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PROBLEMS

AND PROSPECTS IN DEVELOPING THE AUDITING SYSTEM IN AZERBAIJAN

PROBLEMAS Y PERSPECTIVAS EN EL DESARROLLO DEL SISTEMA DE AUDITORÍA EN AZERBAIYÁN

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ABSTRACT

Audits are an important process in various fields, be it in companies, in the government sector, in industry, etc. Some of the most important reasons why audits are carried out are: verification of efficiency and effectiveness, detection of fraud and irregularities, compliance with regulations, and the improvement of transparency and trust. Considering its importance, the aim of this paper is to analyze the problems and prospects in the development of the audit system in Azerbaijan. To this end, the paper discusses general aspects such as the functions and strategic role of auditing in the financial control system, while conceptual approaches and theoretical-methodological characteristics related to the formation and development of the financial control system are reviewed. audit. In the conditions of increasing financial risks worldwide, the importance of auditing is indicated to increase the transparency of economic development processes and ensure the integrity of financial reports, emphasizing the strategic role of the audit service in the implementation of the economic policy of the state and the intended use of budget funds. Considering the peculiarities of Azerbaijan, the process of establishment and development of its audit system as an independent state and the participation of economic, commercial organizations and state structures in the audit are discussed. Finally, the problems that delay the development of these processes in Azerbaijan are explained and proposals and recommendations for their elimination are provided.

Keywords: Azerbaijan, audit system, challenges and opportunities.

RESUMEN

Las auditorías son un proceso importante en diversos campos, ya sea en empresas, en el sector gobierno, en la industria, etc. Algunas de las razones más importantes por las que se realizan las auditorías son: verificación de la eficiencia y eficacia, detección de fraudes e irregularidades, cumplimiento con la normativa, y la mejora de la transparencia y la confianza. Teniendo en cuenta su importancia, el objetivo de este trabajo es analizar los problemas y las perspectivas en el desarrollo del sistema de auditoría en Azerbaiyán. Para ello, en el trabajo se discuten aspectos generales como las funciones y el papel estratégico de la auditoría en el sistema de control financiero a la vez que se revisan los enfoques conceptuales y las características teórico-metodológicas relacionadas con la formación y desarrollo del sistema de auditoría. En las condiciones de aumento de los riesgos financieros a nivel mundial, se indica la importancia de la auditoría para aumentar la transparencia de los procesos de desarrollo económico y garantizar la integridad de los informes financieros enfatizando el papel estratégico del servicio de auditoría en la implementación de la política económica del estado y el uso previsto de los fondos del presupuesto. Considerando las particularidades de Azerbaiyán, se discute el proceso de establecimiento y desarrollo de su sistema de auditoría como estado independiente y la participación de las organizaciones económicas, comerciales y las estructuras estatales en la auditoría. Finalmente, se explican los problemas que retrasan el desarrollo de estos procesos en Azerbaiyán y se aportan propuestas y recomendaciones para su eliminación.

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INTRODUCTION

Under the increasing global threat conditions, novel approaches and more effective control mechanisms are needed in the movement of financial and investment flows around the world, in the efficient use of these funds, and in improving management mechanisms. Moreover, global risks in the world economic and financial systems have increased considerably in our modern age. Thus, the negative effects of the world fiscal crisis that started at the end of 2008 have not been eliminated yet. Before the negative effects of this global crisis subsided, the consequences of a new global and dangerous crisis - the Covid-19 coronavirus pandemic has appeared (Albitar et al., 2020). This crisis has led to the further limitation of financial resources, the creation of added costs, the increase of losses, the weakening of the growth rate of national economies, and the diversion of funds from their intended use.

The maximum efficient use of financial resources, increasing the productivity of economic activity processes, expanding the taxation base, intensifying investment flows, using the funds distributed for large projects as intended, improving budget control, and thus the principles of transparency and accountability have become more relevant in the economy and especially in financial activity processes. The need for effective control mechanisms has increased in such conditions.

