

**The Ministry of Education of
Azerbaijan**

**Control Mechanisms of Implementation of
State Budget Resources**

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Abstract

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This study dedicated to show international and local standards in a field of controlling financial system. The main authority bodies almost all over the world are Supreme Audit Institutions which directly declared to Parliament or President. The study demonstrates that how this kind of internationally accepted organizations can influence on national economy. Estimating the countries' economic situation is becoming increasingly difficult when natural resources are reduced, traditional sources of budget receipts are started to disappear slightly. Study describe many aspects of new audits tendencies and how Azerbaijan can apply these one in to their own economy to create a perfect budget system

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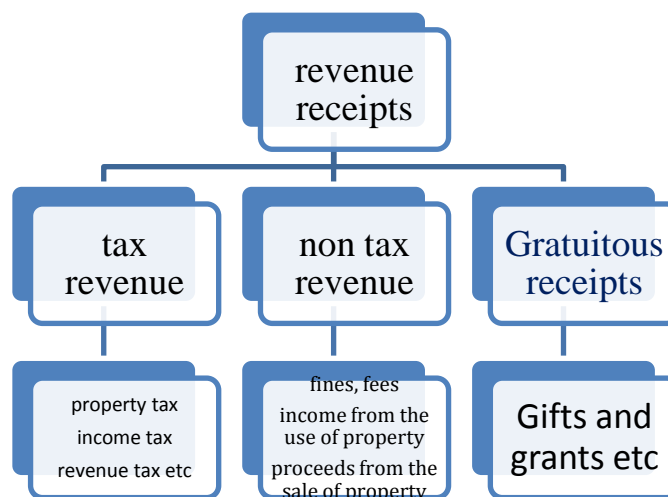
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Acknowledgements

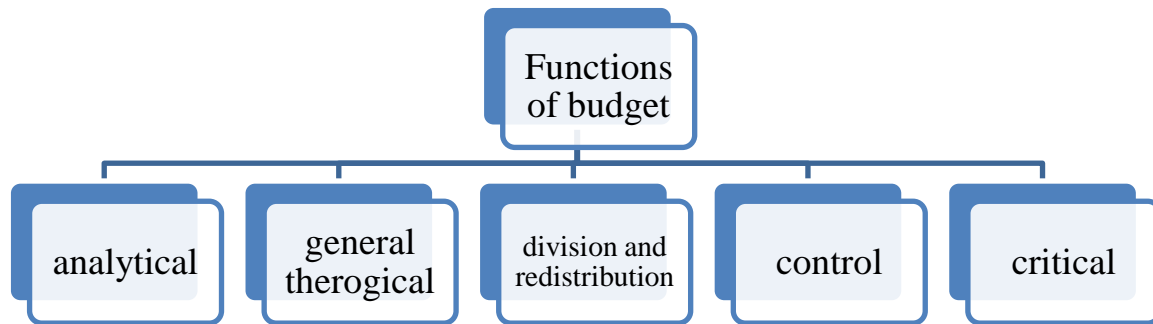
First and foremost, I am grateful to my supervisor Sohrab Isayev : Lecturer at Sabah groups UNEC for providing valuable visions, comments and his support, recommendations, and inspiration in my hard working during my completion of this thesis. And I thank to Zaur Valiyev sector manager at the Chamber of Account, for its help for finding appropriate sources for related topic.

1. Introduction

Budget is a fund of money formation and spending fundraising for the function and activity of state and local governments'. It is definition of budget for the Russian economist Q.B. Polyakin. Other Russian economists Babich and Pavlov also explained budget as Polyak. They said 'Budget is centralized fund for the formation and spending of funds for the state and local governments'. In contrast with eastern economists, western economists hold opposite point of view. Scholars claimed that expenditure was at the center of gravity of budget. For instance, USA economists Fisher, Dornbush interpreted budget as detailed description of individuals, companies, government spending and financial plans. The State budget or Annual Financial Statement is the most essential document for every country. Briefly budget is main financial plan and instrument of state financial policy. The state budget is composed of all units, public services, government programs, etc. It identifies the needs of the state treasury, as well as the source and magnitude of expected revenues. This document evaluates government revenues and public expenditures for the next (current) fiscal year. Revenue budget has 3 main sources below graphic illustrate these ones and some examples of content of them



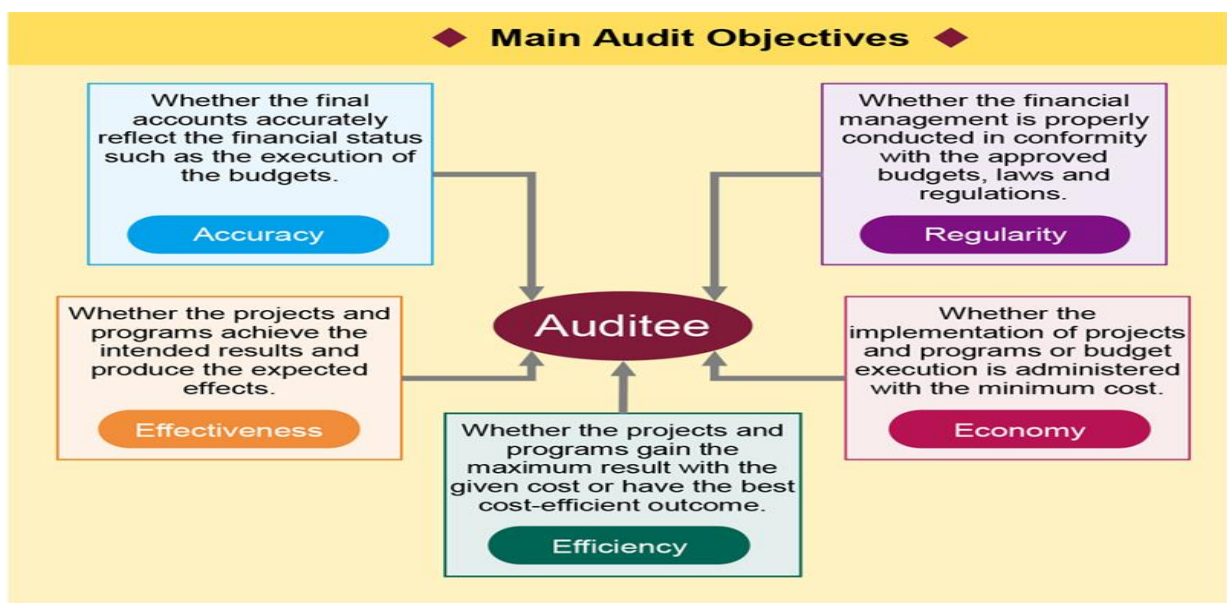
As government document containing a financial plan presenting the government's proposed revenues and spending for the fiscal year budget has 5 main functions



As a function of budget system to control all income and expenditures of budget, utilizing public resources properly and efficiently, organizing reliable financial management and administrative activity and ensuring transparency in this field for the sake of sustainable development and stability of the country are believed most important targets of fiscal policy. After 2. World War the economy of almost all the world's countries had collapsed. Both the collapse of the country's economy and the proliferation of military spending, large numbers of casualties, and increasing corruption in the government had seriously damaged the budgets. After the World War II, the budget control mechanisms and organizations were completely wounded. These systems didn't meet the requirements of society and realities, creating negative cases in practice. For these purposes, necessary action were taken regularly towards strength the auditing system and improving the activities of supervising institutions and their legislation. Considering all these and other problems, in Havana, Cuba in 1953 have established INTOSAI. At the same time, other regional organizations also were established in different years such as EUROSAI etc. As the principal activity of INTOSAI, in 1997Lima, in 2007, Mexico declarations were adopted and now serve as a legal basis for the supreme audit institutions. According to declarations, main functions of SAIs are following:

- To provides opinions on the draft project of state budget, annual report of budget implementation

- To supervises the volume, the structure and timely and targeted execution of revenue and expenditures items of the governmental budget and extra budgetary state institutions
- To analyzes whatever budget financing is accomplishment as provided in an approved state budget, makes recommendation on elimination of discovered improvement and deviation of budget process
- Carries out financial examination of international agreements approved by the Parliament at the instruction of the Parliament and its committees
- Present information to the Parliament on the irregularities discovered following acts of control
- To works in cooperation with other bodies of state control
- To audit the incomes and expenditures of the state budget as well as consolidated budget



Main audit functions according to Lima and Mexico declaration (<http://www.intosai.org/about-us/organisation/membership-list/full-members/members/japan.html>)

Taking into by the relevant executive authorities of each country, such as Treasury in Azerbaijan. The State Treasury Agency of the Ministry of Finance of the Republic of Azerbaijan is responsible for the management of the state budget, accounting for

these financial transactions, undertaking responsibilities to the budgetary organizations on behalf of the state on budget expenditures, administering the state financial unit to the Republic of Azerbaijan, control current account deficit and targeted expenditure. Functions of the treasury include the drafting of the state budget, its execution, management of the state debt, as well as the issue of government securities. The Treasury follows taxes, duties and other expenditures in the budget, launches budget credits and provides budgetary funds in accordance with approved deductions.

