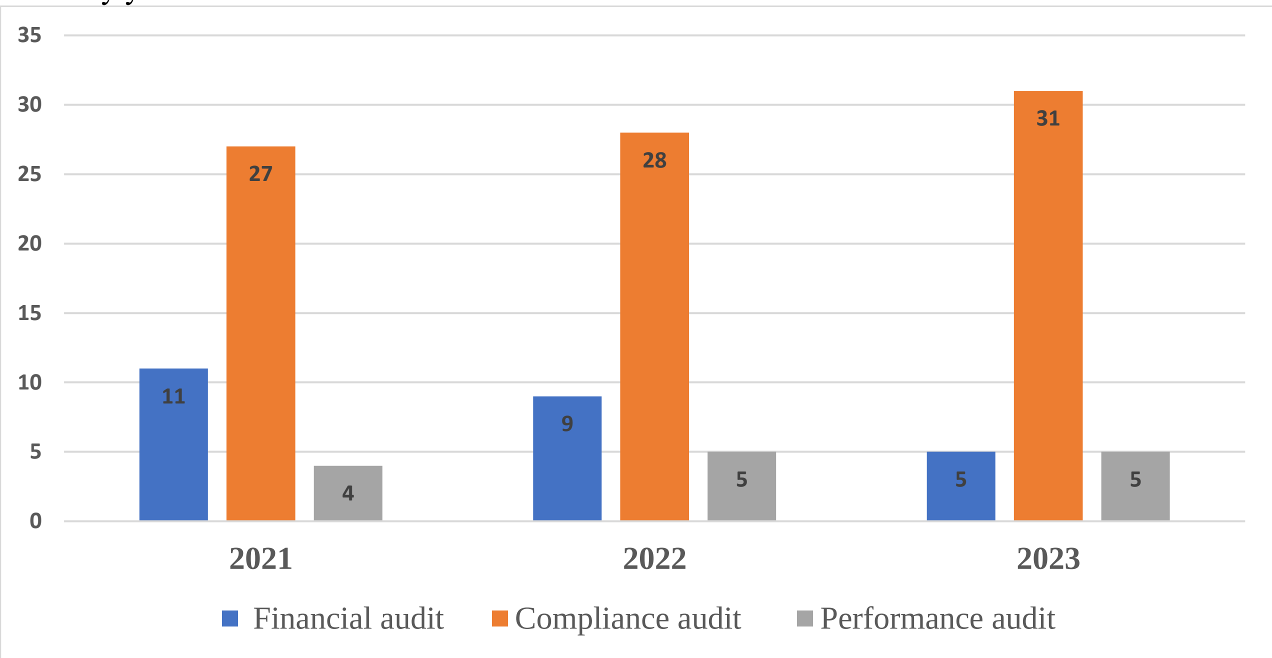


Figure 1. distribution of conducted public audits, years [11], [12], [13]

The subject of a compliance audit is determined in relation to the scope of the audit being conducted [6]. The subject of a compliance audit can include activities, financial transactions, or other related information. It is more appropriate to define the information being audited, such as supporting documents and other relevant data, as the audit subject. Specifically, a compliance declaration prepared in accordance with the relevant standards and established frameworks can be accepted as the subject of the audit.

During the implementation of compliance auditing, a professional approach should be applied when determining audit materiality, with consideration given to the needs of the users during the assessment of materiality. This process is carried out by the individual performing the audit. When assessing materiality, an issue can be considered significant if the knowledge about it has the potential to influence the decisions of users interested in the audit results. Moreover, this judgment may relate to the audit subject as a separate nuance or as part of a group of collected information.