Considering Azerbaijan regained its independence after the fall of the former USSR the attributes of statehood are still gradually strengthening. It would be wrong to say that we have completely transitioned to the principles of the market economy. For this, it is enough to list the serious problems that stand out: 1) it is so premature to add about economic stability, and the quality and quantity of the structure of the national economy has not yet been improved or strengthened; 2) it is difficult to opine that the resources of various promising areas of the country's economy are used efficiently; 3) monopoly remains in some areas of the national economy; 4) the process of forming the principle of transparency in economic and the financial sphere has just started; 5) despite the transition to international accounting standards, there are problems with accounting integrity and financial accountability; 6) there is tax evasion; 7) a significant part of market economy subjects operating in the country are exempt from supervision and audit analyzes are not conducted and so on.

These are just the tip of the iceberg. The young independent state of Azerbaijan is still gaining experience to have sharper and stricter financial control tools and auditing mechanisms (Abbasov, 2013). Mechanisms for combating the "shadow economy", and in general anti-corruption

and anti-bribery mechanisms are quite weak, and there are gaps in legislative acts. Some of those who plunder the total amount of state funds, particularly budgetary funds, and divert them from their intended use, are not held accountable and their punishment mechanisms are weak. Thus, because of loopholes in the law, those who plunder budget funds are lightly punished, or after receiving punishment, they are soon granted clemency. So, the reduction of corruption factors is slow, and the healthy development of the economy is prevented.

In our opinion, an impartial and objective audit can act as a more efficient financial and control mechanism in these processes (Dao et al., 2019). Therefore, it is necessary to develop an effective and efficient auditing system in the country (Barac et al., 2021). What are the problems in this area? Which auditing mechanisms should be preferred? Are there any unused resources in the development of the auditing system? Or have the audit activity mechanisms and working models of auditing, which have proven themselves in world experience, not been examined and evaluated? Surely, in view of the strategic tasks facing the young state, its financial control and auditing system, it is important to find adequate and well-discussed answers to such questions, or rather to assess their effectiveness (Bergh et al., 2016). So, to what extent is the state interested in strengthening financial control mechanisms, particularly in the functioning of the auditing system? This question is of foremost importance. The more open political leaders and leaders of economic and financial blocs are to the principles of transparency and honesty, the more these will be reflected in the state's policy. And this will also be reflected in the practical financial control tools, mainly in the objectivity and impartiality of the auditing mechanisms and auditing system (Goicoechea et al., 2021).

Considering this the objective of this work is to analyze the problems and prospects in developing the auditing system in Azerbaijan. It is important to highlight that the definition of the methodological principles and choosing methodological styles in drafting this article was quite complicated since the auditing system in Azerbaijan has not yet reached an intensive development level. The Chamber of Auditors running in the country functions as an official state body, that is, the Chamber of Auditors of the Republic of Azerbaijan does not run as an independent, impartial, and objective auditing service. Then, we considered it important to analyze, synthesize and generalize the current situation, to formulate opinions based on the authors' approaches, and to highlight the positive role of the auditing system in the market economy by approaching the established approaches, development

processes and actual empirical base of the existing auditing system in the country.

Taking into account the world experience, we analyzed the development processes of auditing in the developed countries of the world, especially in the United States and European countries, gave brief comments in this direction and generalized. In addition, we have prioritized approaches to the formation and development of the auditing system in Azerbaijan, which regained its independence after the fall of the USSR, the creation of the legislative framework of the auditing system, and the factors deciding the auditing service in the country. Apart from that, we have emphasized the role and importance of audits in increasing the transparency of national economy development processes in the country, and in the integrity of financial reports and accounting. Thus, the article mainly focuses on the processes of development of the auditing system and related approaches, the tasks and realities arising from the legislative framework for the regulation of auditing and auditing activities, as well as the factors deciding the development of the auditing system in the modern era and the development prospects in this field.

DEVELOPMENT

Global audit experience

In history, there is information about the origin of auditing in China 700 years before our era. But the audit development processes took place mainly in Europe from the 12th-13th centuries, and audit activity was formed as a necessary type of service. For instance, the official appointment of auditors in Oxford, Berkshire and other counties, especially in the Kingdom of England, began in 1324. The main purpose was to use the services of auditors to keep the accounts of traders and merchants spending money accurately. Later, the processes related to the development of auditing were copied in the United States, and in 1937, the law on audit activity was adopted. Thus, the legal basis of the audit has been set up. Since the 1970s, worldwide auditing has been increasingly recognized as a way of keeping the principles of transparency and accountability in the economy.