2. Chapter. Theoretical background of state budget and implementation of state budget

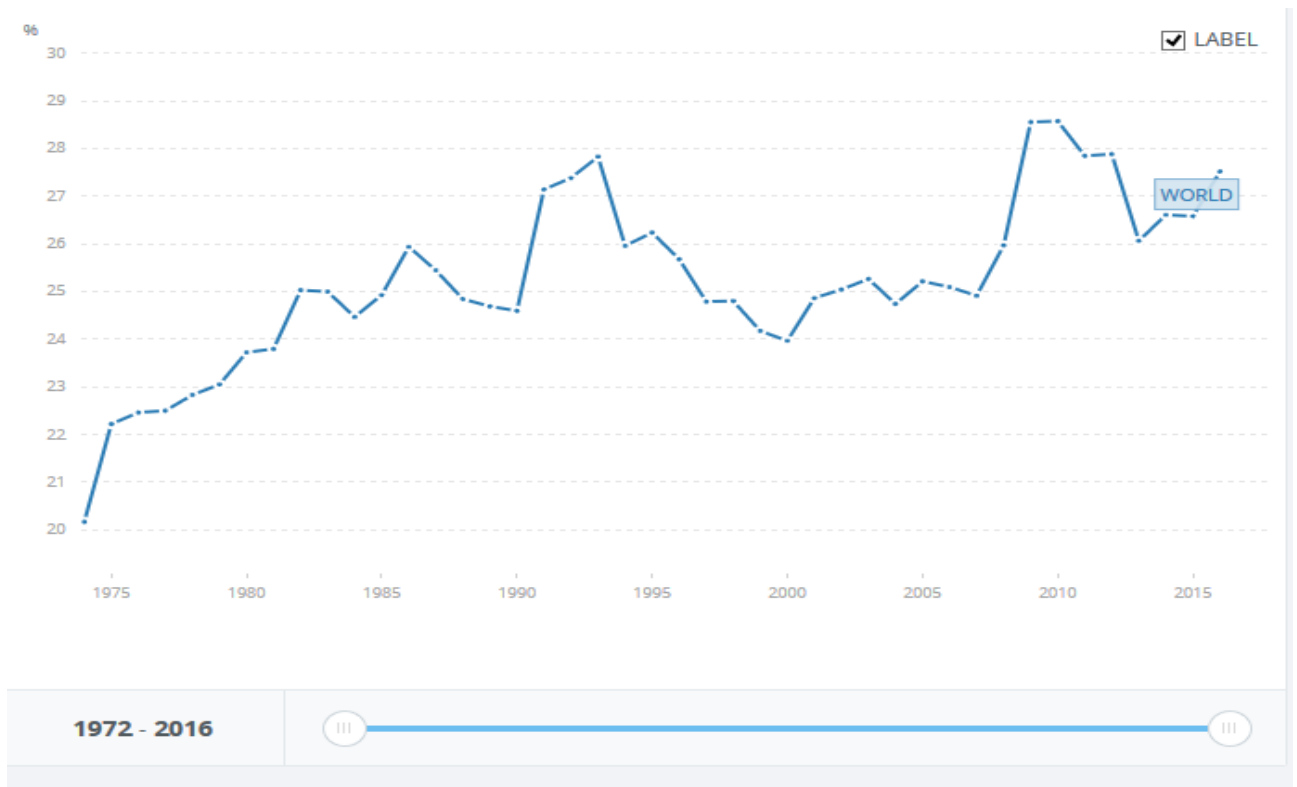
2.1 General characteristics of state budget

The state regulation of the economic, political and social structure of the society has a great role in every stage of its formulation and development. The main mechanism for implementing the state's economic and social policy is the financial system and its budget system. Creates and uses centralized and non-centralized monetary funds implemented through the budget by the government. To understanding of budgetary system or on other word public finance is a quiet challenging process. International literatures give budget definition by the 3 ways. First is theoretical definition: Budget is a system of economic relationship formed during the creation, distribution, and utilization of the centralized cash fund of the state'. Or budget is the main financial document for the collection and use of funds needed to perform the function of the state and municipalities through state and self governing bodies. It is legislation based explanation of budget. The 3rd definition describes economic and legal sides of budget. Budget is a plan which on one hand it is key financial plan for creating, distributing and utilizing public finance. On the other hand, budget means law that applies as special procedure by competent authority of the state power. The budget describes the financial situation of the country and according to this information government determined tax policy. As a economic category, budget is a part of public finance system, demonstrate money relation and financial functions. Budget fulfill following functions :

- Redistribution of GDP
- Government regulation of the government
- To be financial provision of implementation of the state social policy
- To control over the establishment and use of a centralized cash funds

The budget -distributing function lends itself on formulation and usage of money funds at the state and local self governing level. The budget is part of national income that is used in distribution and redistribution of funds for the purpose of creating the financial basis necessary for the financing of public activity. In developed countries

30-50% of GDP redistributed as a budget income while it is only maximum 15-20% in developing countries



. International Monetary Fund, Government Finance Statistics Yearbook and data files, and World Bank and OECD GDP estimates.

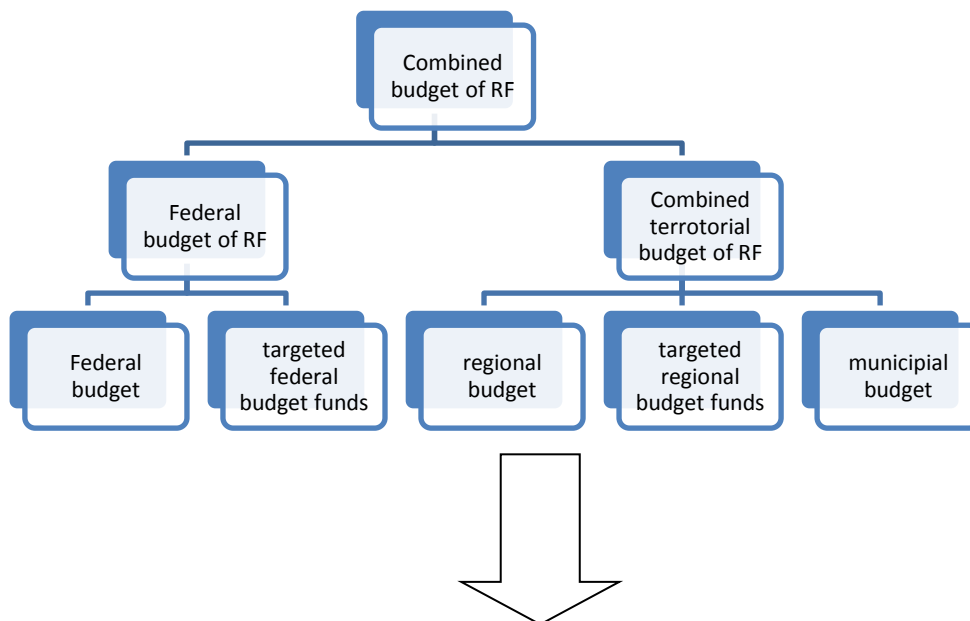
The graph depict annual estimate of government purchasing rate in GDP between 1972- 2016. As it is clear by chart, this rate kept upward trend almost all over the world during the period show on graph. At the beginning of graph government purchase or another word state budget was only 20% of GDP while at the end of the period it rise to 26,5 %. And table below shows the same statistics but for some per country

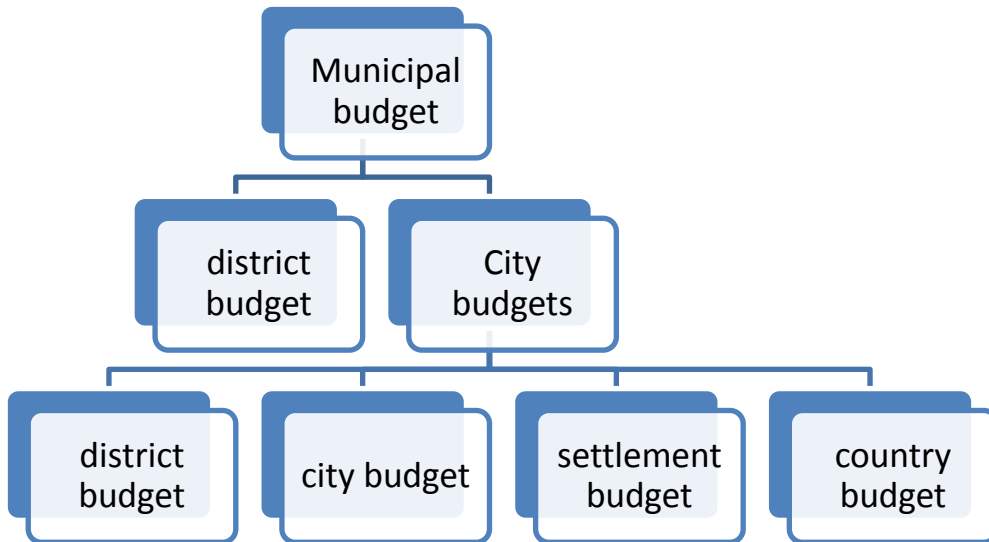
statistics are taken from web site of Word Bank

France	48.2%
Australia	45.6%
Norway	39.6%

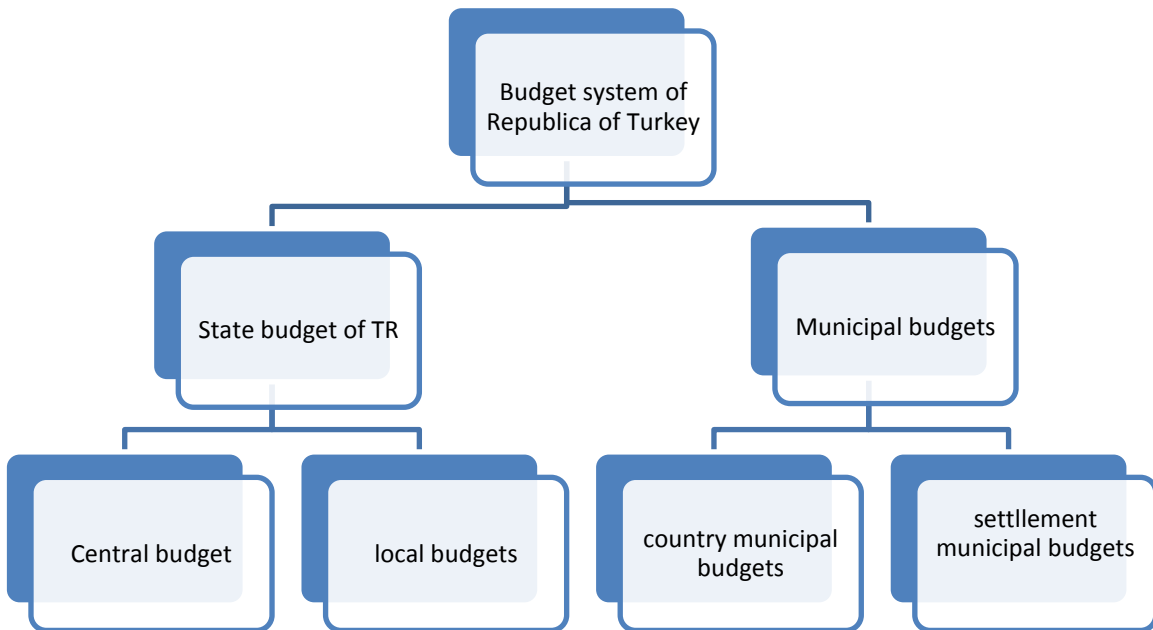
Denmark	39.2%
United Kingdom	37.3%
Dominican Republic	17.1%
Cambodia	13%
Mali	12.3%

In the process of budget revenues and expenditures, a partial redistribution of some of the newly emerging GDP in a favor of the state and municipalities occurs in the public procurement process. This creates financial relations between state and municipal authorities and taxpayers. The numerous independent budgets and state funds of the state budget combined in the uniform budget system of the country create the budget system of that state. The establishment of the budget system and interconnection between its separate circles, the organization of financial relations is called the budget structure, which is based on the administrative-political structure of this country. Generally here 2 types budget system. Budget system of a unitary state and budget system of a federal state. As an example I have showed below budget system of Russian Federation and Republic of Turkey.