When conducting an performance audit, the audit evidence obtained must be sufficient and relevant to the objectives [5]. Specifically, the sufficiency of audit evidence refers to its quantity, while the effectiveness of audit evidence pertains to its capacity to support the audit findings. The relevance and reliability of audit findings play a crucial role in the preparation of the audit opinion and the expression of the auditor's report. Relevance is related to the quality of the audit evidence and indicates whether the audit findings are appropriate and substantiated. Reliability, on the other hand, demonstrates that the audit evidence is supported by data from various sources and can be verified upon re-examination — for instance, when conducting an external audit at a government financial oversight body, the same audit evidence should be obtainable.

When conducting an performance audit, in accordance with internationally accepted audit standards and advanced auditing practices, high-quality audit reports should generally be prepared with the following key characteristics in mind:

- ✓ Objectivity and constructiveness;
- ✓ Comprehensiveness and completeness;

- ✓ Persuasiveness;
- ✓ Timeliness;
- ✓ Clarity and conciseness.

The improvement of financial supervision and auditing in the public sector, ensuring efficient and transparent management of public finances, and increasing control over the proper use of public funds and resources, as well as enhancing financial discipline, can be achieved through the application of various methods, mechanisms, and the optimization of existing forms. The improvement of financial supervision mechanisms is crucial for the economic and sustainable development of the country. The main methods and development mechanisms for improving this area can be outlined as follows.

One of the key aspects of improving financial supervision is the application of modern information technologies. Modern data technologies have become essential tools for making financial management more transparent, efficient, and manageable. The collection and tracking of financial and accounting data within unified information systems allow state institutions to monitor budget and financial processes more accurately and transparently. Public control and transparency are critical factors in improving financial supervision. Effective and transparent management of state finances is possible not only with the involvement of state institutions but also with the active participation of the public. Strengthening accountability mechanisms increases the understanding of reporting and responsibility within state bodies.

The application of international practices can also contribute to the improvement of the staff working in state agencies in the fields of audit and financial oversight. Based on these practices, training and certification programs can be implemented to increase the skills of financial specialists and audit agencies. This will equip employees with modern audit techniques and financial management methods, leading to the establishment of a more effective and modern oversight system for the public sector. Thus, the study and implementation of international practices will not only improve financial oversight in Azerbaijan but also serve as an important path to establishing a sustainable and reliable financial management system that supports the country's economic development. This approach allows for more transparent, accountable, and efficient management of the state budget and finances, and it paves the way for Azerbaijan to be recognized as a country with reliable financial management in the international arena.

It is essential to organize regular training and certification programs for professionals working in the fields of financial oversight and state auditing. These trainings, by enhancing both practical and theoretical knowledge, will help develop the professional skills of auditors and financial oversight specialists. Such programs should also be tailored to the specific needs of the public sector and familiarize participants with modern financial oversight methods. The training and events should provide information about international standards and advanced practices, equipping participants with in-depth knowledge of various audit, financial oversight, and accountability tools.

Additionally, it is essential to implement independent oversight and audit mechanisms for the continuous monitoring of budget expenses. State institutions responsible for financial oversight and state auditing must verify that expenditures from the budget are carried out correctly and legally and identify any shortcomings in a timely manner. Coordination and information exchange between state institutions must be strengthened. Often, lack of communication and information gaps between state agencies lead to inefficient use of budget resources. This can also cause delays and postponements in project execution. Strengthening information exchange and interaction between state institutions will create the conditions for more effective and optimized use of resources. This will ensure that budget funds are allocated more accurately and correctly in accordance with goals and priorities.

Several important steps need to be taken to accelerate the implementation of new technologies in the field of audit and financial oversight in the public sector. The integration of modern technologies and the modernization of databases are essential. This will allow state institutions to collect, process, and analyze financial data more quickly and accurately. The modernization of databases means establishing systems that integrate and easily access the state’s budget and financial data. Such systems will enable more efficient management of data from various government agencies and minimize errors during data verification and analysis.It is crucial to provide regular training to state agencies. It is important to develop a professional workforce that can effectively use these technologies. Specialists, particularly those working in audit and financial oversight, should be informed about modern technologies and trained in their application. These trainings should demonstrate how participants can use new tools and software, analyze data, and prepare reports. Additionally, the training should cover how modern financial technologies can be aligned with international standards.