The role of audit controls and audits in how companies and firms follow the principles of transparency and accountability in the United States is quite extensive. As a result, the causes of occurrence of various risks are analyzed and added measures are taken to reduce their negative effects. The audit mechanism is mostly needed in the implementation of the economic policies of the states in the world and in ensuring the proper use of budget funds. In this regard, the efficiency of audit activity, the high

professionalism of auditors, and the protection of the principles of independence and impartiality during auditing are significant (Iain & Stuart, 1989).

In addition, the audit institute is widely used as an effective control mechanism for the extensive analysis of financial and economic activity (Fogarty & Kalbers, 2000). Different audit concepts and usage methods have been created in these areas. Due to effective practical mechanisms of audit, the opportunities to decide the integrity of accounting and financial statements of market economy subjects and to increase transparency in their activities are more principal issues (Agostino et al., 2022). As a result of the further development of the audit institute in the world and the strengthening of the efficiency of the audit activity, increasing the transparency in the economy and society and ensuring the accountability of financial resources has come to the fore: 1) in the modern era, the audit institute is widespread all over the world; 2) the audit institute is effectively used for the analysis of financial and economic activity; 3) it is monitored whether the financial resources are used as intended; 4) wastefulness is prevented in the processes of using financial and credit resources; 5) problems on the efficient use of financial resources are identified and thus the shortcomings are eliminated. In international practice, the development of the auditing system, the determination of the working principles of the audit and the development of standards and rules have been realized. According to world experience, one of the important functional tasks of auditing is keeping the principles of independence and freedom.

If these principles are followed, the problems of increasing accountability and transparency in economic development processes can be resolved more quickly due to the effective functioning of the audit. In these processes, within the principles and criteria of the audit, the framework of authority and the principle of accountability related to the activity of the audit and the goals, aims and tasks set during auditing are specially considered. From the perspective of these factors, a group of issues should be considered in particular: 1) taking measures to develop the audit institute; 2) optimization of principles and criteria of audit inspections; 3) improvement of audit activity mechanisms in accordance with the challenges of the time; 4) increasing the professional level of auditors; 5) effective use of the capabilities of a multifunctional activity mechanism such as audit in ensuring the transparency of the business environment; 6) more profitable implementation of entrepreneurial activity and creation of added value; 7) effective management of resources of society and economy due to audit activity; 8) identifying unused natural resources

and incorporating national resources into economic and financial circulation, etc.

Audit also has a strategic role in developing financial statements at exacting standards and ensuring the integrity of accounting reports (Swanson, 2010). The role of the audit institute is great in solving complex issues such as objective and honest calculation and collection of taxes in various fields of the economy and increasing the transparency of related processes, ultimately strengthening the competitiveness of the country's economy, solving socio-economic problems and raising the standard of living of the population. Such issues play a significant role in international practice. Thus, the integrity of developed projects and reports is of foremost importance, and auditing has a positive effect on the formation of profitability indicators of business entities.

Audit creates additional incentives to increase the competitiveness of market economy issues by fulfilling important functions in strengthening the economic development model and fiscal discipline based on market economy mechanisms (Omoteso, 2016). Audit activities and audit inspections have an exceptional role in the development and implementation of control mechanisms in these areas, in ensuring the objectivity and integrity of accounting and financial reports, in detecting defects in economic activity processes and in cases of violations of legal requirements, in uncovering sources of reserves, in the world experience. The role of audit is much greater in strengthening accountability and increasing transparency in the economy and society, public and private structures (Abbott et al., 2012). Audit not only functions as a control, but also acts as an entrepreneurial entity, contributes to the increase of economic activities, creates added value and is characterized as a field of economic activity.