Budget system of Russian Federation



Budget system of Replica of Turkey

And here we can observe that generally the content of budget system of all countries is central budget and municipal budget. What is the difference between them? Below I have briefly explained both of them.

Central budget

- budget is a collection of taxes, duties, and money used as a macroeconomic regulation mechanism, which is spent on the creation of financial support for a part of social production and social protection during the year

Municipal budget

- budget is a monetary fund used for to provide financial support for the production of significant goods and social protection according to taxes and other incomes during the year

Each state must comply with some conditions when preparing its annual budget. These principles may to correctly fund the cash that will be sufficient to meet at least its mandatory obligations without default for the current year. It should be noted that the formation and use of the budget structure is based on the current and predictable situation of the national economy. In this regard, the following principles should be taken into consideration during the budgeting process

- Principle of unity. The principle of unity is the general legal framework, the uniformity of the monetary system, the budget documentation forms, the principles of the budget process, the application of fines for the violation of the budgetary law, as well as defining the budgetary system budget at all levels by the unified system, the unified accounting of the state budget and local budgets' implies that
- Publicity or Disclosure is an open way for the public and mass media to ensure that the approved budget and its implementation report, the full implementation of the budget information, as well as the open publication of decisions and other information by the legislature and local authorities, the draft budget and the decision-making process

- Completeness. The principle of completeness is understood as the inclusion of all inputs and expenditures based on the uniform budget classification which is different for every country

-Reality. The principle of reality means that all revenue and expenses recorded in the approved budget should undergo a rigorous surveillance process and that the most accurate prediction for the minimum error is to prepare the best budget for the current economy. As well as, the development of budgets involves three elements which first 2 of them also happened during redistribution of GDP through budget at the same time:

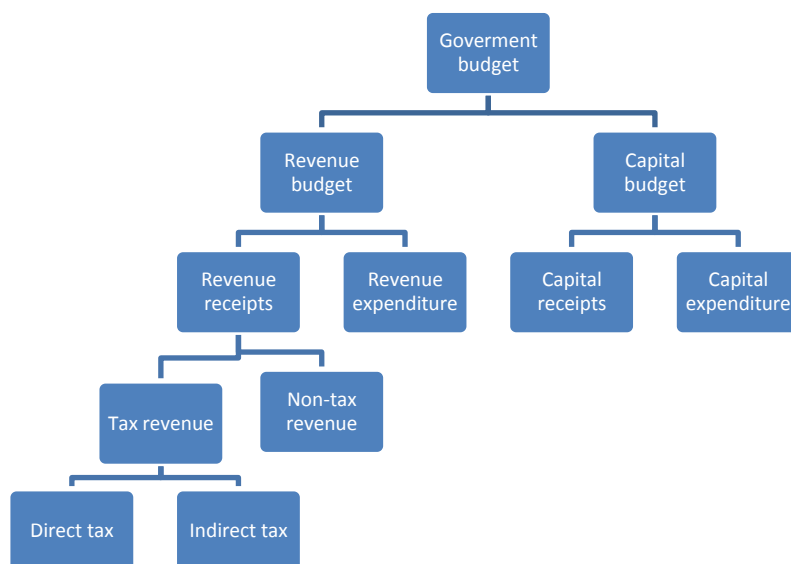
- A revenue plan, including a forecast of revenues available from existing sources and any proposed changes to the revenue system;
- Expenditure forecasts and requests from the various agencies and departments for Continuing funding and new projects, which must be evaluated and prioritized in some fashion, including the use of cost-benefit analysis and related techniques;
- A procedure for dealing with any gap between revenues and expenditures, how best to use any surplus or how to address any projected deficit.

For a government with a relatively stable tax structure, the first element in developing a budget is to determine how much revenue will be available. The main sources of income for the federal government are income taxes and social security taxes. The primary revenue sources for most state governments are income taxes and retail sales taxes. For local governments, the primary revenue source is still the property tax, although local revenue sources are becoming increasingly diversified. Revenue forecasting is an art, not a science. Revenue forecasting is also very politically sensitive, because revenue forecasters are telling legislators how much money they will have to spend. There may be pressures to up the estimates to make pet projects feasible, or pressures to estimate conservatively so that legislators can later enjoy the pleasure of allocating a surplus or taking credit for fiscal restraint. Politicians who have endured the pain of having to approve midyear budget cuts when revenue did not come up to projections are apt to prefer caution in making forecasts. Revenue

forecasters are often public employees who must respond to the political climate as well as their own best judgment and experience in making forecasts. By the end of the twentieth century, forecasts emerged that predicted growing budget surpluses, based on the expectations of continued healthy economic conditions of steady growth, full employment and low inflation that had been experienced for almost a decade. These optimistic forecasts not only affected the current budget but also the dialogue about the tax structure, new and expanded expenditure programs, and the future of the Social Security program. Clearly, revenue forecasting plays an important role in making economic policy, even though critics point out that revenue forecasting at the federal level has not been exceptionally accurate. The expenditure side of the budget has to address both on-going programs and proposed new programs. Some kinds of expenditures are forecast in ways similar to revenue forecasting, while others are budgeted and limited to the budgeted amount. Unexpended budget funds in the operating budget normally expire at the end of the fiscal year, giving agencies an incentive to «spend it or lose it» toward the end of the fiscal year. If an agency fails to spend most of its budget, not only does it lose the unexpended funds, but there is also a good chance that next year's budget will be reduced. The expenditure side of the budget has to address both on-going programs and proposed new programs. Some kinds of expenditures are forecast in ways similar to revenue forecasting, while others are budgeted and limited to the budgeted amount. Unexpended budget funds in the operating budget normally expire at the end of the fiscal year, giving agencies an incentive to “spend it or lose it” toward the end of the fiscal year. If an agency fails to spend most of its budget, not only does it lose the unexpended funds, but there is also a good chance that next year's budget will be reduced.

2.2 Procedure and mechanisms of formation of state budget

The main components or parts of government budget are explained below.



Budget revenues are centralized funds for the functioning of the state. They represent the economic relations that have emerged in the process of the formation of cash flows and serve to implement the activities of various levels of government. Budget revenues, depending on the state structure of the country, are unitary, central and local budget revenues. Budget revenues are narrower than state revenues. The main material source of budget revenues is national income. If the funds are insufficient to meet the financial needs, the state attracts the national wealth. Receipt Budget notes the allocation of cash flow in different sectors of the country, for their overall growth and development. In other words, paying attention Receipt Budget of any country will bring out a detailed picture of the total cash that the nation has in hand, for promoting diverse developmental projects and programs. The Revenue receipts section of a Receipt Budget deals with the total amount of cash receipts generated before the budgeting process, and these incomes do not result in a liability or a reduction in assets. Revenue receipts are classified as tax revenue and non-tax revenues that both of them also dividend into several categories. Taxes are indisputable payments to the state budget and local budgets on the basis of the principle of money offset by the taxpayers in order to finance the activities of the state and municipalities. Taxes exist from the day human civilization emerged. One of the first independent tax systems is the Ancient Roman tax system. Roman citizens were looted on the basis of their property and family status, and the amount of taxes

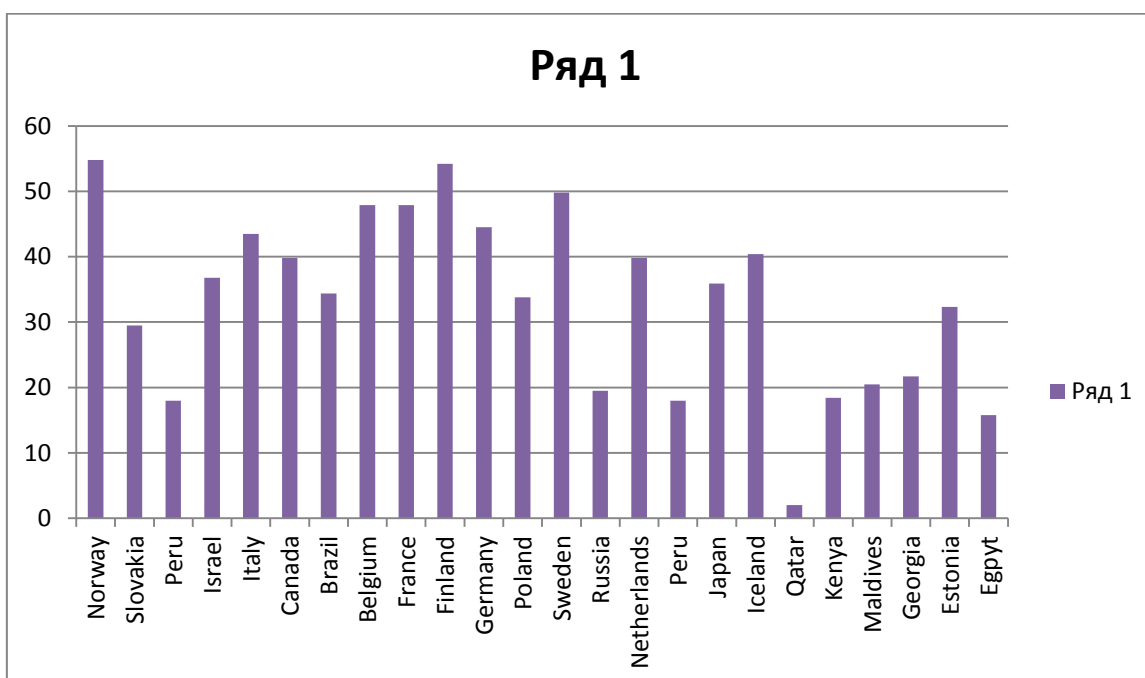
was set at 5 years. In the revenue system of the state budget, taxes placed in the central.. Taxation in general and, in particular, the method and nature of taxation (e.g. perceptible taxation via direct taxes or imperceptible taxation via indirect taxes) may consequently generate a more responsible and representative government (i.e., good governance). In the market economy, the tax form of financial-financial relations prevails. Taxes are important from a financial, economic and social point of view. Taxes play a financial role as a source of money. The development of public production is regulated by the adjustment of the tax mechanism. Finally, important social issues are solved through taxation. For example maintaining social balance by changing the proportion between the incomes of certain social groups in order to smooth out inequalities between them. It redistributes public revenues – transfers funds in favor of more weak and unprotected categories of citizens at the expense of imposing a tax burden on the stronger categories of the population. Tax revenue it is that income received from different taxes and other duties levied by the government and it is a major source of public revenue or public income. Taxes play a leading role in the mobilization of payments to the budget. They are part of the national income received by all echelons of the budget system. The rate of tax revenues in budget receipts shows the current situation of economy and it is directly related with GDP. So, government collects numerous kinds of taxes from public to meet its day-to-day costs and there is harsh action against anyone who does not pay the taxes. Taxes, as most important resource of state budget, tax provide material condition for the functioning of the state as well as redistributing of GDP with tax to create public finance and public money funds. Unitary countries budget consist of about 30% of GDP while in federal countries in changes approximately between 45-50 % such as USA, Canada. It is fiscal features of tax.