CONCLUSION

The improvment of financial supervision and public sector auditing in Azerbaijan has been a critical component of the country's broader efforts to transition from a centrally planned economy to a modern, market-oriented system. The reforms initiated in the post-independence period have laid the foundation for a more accountable, transparent, and efficient financial oversight framework. The establishment of key institutions such as the Chamber of Accounts, the adoption of comprehensive legislation, and the implementation of internationally recognized audit practices represent significant progress in strengthening public financial management.

The establishment of institution - the Chamber of Accounts, the adoption of new legislative acts, and the implementation of internationally recognized audit types including financial, compliance, and performance audits have significantly improved the transparency and accountability of public finance management. Moreover, the development of external public financial control mechanisms and the introduction of more advanced auditing practices have provided the necessary foundation for effective oversight in a dynamic economic environment.

In conclusion, while Azerbaijan has taken meaningful steps toward building a robust system of financial supervision and auditing, ongoing reforms and innovations remain essential. By reinforcing legislative frameworks, investing in institutional development, and embracing technological advancements, the country can further enhance the efficiency and credibility of its public financial oversight, ensuring better governance and long-term economic resilience.

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Azərbaycanda maliyyə nəzarətinin və dövlət auditinin inkişafı, növləri və təkmilləşdirmə yolları

Xülasə

Bazar iqtisadiyyatına keçid prosesi ilə əlaqədar olaraq, keçmiş iqtisadi sistemdən qalan köhnəlmiş maliyyə nəzarəti mexanizmlərinin təkmilləşdirilməsinə ehtiyac yarandı. Yeni sistemə keçid, bu sahəni tənzimləyən müasir və dünya praktikasına uyğun qanunvericilik aktlarının yaranmasını labüd etdi. Tədqiqat, daha şəffaf, səmərəli və cavabdeh bir ictimai maliyyə nəzarəti çərçivəsinin yaradılması məqsədilə həyata keçirilən hüquqi, institusional və prosedur dəyişikliklərinə diqqət yetirir. Xüsusi olaraq, Hesablama Palatasının yaradılması və rolu, beynəlxalq səviyyədə həyata keçirilən audit növlərinin - o cümlədən maliyyə, uyğunluq və fəaliyyət auditlərinin - tətbiqi ilə əlaqədar olaraq aparılmış işlərin təhlil olunmasına əsaslanır.

Bununla bərabər mövcud maliyyə nəzaərti mexanizmlərinin təkmilləşdirilməsi məqsədi ilə, maliyyə nəzarəti və dövlət auditi sahəsində müasir texnologiyaların inteqrasiyası, beynəlxalq təşkilatların və ölkələrin təcrübələrinin tətbiqi və maliyyə nəzarəti sferasında fəaliyyət göstərən əməkdaşlarının peşəkarlılığının və iş keyfiyyətinin artırılması məqsədi ilə davamlı təlimlərin həyata keçirilməsi dövlət auditi sahəsinin daha da təkmilləşdirilməsinə xidmət edəcəkdir. Tədqiqatın nəticələri göstərir ki, dövlət auditi ilə əlaqədar görülmüş işlərdə mühüm irəliləyişlər və nəticələr əldə edilmiş, müasir dünya praktikası tətbiq edilmişdir. Bununla bərabər, maliyyə nəzarətinin effektivliyini, etibarlılığını və dayanıqlığını artırmaq üçün yeni praktikaların və aparıcı audit fəaliyyətlərinin həyata keçirilməsi zəruridir.

Açar sözlər: *maliyyə nəzarəti, dövlət auditi, uyğunluq auditi, maliyyə auditi, səmərəlilik auditi, kənar dövlət maliyyə nəzarəti, Hesablama Palatası.*