In world experience, the efficient organization of economic processes and the preparation of more optimal and functional mechanisms, the integrity of financial and accounting documents are among the subjects that are the focus of attention with their importance in the modern age. The basic approach consists in setting up a more reliable control system of the use of financial resources necessary for the efficiency of economic activity and the implementation of the planned works. Many important goals and aims have been specified in the effective organization of auditing at the international level and its use in increasing transparency in economic processes. The efficiency indicators of the audit are mainly related to the criteria and indicators, such as conducting analyzes that allow removing the activity of the object or field from the defective and stagnant conditions, carrying out examinations, formulating serious arguments at the expense of evaluations,

and systematizing the basis for making decisions aimed at new goals. In terms of these factors, international practice emphasizes the choice and improvement of audit efficiency indicators. Additionally, the audit should be impartial and support objectivity to the maximum extent possible. However, according to the general opinion of international experts and researchers studying the efficiency of the audit institute, in most countries of the world, especially in economically developing countries, the audit institute has difficulty in running independently, and basically, they prefer to organize audit inspections following the economic policy of their states.

Legal framework for audits in Azerbaijan

The Chamber of Auditors of the Republic of Azerbaijan deals with the development and future of the audit system in Azerbaijan. This Chamber was set up following the Law of the Republic of Azerbaijan No. 882 dated September 16th, 1994 "On Auditor Service" to organize the state regulation of auditor service in the country, to prepare drafts of normative acts in this field and a system of measures aimed at the development and improvement of auditor service in the Republic of Azerbaijan, to defend the interests of the state, economic entities and auditors (auditor organizations) and to monitor compliance by auditors (auditor organizations) with the requirements arising from this Law, other legislation and normative legal acts in their activities.

The Chamber of Auditors is an independent financial control body, and its main task is to organize the work of the auditor service in the republic to ensure exact and honest financial and accounting in all economic entities, regardless of the form of ownership, and to implement measures to improve its development and operation following the current legislation. The principal functions are to organize and regulate the work of the auditor service in the country, to issue licenses for independent auditors and audit organizations and to control their work and compliance of the charters of auditor organizations with the Law of the Republic of Azerbaijan "On Auditor Service", to keep records of independent auditors and audit organizations, to develop and approve the forms of the auditor's opinion on the financial and accounting reports of the economic entity, various report forms on the work of independent auditors and auditor organizations, to give auditor's opinions on the correctness of property valuation of economic entities in connection with the privatization of state enterprises or other purposes. On June 26th, 1999, upon the request of the Chamber of Auditors, the "Audit-Azerbaijan" section of International Internal Institute of Auditors in Azerbaijan has been set up for the first time within the CIS.

In the last 10 years, consistent measures have been taken in Azerbaijan to develop the audit institute, to train professional auditors, to expand the services of auditors and to increase the efficiency of the use of financial resources in various fields of the national economy. In connection with the implementation of International Accounting Standards in Azerbaijan, measures are taken to raise the accounting and financial reporting approaches to a new level and strengthen financial discipline in matters of economic activity in general in all fields. On June 29th, 2004, the Law of the Republic of Azerbaijan "On accounting" was adopted, considering international legal norms, international approaches and standards in the field of accounting. In addition, On January 13th, 2004, the Law of the country "On Combating corruption" was adopted. On June 24th, 2005, "Rules for submission of financial information by officials" was approved. In 2004-2006, the "anti-corruption state program" was implemented. "National strategy on increasing transparency and anti-corruption" was approved by the Decree of the President of the country dated June 28th, 2007. In these processes, the issues of strengthening the role of audit, developing the audit service, and regulating the auditor's activity were kept in special attention.

In Azerbaijan, a legal basis has also been set up for the dissemination of audit services on market economy issues by international practices. On May 22nd, 2007, the Law of the Republic of Azerbaijan "On Internal audit" was adopted. On February 23rd, 2009, by the Decree of the President of the country, the Law "On the Prevention of the legalization of criminally obtained funds or other property and the financing of terrorism" was implemented. In addition, the "National anti-corruption action plan (NACAP) 2012-2015" was implemented. As a result of such measures, more efficient conditions were created for the effectiveness of the auditing system in Azerbaijan, measures were taken to strengthen macroeconomic and macro-financial stability, fiscal and economic discipline was ensured, and new targets for the development of the national economy were set. In the "Strategic roadmaps on national economy and main sectors of the economy approved by the Decree of the President of the country dated December 6th, 2016, the priorities of creating an environment of accountability and transparency that allows the economic activities of the country to work efficiently and expanding the role of the audit service in these matters were reflected (Gasimov, 2017).