Tax revenue can be further classified like:

1. Direct tax
2. Indirect tax

Direct taxes are those taxes levied on legal entities and individuals, both legal and natural persons and are paid to the government directly. This directly affects the level of income and purchasing power of the people and helps to change the aggregate demand level in the economy. As an example, we could show income tax, wealth tax, death duty, capital gains tax, etc.

Indirect taxes those taxes which affect the income and property of individuals and companies through their consumption expenditure or on other words, indirect taxes are those taxes which are levied on commodities and services and affect the income of a person through their consumption expenditure. Indirect tax improvements in 2016 and afterwards will include indirect taxes production, distribution and sale of goods and services. So they are related to a business model of a company. indirect taxes are used as a supplement to the product price, product sales, business and services. For instance, sales tax, service tax, VAT, entertainment tax, excise duty, custom duty, etc.. In the market economy countries, VAT is the most effective type of indirect tax. As we know, its collection system is quite simple. This tax is split over all sectors of the economy. The value added tax was first introduced in France in 1958.



Some countries' tax revenue to GDP ratio. All statistics taken from World Bank web site

Apart from taxes, government as well receives revenue from other non-tax sources. Some types of the non-tax sources of public revenue are as follows:

1. Interest on loans given by it to state governments, union territories, private enterprises and general public. Interest receipts from these loans are an important source of non-tax revenue.

2. Fees-the government provides variety of services and fees refer to charges imposed by the government to cover the cost of recurring services such as, fees paid for registration of property, births, deaths, etc.

3. Penalties and fines-are imposed by the government for not following (violating) the rules and regulations.

4. Gifts and grants-government receives gifts and grants from foreign governments and international organizations. Mainly it received when there are natural calamities like earthquake, floods, famines, etc. Sometimes, individuals, citizens of the country and companies also voluntarily gift money to the government. But of course, such gifts are not a fixed source of revenue.

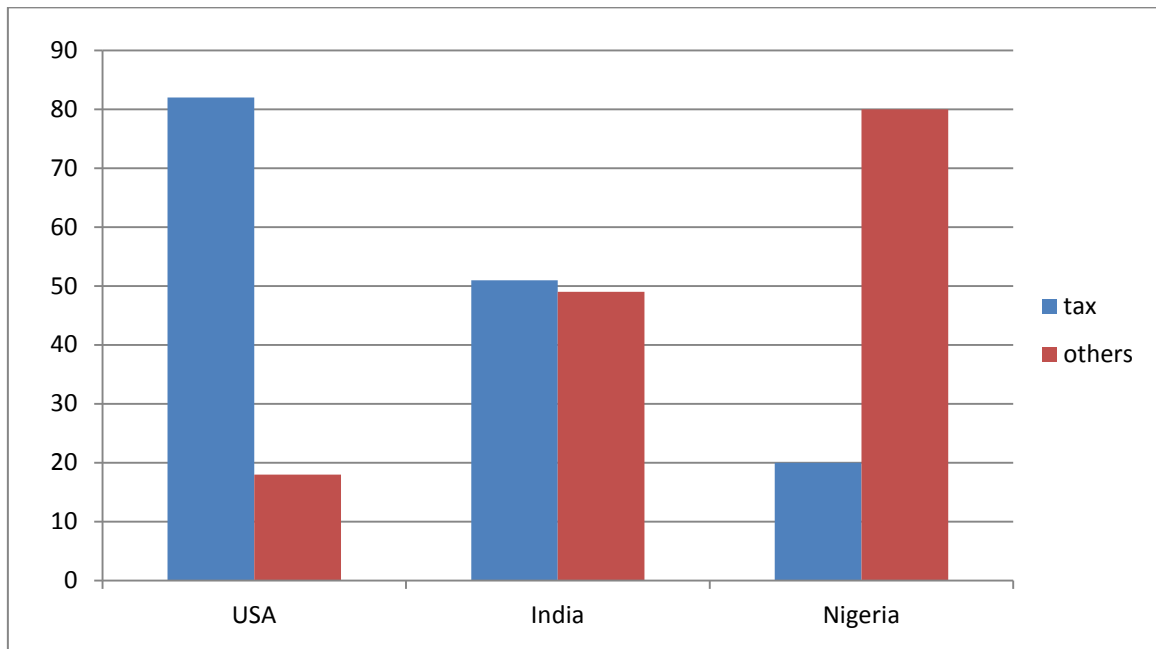
5. Profit and dividend-government earns profit through public sector undertakings.

6. Special Assortment –it refers to the type of levy made by owners of those properties whose value has appreciated due to developmental activities of the government and people get special benefit from it. For example, if value of a property near roads has increased, then a part of developmental expenditure is recovered from owners of such property in the form of special assessment.

It is necessary to take account that components of non-tax revenues are changeable in every country.

The proportion of tax revenues and non tax revenues in budget is hugely depend on economic power, (according to GDP countries divided into 3 categories such as low income developing countries, medium-high income countries and

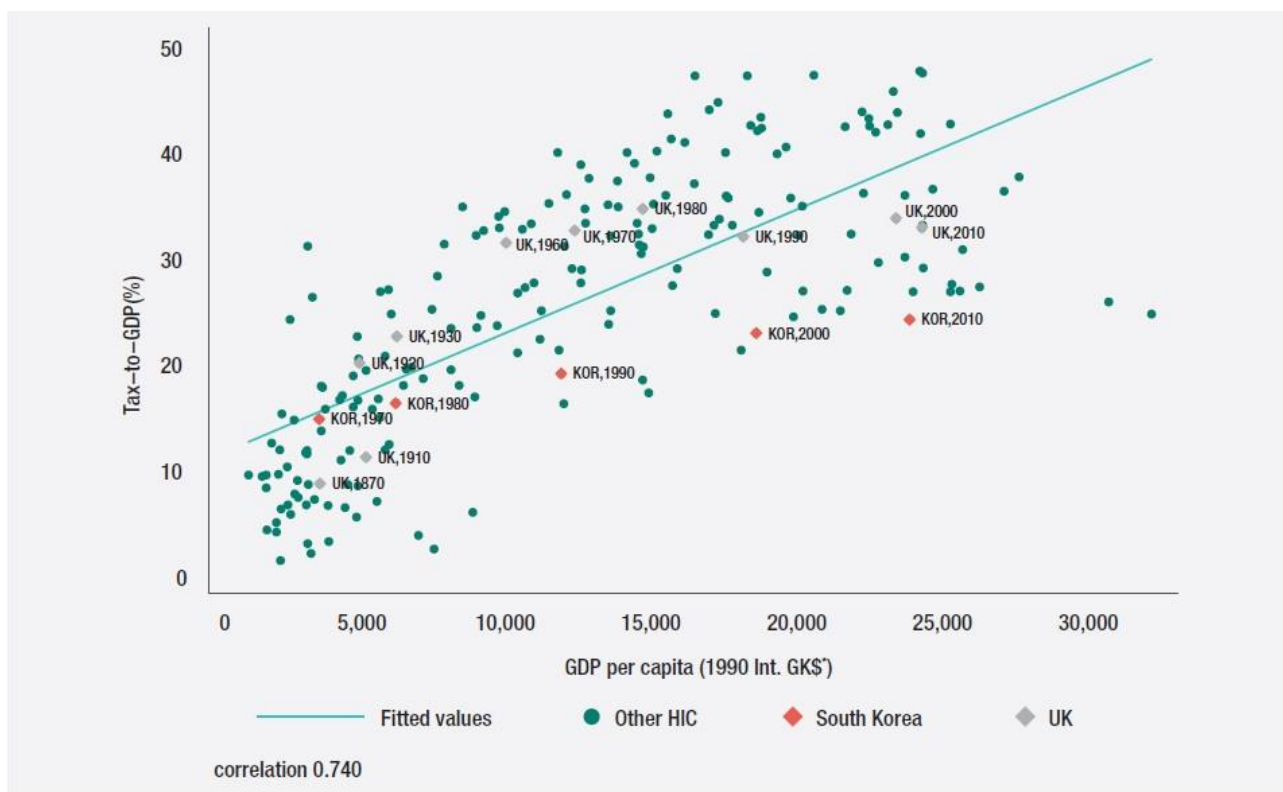
developed countries) geographical location, as well as history of the country. Lets look at the 3 different countries budget revenue proportions for 2017 year as an example.



As it so clear from graph in low-income countries rate of the tax revenue is so low. Why are tax revenues low in developing countries? The lack of capacity to tax is a symptom as well as a cause of under-development. As Beasley and Person (2014) note, *'poor countries are poor for certain reasons and these reasons can also help to explain their weakness in raising tax revenue'*. They cite the following reasons:

- Economic structure: low-income countries tend to have large informal sectors that are administratively difficult to tax.
- Aid and resource dependence: to the extent that such dependence diminishes the actions that would increase taxation.
- Lack of government action: despite the tendency for accompanying formalization of the economy, rising income levels do not mechanically translate into a higher tax take without some deliberate government action to modernize the tax system and provide incentives to transition into the formal economy.

Over the past century, many of today's high-income countries have experienced sustained growth in both income and taxation. This has been the experience of both early movers like the UK, and later developers such as South Korea. Increases in taxation have been used to expand state provision of services, such as healthy, education.



Source: Tanzi and Schuknecht (2000); OECD; ICTD Revenue Database; the Maddison-Project (2013).
 *Geary-Khamis dollar

Content of other revenues are different in every country. In USA's others we observe penalties and fees as well as licenses and permits are dominate, while in India most essential other revenue source is borrowing and other liabilities which is the part of capital budget and Nigeria's main sources for budget revenue are incomes from oil sales and grants.

Another part of the receipt budget manages Cash or Capital receipts and borrowings are collected by the state funding through the recovery of credits and the removal of assets from the bank. A country normally does not have the capital, external financial assistance, government support funds, depreciation, accumulation

of money in different deposit accounts, market credits, small financial savings, It takes a considerable share from the fields. Basic items of capital incomes are :

1. Loans raised by the government from the public through the sale of bonds and securities which called market loans.

2. Borrowings by government from central bank and other financial institutions through the sale of Treasury bills.

3. Loans and aids received from foreign countries and other international Organizations such as International Monetary Fund (IMF), World Bank, etc

2.3 Experience of foreign countries in a field of controlling of implementation of central budget

Generally, in most countries controlling of implementation of central budget carried out by Ministry of Finance (or Treasury) and Supreme Audit institution. Ministry of Finance is responsible in current control or pre audit of state budget while Supreme Audit institutions execute its controlling after the end of the current fiscal year which is called external audit. Nowadays, in international level especially in developing countries, SAIs play an important role in strengthening public sector institution and there are 2 main international declaration which help to understand SAI's responsibilities and to take first stapes to identifying instruments which adjust their work to the principle of to examine whether public funds are spent economically, efficiently and effectively.

In 1997, at INTOSAI's 9. congress main principles of external audit are accepted by the INTOSAI's members which know as Lima declaration. According to Lima declaration, organization of audit is directly related with the state financial management that is one of the branches of proper and effective using of state allowances, management in a appreciate rule of the state finances and regulatory activity in the direction of checking up of the effectiveness of decisions accepted by the authorized bodies. In accordance with the terms above mentioned, as well as UN's aims it is necessary to become SAI which approved by law the independence and

external interference in each country that proper and effective using of state allowances for the stability and development of the country, improving of transparent financial management, properly arrangement of administrative activity, to achieve the delivering of prepared and published of objective reports to the state organs and general public. According to this declaration here i mentioned a several rights of SAIs :

Section 5. Independence of Supreme Audit Institutions

1. Supreme Audit Institutions shall be independent from any external influences. They can carry out their tasks objectively, effectively, transparency only if they are free from the audited entity and are protected against outside influence.(Lima Declaration, 1997 pg. I-12)

Section 7. Financial independence of Supreme Audit Institutions

1. Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks(Lima Declaration, 1997 pg. I-13)

Section 8. Relationship to Parliament

The independence of Supreme Audit Institutions provided under the Constitution and the relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country(Lima Declaration, 1997 pg. I-13)

General consequence from Lima Declaration is state institutions cannot be completely independent. But on the other hand SAIs should be organizational and functional independence to carry out their mission. Considering this, 30 years later, in 2007 in XIX congress of INTOSAI happened in Mexico, published 'Mexico Convention on SAI Independence'. After the Lima Declaration and decisions made at the XVIIth Congress of INTOSAI (in Seoul, Korea) as well as Mexico Declaration there are 8 main principles recognized for SAI as essential requirements of proper public sector auditing.

Principle 1. The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provision of this framework (Mexico Declaration, 2007 pg. I-24)

Principle 2. The independence of SAI heads and members (of collegial institution), including security of tenure and legal immunity in the normal discharge of their duties (Mexico Declaration, 2007 pg. I-24)

Principle 3. A sufficiently broad mandate and full discretion, in the discharge of SAI function (Mexico Declaration, 2007 pg. I-25)

Principle 4. Unrestricted access to information (Mexico Declaration, 2007 pg. I-26)

Principle 5. The right and obligation to report on their work (Mexico Declaration, 2007 pg. I-26)

Principle 6. The freedom to decide the content and timing of audit reports and to publish and disseminate them (Mexico Declaration, 2007 pg. I-26)

Principle 7. The existence of effective follow-up mechanisms on SAI recommendations (Mexico Declaration, 2007 pg. I-27)

Principle 8. Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources (Mexico Declaration, 2007 pg. I-27)

We can observe that all main pillars and declarations are recognized by INTOSAI. AS it is clear, INTOSAI or International Organization of Supreme Audit Institutions is a universal organization which for more than 50 years provided an institutionalized frame for supreme audit institutions to encourage development and transfer of knowledge, improve government auditing worldwide and extend professional capacities, standing and impact of member SAIs in their respective countries. INTOSAI was founded in Cuba, Havana in 1953 and for the time being INTOSAI has 194 full members, 5 associate members and 1 affiliate member that they are the primary external auditors of the United Nations. INTOSAI is autonomous, independent and non political organization that provides to exchange international

knowledge and experiences in a field of government audit and It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. Let's look some member's SAI organization. For instance, the Bundesrechnungshof or Supreme Audit Institution of Germany. First SAI in Germany in 1714 by the Prussian King Frederick William I and called "General Chamber of Accounts", which was later renamed the "Superior Chamber of Accounts". As a modern SAIs this body also was independent, collegiate external audit body and main functions were audit the state accounts, report on its findings in an annual report and submit expert opinions on administrative reforms. In 1948, the "Audit Court of the Combined Economic Area" was established in Frankfurt. This was the immediate predecessor of the Bundesrechnungshof. It was assigned the responsibilities and powers of the Audit Court for Special Tasks. After the Basic Law had come into force, it temporarily carried out the responsibilities of the audit office for the Federation. In 1950, the Bundesrechnungshof was set up in Frankfurt on the Main. In 2015 and 2016, the Bundesrechnungshof restructured its organizational set-up and the assignment of responsibilities to enhance its functional and operational capabilities. In early 2017, the Bundesrechnungshof implemented the new structure and thus realigned its audit divisions and audit units to respond to the challenges of an ever changing government landscape. (<https://www.bundesrechnungshof.de/en/bundesrechnungshof/geschichte>) or Board of Audit of Japan. The Board of Directors is an independent institution to control the final accounts of government agencies receiving government grants, such as government spending and incomes, accounts of government agencies, and independent administrative bodies and subsidies. The Board of Directors was formed in 1869 by a division of the initiative called "Dacogank" under the leadership of the Ministry of Finance. In 1947, with the enactment of the Constitution of Japan, the present Board of Audit Act came into effect pursuant to Article 90 of the Constitution, which made the Board independent of the Cabinet. (<http://www.jbaudit.go.jp/english/index.html>) In December 3, 1993 Raits

Cernajs was elected by Parliament as the first Auditor General after the State Audit Office Act had come into effect in Latvia. Latvia is an active Member of the INTOSAI since 1994. For example, in 3-4 April 2012 The Meeting of the INTOSAI Working Group on Key National Indicators is taking place in Riga, organized by the State Audit Office of Latvia. (<http://www.lrvk.gov.lv/en/about-the-state-audit-office/history/>) And last one, Accounts Chamber of the Russian Federation. As a all supreme audit institutions, it also permanent, indepent supreme body of external public audit (control). As a member of INTOSAI, main principles of this one are legality, efficiency, objectivity, independence and openness. Elementary financial control in Russia was established in 1656 when, under the reign of the tsar Alexei Mikhaylovich. In 2013 the new version of the Federal Law "On the Accounts Chamber of the Russian Federation" entered into force. The authority of the Account Chamber has been greatly expanded. The expertise of bills and other legal proceedings that assessed the costs of the federal budget, government programs, control of goods and services in public procurement, as well as social and economic development as well as elimination of federal resources for security and management efficiency, were included in the Country Accounts. Thus, the Chamber of Accounts was one of the most important participants in legislative activities.