During the Covid-19 epidemic, measures to strengthen fiscal discipline, increase transparency in the tax field, and eliminate bureaucracy and bribery were systematized, and most of the services are carried out based on electronic and digital technologies. During this period,

the "National Action Plan (NAP) on the Promotion of Open Government for 2020-2022" dated February 27, 2020, signed by the President of the country, was approved. Moreover, The Decree of the President of the Republic of Azerbaijan dated October 11th, 2021 "On improving management in state support for the development of entrepreneurship" is of foremost importance. In recent years, The Chamber of Auditors of the Republic of Azerbaijan has taken successive measures to strengthen the responsibility of auditors, to develop methodological approaches for measuring the volume of the "shadow economy", to provide practical assistance to audit firms in connection with the implementation of international auditing standards, to draft audit programs in the field, and to develop guidelines for conducting and documenting audits.

Challenges to achieve effective audits in Azerbaijan

It is important to note that the audit is an independent review and statement of opinion on the entity's financial statements. Although not mandatory, supervision is certainly important. Under market conditions, enterprises, credit institutions, and other economic entities enter contractual relationships for the use of property, funds, commercial operations, and investments. These relationships' credibility should be supported by the ability to receive and use financial information by all participants in the transactions. The reliability of the information is verified by an independent auditor (Alles, 2015). Owners and collective owners - shareholders, and creditors, cannot independently verify that all the enterprise transactions, which are many and overly complex, are legally and correctly reflected. Therefore, they need the services of auditors. For most enterprises, the decision to conduct a mandatory inspection helps improve the audit itself. Moreover, audit-related services play a key role in the development of audit activities (Hajiyev, 2016). Audits are necessary for all organizations to figure out the reliability of financial statements. The concept of audit is broader than other forms of control. Because it includes verification of the reliability of financial indicators and the development of assumptions for improving the economic activity of enterprises to rationalize expenses and optimize taxes. In economic terms, audit is a special form of organizational control, which is one of the functions of management.

In macroeconomics, auditing is an element of the market infrastructure, and the auditing service can supply audit-related services as well as verifying the reliability of financial statements. Processes and services related to audit include: 1) organizing, restoring and conducting financial accounting, drawing up financial reports, providing advice on financial accounting; 2) tax advice, creation,

recovery and maintenance of tax accounting, preparation of tax calculations and declarations; 3) analysis of financial and economic activities of organizations and individual entrepreneurs, providing economic and financial advice; 4) evaluation activity; 5) development and analysis of investment projects and business plans; 6) studying and conducting experimental work related to audit activities, disseminating their results in paper and electronic media; 7) training in areas related to audit activity; 8) marketing research and 9) automation of financial accounting and application of information technologies, etc. The goals and tasks of audit are quite multifaceted, and given the scope of its various functions, the main tasks of the audit can include: 1) verification of the legality of financial and economic transactions; 2) verification of financial accounting and reporting status; 3) verification of the reliability of the most important reporting indicators, including the balance sheet, profit and loss statement; 4) examining economic activity to identify in-production resources; and 5) checking the use and effectiveness of resources (labor, finance, materials).

In modern times, the interest in the implementation of corporate governance standards is increasing every year and national economic institutions in Azerbaijan prefer to run in more transparent conditions following the basic principles of the market economy and attach importance to the evaluation of the results of their activities by professional auditing institutions. Such audits and assessments play a significant role in figuring out the deficiencies in the studies of economic activity, revealing the reserves and deciding the strategic action strategies for the future. As a result of auditing, the positive and negative aspects of the economic activity are evaluated objectively and serious substantiations are obtained by the senior management to take the necessary management decisions (Muradov, 2017).

For these to be implemented, it should be emphasized that the transparency priorities in all areas of the country should be considered at an elevated level and the importance of honesty in following the principles of accountability of economic activity issues. Accountability and transparency are not simple issues. By creating productive conditions for efficient activity in economic development processes, they supply more income, creation of added value, creation of new financial resources, maximum favorable investment environment, and intensity of investment flows to the country.