Another essential organization on supreme audit is EUROSAI (European Organization of Supreme Audit Institutions) that was established in 1990 with 30 members (the SAIs of 29 European States and the European Court of Auditors). Eurasia's one of the seven regional working groups of the International Organization of Supreme Audit Institutions (INTOSAI) and now it has 50 SAIs (the SAIs of 49 European States and the European Court of Auditors) as a member. Beside these 2 main international organization, I have mentioned some regional supreme audit organizations below:

- Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) have established in 1965

- African Organization of Supreme Audit Institutions(AFROSAI) have established in 1976
- Arab Organization of Supreme Audit Institutions(ARABOSAI) have established in 1976
- Asian Organization of Supreme Audit Institutions(ASOSAI) have established in 1978
- Pacific Association of Supreme Audit Institutions(PASAI) have established in 1987
- Caribbean Organization of Supreme Audit Institutions(CORASAI) have established in 1988



3. Chapter. Legal mechanism of controlling of using state budget resources

3.1 Budget process in Azerbaijan Republic and legislation bases of implementation of budget resources

In Azerbaijan legal basis of budget process and using of budget resources is 'Law on budget system of Azerbaijan'. According to this legislation, budget process have 4

stagehand using budget revenue in accordance with budget expenditure is 3th one. Other stages are bellow:

1. Drafting of the state budget project

According to these law, preparation process of the draft state budget starts 11 months from the beginning of the budget year till the day of submission of the draft budget to the Milli Majlis (Parliament) of the Republic of Azerbaijan. Firstly, relevant executive power body which in Azerbaijan it is Ministry of Finance should post their decision about preparation process of the draft state budget during the third decade of January. In compliance with the decision, the medium-term estimate, so 1+3 years forecasts of the economic and social development of the country issued by relevant executive power which in Azerbaijan it is Ministry of Economy till the end of February. Then, Ministry of Finance also prepare initial medium-term (generally 1+3 years)forecast(incomes, expenditures, deficit and financing) of the state budget that based on medium-term forecasts of the economic and social development, till the March 31 of the current year. MoF should present this draft, as well as other essential documents such as , basic fields of budget-tax policy, the highest verge of incomes and expenditures at the level of budget classification items, , priority expenditures, forecast of summary budget of the next year and following three years, initial draft of the state investment program to relevant executive power body which in Azerbaijan it is Cabinet of Ministries till the April 15 of the current year. In 11.6paragrahp of this law writen ' Till the May 1 of the current year, relevant executive power body prepares an instruction letter on the preparation of the indicators of the draft state budget of the next year and summary budgets of the following three years and sends to organizations involved in the preparation process of the budget. Alongside with related data, the instruction includes data on organizations and the highest verge of expenditures of every item, norms approved on the current expenditures, analysis '.From receiving letter till July 1 of the current year related organizations that bodies ensuring the execution of incomes of the state budget and organizations financed from the state budget of the Republic of Azerbaijan present prepared draft budget to

the MoF. Till 1 April Ministry of Economy again specifies economic and social development forecasts and state investment program of the next year and following three years but now it should take into account results of past 6 months of current year. Final forecasts send to MoF and MoF re-calculates incomes and expenditures in the draft state budget according to the specified economic and social development forecasts and elaborated programs. MoF should finish this process and submit the drafts of the state budget and summary budget for the next year and indicators of the summary budget for following three years till 15 September of current year to Cabinet of Ministries and Supreme Audit Institution. After the first re-checking of budget project, same documents present to the President administration by September 25 for the second re-checking. ('**Law on budget system of Azerbaijan**')

2. Discussion and approval of the draft state budget of the next year

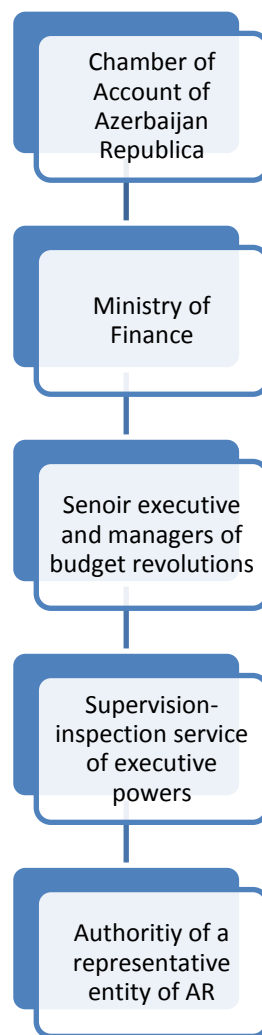
In accordance with the provision 2 of the article 109 of the Constitution of the Republic of Azerbaijan, draft law on the state budget of the next year, along with other documents enclosed to it, should be submitted by president of Azerbaijan Republic to the discussion and approval of the Milli Majlis (parliament) of the Republic of Azerbaijan not later than the October 15 of the current year. During the discussion process, the chairman of the Steering Board of the Central Bank of the Republic of Azerbaijan provides information to the parliament of the Republic of Azerbaijan on the main directions of monetary policy of the next year, as well as according to 'Law on supreme audit institutions of Azerbaijan Republic', Chamber of Accounts which is the national supreme audit institution of Azerbaijan give feedback about the draft budget. And after 2 or 3 times reading of the budget project, the state budget of the next budget year is approved with law not later than the December 20 of the current year in the Milli Majlis (parliament) of the Republic of Azerbaijan. ('**Law on budget system of Azerbaijan**')

3. The execution of the state budget

The state budget is executed by Treasury which is the part of Ministry of Finance and by the treasury single account they accomplish pre audit of budget implementation. ('Law on budget system of Azerbaijan')

4State on the execution of the state budget and supervision of the execution of the state budget

3.2 Executive power bodies in a field of controlling of use budget resources and commitment between them



Subjects of state control in Azerbaijan

For the time being, there are 2 main authorities that carry out audit of usage of budget funds in Azerbaijan. Ministry of Finance and Chamber of Account. Auditing proces start at the begin of the fiscal year(1 January) and accomplish by Ministry of

Finance. There are 2 of in Mof for arrange pre-audit process- 1. State Treasury Agency, 2. State Financial Control Service. State Treasury agency that operating under MoF was established in February 9 2009 according to president of the republic of Azerbaijan's 48 decree order 'On measures to improve activity of the Ministry of Finance of the Republic of Azerbaijan'. These executive power bodies to fulfill the execution of state budget cash, to provide payment of budget revenues into the budget, targeted use of expenditures in accordance with single budget classification and during the carry out these financial operations use Treasury single account. Treasury single account help to checking entry, management and use of funds that allocated from state budget to the budget organizations. On the other words, Treasury fulfills current control or pre-audit which is the first step in the process of an audit. Legislation bases of Treasury's work is Constitution of the Republic of Azerbaijan, laws of the Republic of Azerbaijan, decisions and orders of the Cabinet of the Republic of Azerbaijan, as well as international treaties ratified by the Republic of Azerbaijan and at last Statute on the State Treasury Agency of the Ministry of Finance of the Republic of Azerbaijan. Besides these here we can include numerous decrees and orders of the President of the Republic of Azerbaijan and Minister of Finance of the Republic of Azerbaijan. According to Treasury's statute Treasury fulfill its obligations with some duties and rights. Treasury not only power for controlling, as well as it should be member of the process of preparation of indices of the state budget and summary budget each year for the following year and following three years, as well as carry out financial transactions on payments to the state budget, fulfill financial planning with a view to ensuring the efficiency of the state budget facilities' administration, to keep financial transactions on all departments for to ensuring transparency in the use of the state financing, to make ready draft report on state budget's implementation and summary report, carry out current control of financing facilities that allocated on financing of events provided in the state budget as targeted, to make provision against tp come to light state secret and confidentiality regime, to register of goods, works and services purchased by budget organizations in

treasury books as a way of controlling and so on. As well assuring Treasury carry out these duties it has some rights such as to obtain necessary documents from budget organizations to accomplish current control within its authorities, financial planning and financing of expenditures from the state budget, give recommendations to the Finance Ministry of the Republic of Azerbaijan to limit financing of organizations if they find any failure to spend allocated budgetary resources as targeted, to require statements from budget organizations and other organizations that get financial aids from the state budget monthly, quarterly, yearly statements that from the beginning of a year with a growing total, by functional, economic and *administrative* classification on the usage of facilities in an established order, to cooperate with convenient international organizations as well as state bodies of foreign states in order to exchange of practice and to evaluate treasury single account processes on the basis of international experience and so on. The head of the agency is director who appointed to and dismissed from the position by a finance minister of the Republic of Azerbaijan and s/he personally be responsible for the execution of duties assigned to the agency. Agency provides regular report about agency's activities directly to the Finance Ministry of the Republic of Azerbaijan. Another brunch of MoF according to controlling usage of budget resources in accordance with targeted expenditures is . State Financial Control Service. State Financial Control Service of the Ministry of Finance of the Republic of Azerbaijan established based on ‘measures to improve activity of the Ministry of Finance of the Republic of Azerbaijan’ decree that issued in 9 February, 2009. The main goal and duty of service is fulfilling the state financial control on the effective and purposeful usage of the funds allocated from the state budget. Control service undertake state financial control on expenditure of state budget and targeted budgetary funds resources anon debt which purchased by state guarantee and given from state budget funds. As a treasury, SFCS also has rights and duties that adjust by statute. In a case of discovering failure which have crime characteristics to send audit materials to the Ministry of Finance to present these ones to law enforcement, to make analyses in accordance with activity directions and to

make generalizations as well to prepare analytic materials, to do research on relevant fields and to give suggestions, to organize reception of citizens, to accept their oral and written appeals and to reply them about consequence. These are only little part of duties of SFCS. Also SFCS could receive essential documentaries such as accounting registers, financial documents, reports, plans, written expiations from responsible person, if it is necessary to attract experts, specialists, as well as to require tests, examinations, analyses and evaluations, to require creating necessary conditions such as provided with relevant rooms, technical equipment, telephone, stationery during the auditing process.

Lima convention says sometimes pre audit could carry out by supreme audit intuitions but it will create overdose amount of work and blurring responsibilities under public law. So it is ineffective way of auditing and only post audit is an indispensable task of every supreme audit institution. After gaining independence, fundamental changes in the socioeconomic structure and methods of economic management in Azerbaijan made it necessary to restructure financial control as an important tool of financial and economic management. Abolishment of the system of administrative domination, which regulated economic management and almost all aspects of economic activity, seriously shook the pillars of the system of financial control established in Soviet period. This system did not meet the requirements of society and socioeconomic realities, creating negative cases in practice. Thus, the fundamental economic changes in republic made it necessary to establish a holistic financial control system, which is independent of both internal financial controls and executive authorities and reports to legislature, on the basis of principles of external public audit. After gaining independence, fundamental changes in the socioeconomic structure and methods of economic management in Azerbaijan made it necessary to restructure financial control as an important tool of financial and economic management. Abolishment of the system of administrative domination, which regulated economic management and almost all aspects of economic activity, seriously shook the pillars of the system of financial control established in Soviet

period. This system did not meet the requirements of society and economic realities, creating negative cases in practice. Thus, the fundamental economic changes in republic made it necessary to establish a holistic financial control system, which is independent of both internal financial controls and executive authorities and reports to a legislature, on the basis of principles of external public audit

According to legislation, main functions:

- Chamber audits the revenue and expenditures of the state budget and extra-budgetary state funds and presents information on the irregularity discovered in the course of audit to the Milli Majlis
- To give opinion, to draft project of state budget and extra-budgetary funds, as well, to give feedback to yearly report of state budget execution and also appropriate drafts laws
- Supervises the volume, the structure, as well as the timely and targeted execution of the revenues and expenditures of the state budget
- To carry out controlling on content of state budget, extra-budgetary funds as well as Nakchivan Autonomy Republican's budget, structure of them and to spend allocated funds as targeted
- To audit and expenditures of state budget, summary budget and extra-budget state funds compliance with legislation
- To carry out local budgets expertise
- To analyses treasury budget execution in compliance with indicators of approval state budget and to present information to Milli Majlis

In connection with performing these functions, the scope of activity of Chamber also includes:

- Supervising approval and execution of the state budget
- Management of state property
- Issuance of orders with respect to such property
- Transfer of funds generated from privatization of state property to the state budget

- Proper use of funds allocated from the state budget to legal entities and municipalities
- Participating in budget process
- Control of entry receiving from management, privatization of state property to the state budget
- Expert analytic occupation
- To give opinion to draft project of state budget and extra-budget funds
- To give opinion to annual report of budget implementation and relevant draft law
- To do financial expertise of draft projects of state budget and extra-budget funds as well as international treaties which supported by Milli Majlis in accordance with requirement of Milli Majlis of Azerbaijan Republic and its committees
- To audit of financial expertise

In addition to these, Chamber of Account carry out financial-budget expertise, prepare opinion and give proposals as a require of President of Azerbaijan Republica, Milli Majlis of Azerbaijan and compotes of Milli Majlis.Audits conducted by the Chamber pay special attention to investigating proper formation and use of revenues in state-owned and private entities, as well as in big taxpayers, on the basis of revenues of the state budget and extra budgetraystae funds, evaluating internal control over the execution of tax legislation in bodies collecting revenues, examingplannig, financing and effectively using expenditures of the state budget and extra-budgetary state funds, the status of implementation of sateprogrammes on expenditure for investment, social infrastructure, science, education, health, culture, and other areas, assessing soudness of targeted programmers, eliminating gaps in legislation acts and regulatory-methodical documents, preparing propsals to improve the current legislation, expanding the database of the Chamber and achieving other important goals

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| <ol style="list-style-type: none"> 1. Leardship - 1.1 Chairman, 1.2 Deputy Chairman 2. Auditors 3. Staff- 3.1 Head of Staff, 3.2 Department Directors |
|--|

The members of Chamber of Account are chairman, deputy chairman and 7 auditors. 11 persons include to the governing board such as chairman, deputy chairman, auditors and head of the staff. And content of staff is 7 audit departments and 4 supporting departments.

Relationship between Ministry of Finance and Chamber of Account regulate based on 'The Law on budget system of the Republic of Azerbaijan'. According to this legislation, budget organizations and organizations receiving financial support of the state budget should present quarterly, monthly and cumulative statements to the Ministry of Finance. After approving by MoF these documents sanded to Chamber of Account. So that, monthly reports should prepared and submitted to Ministry of Finance by 25th of the month after the reporting month. Quarterly report of implementation of budget prepared and present to Milli Majlis and Ministry of Finance till end of the first month of the next quarter. And last one, annual report of budget execution and draft law prepared and present to the relevant executive power(MoF) and to Mill Majlis no later than 15 may of next year. Chamber of the Audit give feedback to budget execution and give proposals to the draft law till end of the may. As it clear, government try to minimize commitment between Ministry of Finance and Chamber of Account. This is due ton it can reduce transparency, correctness, effectives of SAI's work. On the other hand MoF permanantly should provide SAI with current information

3.3Improvement directions of control use of budget resources mechanism

As we learned above, Misery of Finance carries out budget execution via Treasury. Treasury is the executive power body which function is to exercise, in accordance with the legislation, ensuring execution of the state budget, cash services of all levels of budgetary system, as well as preliminary and current control over

conducting operations with funds. For the implementation of these tasks, Treasury accounts are opened based on the principle of unity of cash. But in theory budget implementation can be either a bank or treasury one. During the banking budget implementation, taxpayers' money was received on the tax authorities' account with the central bank or commercial banks. Every five days the central bank was receiving from commercial banks information on tax payments receipts payable to the state budget. This information was then transmitted to the Ministry of Finance. It was of a general nature and was not detailed in accordance with the budget classification. In parallel with this process, tax authorities collected information on tax payments credited to their account, aggregated it and passed to the Ministry of Finance twice a month.

It is clear that the data of tax authorities and the central bank might not be the same because of the lack of reconciliation in the course of their preparation. In addition, these data was not real-time. To take account these and other serious problems which happen during bank execution of budge, well to eliminate unpleasant facts as well as to increase transparency, effectiveness, efficiency Ministry of Finance have started substantial financial reforms in 1994. Under the controlling of IMF and WB MoF have made some essential changes in order to upgrade transiency and to apply the best international experience:

- To accomplish essential expense phase such as budget liability and verification
- To close local power bodies' profit and lost accounts
- To open treasury single account in State Bank of Azerbaijan

So, already in 1 august 2000 all budget execution processes fulfill with treasury in Azerbaijan. In order to ensure transparency in the utilization of state treasury government funds, treasury maintains the financial transactions of all enterprises, organizations and institutions financed by the state budget in accordance with the relevant accounting rules. All incomes and payments of extra-budgetary funds on debts received by government guarantees on state budget, extra-budgetary payments, state budget deficits and other financial transactions are carried out by the state

treasury in accordance with the law. Revenue and transaction costs of SOFAZ, expenditure funds in international banks and other financial institutions are not included into this list. The exclusive management of treasury single account belongs to the treasury. To give order to transfer or receive funds from TSA is belonging only Treasury. It is forbidden to withdraw or receive money from this account without a state treasury agreement. Although these improvements, treasury operations which exactly determine of current expenditure, budget commitment and cashier issues were not comply with IT requires. Due to this reasons, as well as with the purpose of improve treasury budget implementation, enhance transparency, establish of automatic accounting of entry funds, provide to utilization of state incomes in most effective way, strengthen to control on budget execution Ministry of Finance create ' Information System of Treasury Managements' application based on international 'SAP' software. For the time being, new applied system cover approximately 80% of budget revenue and expenditure operations. And what is the 'SAP'? SAP is the world's third-largest public software company. Systems Applications and Products in Data Processing founded in Germany in 1972. SAP accounting software is designed to facilitate the collection and enforcement of accounting data, speed up the financial process, assist in regulatory reporting, and create high quality financial statements in accordance with the required financial reporting standards. The aim of accounting is to ensure essential financial data in order to make quick and precise decisions. Besides these functions of SAP, ISTM also has additional advantages below:

- To provide controlling of budget limits
- To increase transparency in treasury operations
- To increase effectiveness and efficiency in anti-corruption measures
- To allow state organizations to make analyst, modelling, planning and preparing report
- To increase efficiency of cost management and financial control
- To supplement support of financial analyses and decision making process and so on.

Since first day's activity the Chamber of Accounts has paid special attention to creating an informational and methodological framework and learning international experience in the implementation of public financial control and in other areas concerning its mandate. In the first periods of its activity the Chamber of Account established initial contacts with state bodies and entities to carry out public audit became a member of international and regional organizations of Supreme Audit Institutions and carried out comprehensive work in the area of bilateral cooperation with similar institutions in other countries. The Chamber of Account was admitted to international organizations comprising Supreme Audit Institutions of different countries, such as INTOSAI, ASOSAI and ECOSAI in 2002. The Chamber of Accounts of Republican of Azerbaijan signed agreements on bilateral cooperation with the Chamber of Control of the Republican of Georgia in January 2003, with the National Audit Office of the UK and Northern Ireland in May 2004, with the Sais of Islamic republican of Iran, Turkey, Pakistan in April 2005 during X ECOSAI meeting in Baku, with the Accounting Chamber of Ukraine in may 2006 and son on. In addition, professional contacts have been established with the Supreme Audit Office of Czech Republican, the National Audit Office of Estonia and Chamber of Control and Accounts of Moscow. Agreements signed on bilateral cooperative intend to organize and hold external supreme audits, improve the professional training and skills of staff, conduct joint auditing activities, researches, seminars, conferences and meetings, share experience in exchanging information and documents and carry out joint audits especially in the context of growing bilateral commercial and economic relations. In the ensuring years the Chamber focused its activation effectively drafting and implementing work plans. Chamber aim to better and effectively carry out the functional and tasks specified in legislation and considering different types of audit and analytical work for establishing the necessary control mechanism over the receipt and use of state funds. According to Lima declaration, there are 3 main types of audit- legality audit, regularity audit and performance audit. First 2 audit legality and regularity are the traditional task for SAIs and developing countries, as well as

Azerbaijani too mainly focused on these 2 ones. In addition to these controls, there is also an important type of audit that examines the efficiency, economy, effectiveness and effectiveness of public administration. Performance audit encompass not only specific financial transactions, but also all government agencies covering organizational and management systems. Performance and risk-based audits most preferable audits in developed countries and international organizations are recommended to improve here 2 ones for all members. Taking account new tendency in the world, Chamber of Accounts carried out 4 pilot audits in 2014. 2 pilot audits of risk-based financial audit and 2 pilot audits of performance audit. Chamber has carried out comprehensive work in line with the state programs adapted to strength the fight against corruption and to minimize deficiency during budget execution. The leadership of the Chamber of Accounts has set strict requirements for recruiting, employing and training competent staff, Special attention has been paid in recent years to improving the professional level of staff, ensuring their observance of the requirements of the existing legislation, internal discipline and ethical rules and replenishing the staff of the Chamber with highly qualified personnel in order to improve audit activities. Publicity also is one of the important principles in the activities of Chamber of Account. The Chamber regularly provides information on its work to the media and presents its activity reports to the Milli Majlis and publishes them. Updates are posted on the official web site of the Chamber of Accounts. Accepting transparency and publicity as its key operation principles, the Chamber regularly posts relevant information on its audits and current activities on the website and pay special attention to the fullness of such information especially last 2-3 years. For instance, the Chamber has improved its website and introduced its English language version over the past 2 years. As a result of strict work, significant achievements have been gained in this area in 2011. So, the website of the Chamber of Accounts was awarded a fourth place and a special diploma in May 2011 by the Media Rights Institute for its breakthrough in the Institute's Online Transparency monitoring and won a second place in the monitoring of the official websites of

government authorities and municipalities by the Multimedia Centre of Information System and Technologies for a period from 01 December 2010 to June 2011. Special attention has also been paid to the provision of the Chamber with information technologies during the its period of activity as well as for carry out IT audit in the future Chamber were developed relevant regulatory about IT audit