In recent decades, economic reforms have been successfully carried out in Azerbaijan. The economic activity growth was achieved in the largest cities and regions of the country, financial credit, and banking systems have

been implemented, the transparency of the use of financial and investment resources has been increased, the provision of financial reports and accounting documents, in general, has been strengthened in accordance with the requirements of the legislation, the financial discipline in the public and private sector has increased, and the activity of the audit service has been a priority in all these processes as established by the Law of the Republic of Azerbaijan "On Auditor Service" adopted on September 16th, 1994. In this Law audit is defined as "the independent verification of exact and honest accounting and financial matters and prepared reports in economic entities engaged in the production and sale of goods, service provision, and activity" but looked at from a broader perspective, the main task of auditing is to independently study accounting and financial statements defined by legislation and international standards and to figure out their objectivity and integrity.

In the new conditions caused by global influences and threats, increasing the efficiency of economic activity processes, using resources sparingly, focusing on the intended use of financial resources, controlling the level of integrity of those with financial obligations in fulfilling their duties, in short, deciding and assessing the adequacy of the measures and activities carried out in relation to the realization of the set tasks are characterized as principal issues. Accountability is important in these processes as well as preparing reports following the current legislation is important in preventing errors and fraud. Furthermore, in economic activity, society and in the national economy and public and private structures, the preservation of transparency and compliance with the principles of transparency create additional incentives for the balanced development of society and the state, strengthening of macroeconomic and macro-financial stability, increasing the efficiency of economic development processes, and forming a healthy competitive environment.

To ensure efficiency in various areas of the economy in the conditions of global challenges, methodological approaches to strengthening the role of audit should be carefully selected. It is important to analyze their advantages and use them in practice: 1) first, attempts should be made to clarify and improve the legal regulations of auditing; 2) maximum substantiation and sequence planning of auditing, determination of rules and principles, preparation and approval of inspection procedures are particularly important conditions; 3) during the audit, it is important to provide the instructions to the persons in charge of the audited objects in time, to have improved versions of these instructions in the auditors, to necessarily approve those instructions by the organizations that decide on auditing,

and to ensure the principle of a systematic approach to auditing; 4) a comprehensive approach to the audit of the audit subject should be provided and related criteria should be defined, consideration of accounting requirements and related principles should be kept in focus; 5) methodologically, criteria and principles for determining the integrity of financial and accounting reports related to market economy subjects should be clear, drawn up in accordance with legislation, and they should not repeat each other; and finally; 6) it should be ensured that the auditors participating in the audit are independent, as well as acting impartially, maintaining objectivity when writing an opinion on the results of audit, and preparing proposals for the higher management bodies to take appropriate measures accordingly, etc.

Note that the Law of the Republic of Azerbaijan "On Auditor Service" was adopted in 1994 for the formation and development of an audit institute in Azerbaijan. After the adoption of this law, the institutional foundation of the audit institute was laid in Azerbaijan, the establishment of audit firms and the legal and economic basis for the execution of audit services were set up. In a brief time, the audit service has become the focus of attention as an important control mechanism needed in all areas of the economy, and the role of the audit service has increased in increasing the transparency of the economic development processes and the financial system and increasing the accuracy of the accounting financial reports to the required level in our country. In addition, there are state audit and state financial control mechanisms that have developed significantly in recent decades. However, there are issues contrary to the legislation and encourage the development of the informal economy, and it is important to detect these in a time and take adequate measures. It is necessary to take measures to improve the implementation mechanisms of economic reforms, state-important projects and national programs, and to regulate them by legislative acts, including tax legislation. As a result of auditing, the weak aspects related to these are revealed, and adequate proposals and recommendations are made for taking measures.

Statistical data from areas where we see a need for mandatory and needed audit inspections are presented next. We have efforted to present our views on the necessity of the role of audit in increasing accountability and transparency in various fields of activity, including the finance and credit system in Azerbaijan, as well as in several specific areas. In some areas, large amounts of financial resources circulate, public funds are spent, but they are not involved in alternative and independent audits.

In Table 1, the dynamics of recorded crimes related to economic activity in Azerbaijan during 2010-2020 are shown.

Table 1. Crimes related to economic activity in Azerbaijan in 2010-2020

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of recorded crimes - total	982	853	685	1 072	1 576	2 553	914	1 058	1 156	1 244	938
including:											
illegal and fraudulent business	35	25	21	75	72	101	37	9	47	21	11
total, as a percentage	3,6	2,9	3,1	7,0	4,6	4,0	4,0	0,9	4,1	1,7	1,2
producing, possessing or selling counterfeit money or securities	32	38	12	25	31	45	33	22	38	27	39
total, as a percentage	3,3	4,5	1,8	2,3	2,0	1,8	3,6	2,1	3,3	2,2	4,2
smuggling	250	206	190	222	252	303	285	374	559	709	377
total, as a percentage	25,5	24,2	27,7	20,7	16,0	11,9	31,2	35,3	48,4	57,0	40,2
misleading consumers or manufacturing and selling poor quality products	19	10	6	13	14	11	22	8	18	32	32
total, as a percentage	1,9	1,2	0,9	1,2	0,9	0,4	2,4	0,8	1,5	2,6	3,4

tax evasion, avoidance of unemployment insurance payment, compulsory health insurance premium or compulsory state social insurance premium	594	540	408	696	1142	2013	356	496	246	225	263
total, as a percentage	60,5	63,3	59,6	64,9	72,5	78,8	38,9	46,9	21,3	18,1	28,0
Other crimes	52	34	48	41	65	80	181	149	248	230	216
total, as a percentage	5,2	3,9	6,9	3,9	4,0	3,1	19,9	14,0	21,4	18,4	23,0

Source: Compiled based on data of SSCRA - <https://www.stat.gov.az/source/crimes/>

According to Table 1, the number of major crimes was mostly higher in 2014-2015. In those years, oil prices were falling rapidly in the world markets, the pressure on the financial and credit system in the country was increasing, the level of transparency in the tax and customs systems was not at the desired level, and there were problems in ensuring accountability. These have undoubtedly been reflected in economic crimes. Table 2 shows the number of people who committed crimes in the field of economic activity in Azerbaijan between 2010 and 2020, by types of crimes, and more criminals were found in the areas of economic activity - tax and social.

Table 2. The number of people who have committed crimes in the field of economic activity in Azerbaijan in 2010 and 2020, by types of crimes.

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
The number of people who have committed a crime - total, person	397	497	502	571	655	1 151	689	585	506	702	465
of them:											
smuggling	86	50	65	78	101	133	151	209	207	383	156
producing, possessing or selling counterfeit money or securities	30	15	13	16	13	28	38	19	25	18	20
tax evasion, avoidance of unemployment insurance payment, compulsory health insurance premium or compulsory state social insurance premium	221	389	373	403	472	899	351	179	110	122	108
misleading consumers or manufacturing and selling poor quality products	9	6	4	16	13	10	7	5	6	13	40

Source: Compiled based on data of SSCRA - <https://www.stat.gov.az/source/crimes/>

Table 3 shows the structure of the income and expenses of the state budget in Azerbaijan for the years 2010-2020. According to the data, the incomes and costs of the state budget in our country have increased in recent years. However, we believe alternative audit opinions and evaluations of state budget incomes and costs are needed.

Table 3. The structure of the income and expenses of the state budget in Azerbaijan for the years 2010-2020, in million manats

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total income	11403,0	15700,7	17281,5	19496,3	18400,6	17498,0	17505,7	16516,7	22508,9	24398,5
including:										
Personal income tax	590,2	715,7	813,0	859,7	980,3	982,5	1145,7	1040,3	995,9	952,1
Profit (income) tax of legal entities	1429,9	2134,0	2252,0	2374,8	2302,7	2211,1	1983,2	2285,9	2499,7	2546,0
Land tax	35,3	35,3	30,6	33,1	35,4	48,7	50,3	50,4	50,6	50,0
Property tax	101,8	103,9	105,1	125,1	141,3	148,2	174,7	178,6	182,2	212,6
Value-added tax	2082,5	2222,7	2366,9	2710,0	3119,6	3454,7	3623,5	3668,6	4287,6	5185,1
Excise tax	514,9	480,2	531,5	593,3	797,3	647,8	625,1	612,6	728,6	854,7