Total amount of repayable funds to the state budget between 2014-2016

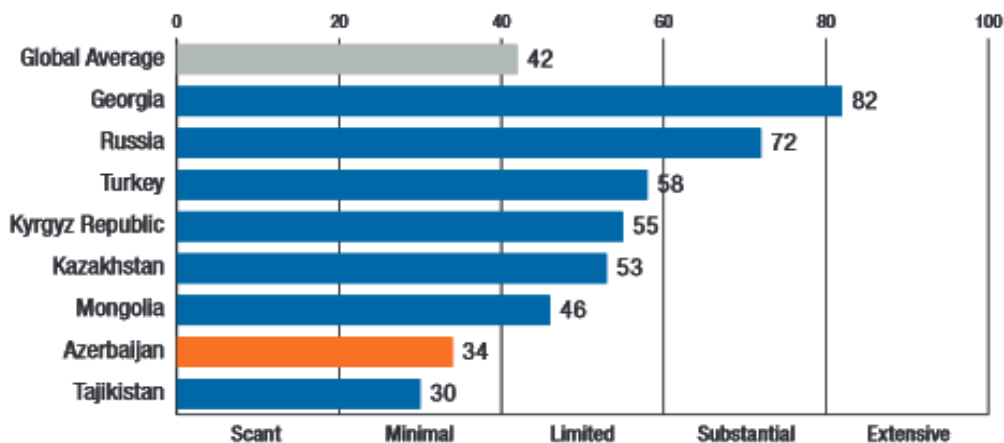
	2014	2015	2016
AZN (min)	9683,9	10268,7	11256,4
US \$ (min)	7,5	0	75,0
Euro (min)	47,1	60,2	17,8

5. Conclusion and suggestions

A budget is a spending plan based on expected revenue that sets priorities for the quantity and quality of services to be provided and/or the transfers to be made. It includes a revenue forecast, expenditure forecasts and appropriations for continuing funding of existing projects and outlays for new projects, and a procedure for funding any deficit or allocating any projected surplus. And one of the irreplaceable prerequisites for good functioning of a modern democratic state is the being of an independent audit body that controls its economic activities. The Supreme Audit Office oversees the financial management of state property and financial funds received from abroad. Expresses his opinion on the state final account and supervises the implementation of the state budget. Current and post audit is an indispensable

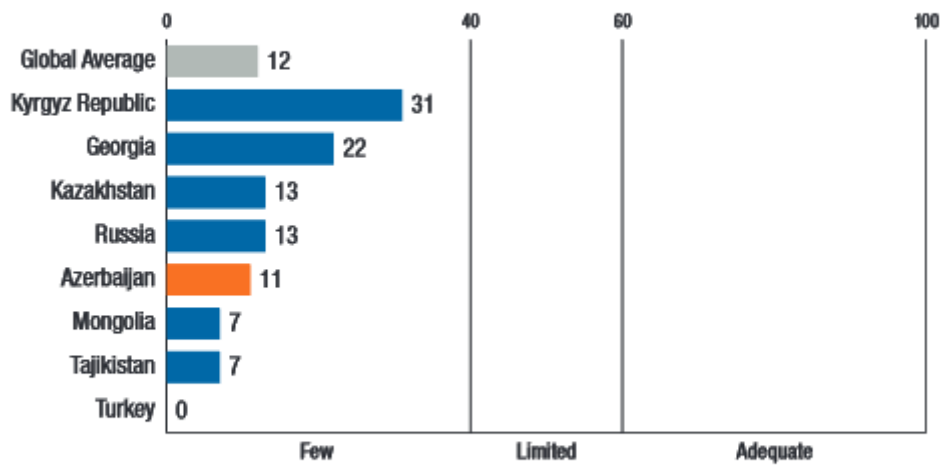
condition for the budget of each country to increase effectiveness, transparency and accuracy in the budgeting process. Both pre-audit and post audit organizations, which operate in different countries in different names, are essentially performing the same function, and therefore, there is no problem with their single-source system verification. It is important to check the activities of the authorities responsible for auditing budgetary activity, which is normally carried out by international organizations. The Open Budget Survey (OBS) assesses whether governments in 115 countries emulate and disseminate well rounded and actual dates to the public in eight essential documents as recommended by long-distance good practices. It also analyzes official budget oversight, as well as chances for public attendance in national budget decision making. There are 3 main aspects-transparency, public participation and budget oversight. According to OBS 2017 report for Azerbaijan, Azerbaijan got 34 out of 100 for transparency in budget system, 111 out of 100 for public participation in budgeting process and 63 out of 100 for budget oversight thanks to Supreme Audit Institution and legislation.

How does budget transparency in Azerbaijan compare to others?



Azerbaijan's score of 34 out of 100 is moderately lower than the global average score of 42.

How does public participation in Azerbaijan compare to other countries in the region?

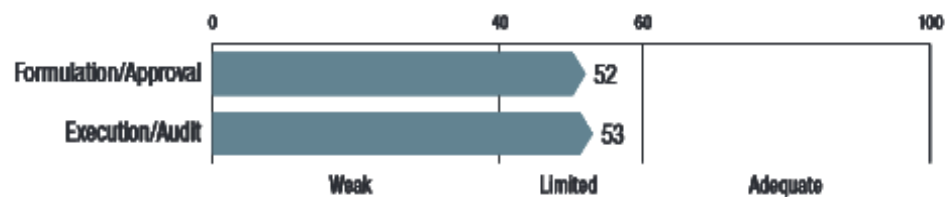


Azerbaijan's score of 11 out of 100 indicates that it provides **few** opportunities for the public to engage in the budget process. This is lower than the global average score of 12.

The OBS analyze the importance that legislatures, SAIs, and IFI in the budget process and appoint that which of them to ensure more effective oversight of the budget. These institutions has an urgent role- frequently enshrined in national settlement of law or on other word constitutions- in planning budget and to take under control their execution. These points were inspected to better assess the importance of official oversight institutions in providing completeness and accountability in the utilization of public funds. Therefore, information on the part and effectiveness of oversight institutions in the OBS 2017 should not be compared straight to data of previous publications. The core obstacles to effective legislative overseeing are:

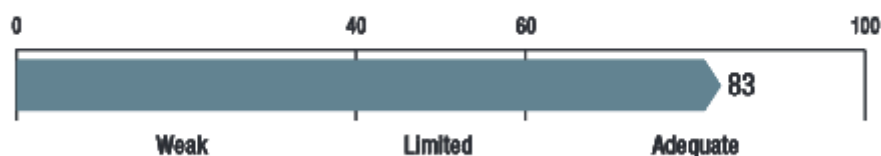
- The executive's budget suggestion is not ensuring to legislation minimum 2 months ago the start of budget year.
- The legislative committee do not exam and print reports on their parsing at the relevant web-site.

To what extent does the legislature in Azerbaijan provide budget oversight?



The legislature provides **limited** oversight during the budget cycle. This score reflects that the legislature provides limited oversight during the planning stage of the budget cycle and limited oversight during the implementation stage of the budget cycle.

To what extent does the Supreme Audit Institution in Azerbaijan provide budget oversight?



The supreme audit institution provides **adequate** budget oversight.

- Under the law, it has full discretion to undertake audits as it sees fit.
- Moreover, the head of the institution is appointed by the legislature or judiciary and cannot be removed without legislative or judicial approval, which bolsters its independence.
- Finally, the supreme audit institution is provided with sufficient resources to fulfill its mandate, but its audit processes are not reviewed by an independent agency.

As we observe, only budget oversight is at a heartwarming level because, Chamber of Account from first to the for the time being try to gain maximum profit from its activities and effort to adjust both legislative base and audits to international level. Unfortunately, we could not say same things for Ministry of Finance. Non-disclosure of budget revenues and expenditures as well as audit results to the public, both in English and in the Azerbaijani language, the presence of poor content and non-existence of necessary materials, as well as the absence of risk management in

the drafting of the draft budget, and inadequate public relations during preparing the draft budget are just simply part of the total problems. And how can Azerbaijan improve level of transparency? Below i have mentioned some recommendations which personally belief if Azerbaijan will prioritize the following actions condition will be change to the better:

1. Continue and extend to download Citizens Budget to online web-site both ministry of Finance and Chamber of Account timely manner
2. Prepare and introduce a Pre-Budget Statement and mid-year review
3. Ensure more comprehensively information in the Executive's Budget Proposal for spending by administrative monad and by programs, with forecasts for the previous year to the budget year and minimum 2 years after the budget year and including supplemental data linking spending suggestions to policy priority

Along with them, unfortunately, in Azerbaijan doesn't exist Independent Fiscal Institution (IFI). They are increasingly recognized as an essential origin of independence and neutral knowledge.



How can Azerbaijan improve participation?

Azerbaijan should prioritize the following actions to improve public participation in its budget process:

- Pilot mechanisms for members of the public and executive branch officials to exchange views on national budget matters. These mechanisms could build on innovations, such as participatory budgeting and social audits. For examples of such mechanisms, see www.fiscaltransparency.net/mechanisms/.
- Hold legislative hearings on the formulation of the annual budget, during which members of the public or civil society organizations can testify.
- Establish formal mechanisms for the public to participate in relevant audit investigations.



How can Azerbaijan improve oversight?

Azerbaijan should prioritize the following actions to make budget oversight more effective:

- Ensure the Executive's Budget Proposal is provided to legislators at least two months before the start of the budget year.
- Ensure a legislative committee examines and publishes a report on the Audit Report online.
- Ensure audit processes are reviewed by an independent agency.
- Consider setting up an independent fiscal institution.

Applying these new ways to the national control system of budget implementation will undoubtedly create a transparent and balanced budgeting system, which, in turn, will have a great positive impact on the economy so daily lives of

people in the country. As a Sheila Fraser- Audit General of Canada said ' I trust that these methods will assist SAIs in strengthening their independence and thereby, assist their legislatures in meeting the increasing public demand for oversight and accountability'.

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