Mining tax	130,1	129,8	125,8	121,5	116,2	116,1	110,3	111,1	137,4	133,8
Taxes on foreign economic activity	291,8	433,1	592,5	675,2	684,7	934,5	861,2	903,0	1143,7	1343,2
Other taxes	90,3	140,6	157,6	161,5	192,7	247,7	457,0	505,7	561,6	477,5
Other inputs	6136,2	9305,4	10306,5	11842,1	10030,4	8706,7	8474,7	7160,5	11921,6	12643,4
Total costs	11765,9	15397,5	17416,5	19143,5	18709,0	17784,5	17751,3	17594,5	22731,6	24425,9
including:										
Economy	4889,9	6803,2	6960,7	8207,5	7598,7	6408,8	4124,0	4394,3	7822,7	7961,5
Education	1180,8	1268,5	1453,2	1437,7	1553,9	1605,1	1754,4	1742,7	1966,6	2195,7
Healthcare	429,2	493,4	609,4	618,9	665,3	708,2	702,5	704,7	709,9	873,6
Social protection and social security	1123,0	1495,4	1769,5	1750,3	1971,2	1857,2	2645,2	2350,2	2150,7	2281,0
Activities in culture, art, information, physical education and any other uncategorized field	168,4	189,9	240,8	274,9	294,0	272,4	687,4	253,3	299,5	335,8
Science	92,8	106,1	116,7	117,0	124,2	113,2	110,2	109,8	117,8	122,3
Judiciary, law enforcement and prosecutor's office	668,5	710,3	929,2	1049,3	1103,6	1105,7	1117,1	1177,6	1316,4	1505,1
maintenance of legislative and executive power, local self-government bodies	303,0	281,9	342,3	349,3	449,7	430,9	470,1	552,2	627,4	774,5
Other costs	2910,3	4048,8	4994,7	5338,6	4948,4	5283,0	6140,4	6309,7	7720,6	8376,4

Source: Compiled based on data of SSCRA - <https://www.stat.gov.az/source/crimes/>

Table 4 shows the indicators of audit activity in Azerbaijan in 2014-2020. According to Table 4, the number of audit organizations and independent auditors increased from 115 in the 2014-2020 period to 185. The number of signed auditor contracts increased by 45%, and the amount of these contracts increased by 65%. However, in 2020, the number of auditor contracts and the funds provided from audit services totaled 77 million manats. This is much less than the economic development potential of the country, and auditing in the few compulsory facilities has led to such a situation. In this direction, more effective measures should be taken and efficient mechanisms should be developed and implemented.

Table 4. The main indicators of audit activity in Azerbaijan (2014-2020)

o/n	Indicators	2014	2015	2016	2017	2018	2019	2020
01	Number of auditor organizations and independent auditors, total including:	115	113	123	137	189	195	185
	- independent auditors	43	39	38	45	69	57	55
	- auditing organizations	56	56	67	77	100	123	116
	- foreign capital audit institutions	16	18	18	15	20	15	14
02	Number of audit contracts signed	3487	3094	3540	4826	4517	6451	5056
03	Amount of audit contracts, in million manats	46,7	49,1	56,9	53,6	74,6	73,1	77,0
04	Number of compulsory audit object, total including:	64958	64958	67522	67507	47286	46282	4512
	- number of audited	1694 (2,9 %)	1770 (2,7 %)	1522 (2,3 %)	2134 (3,2 %)	3142 (6,64 %)	3745 (8,09 %)	2198 (48,7 %)

Note: Compiled by the author based on the 2014-2020 reports of the AR Chamber of Auditors.

According to the research and report prepared by the "Transparency Azerbaijan" Anti-Corruption Public Association, Azerbaijan continues its efforts to ensure the consistency of anti-corruption measures and promote good governance,

increase transparency in the work of state bodies and promote open government principles. Making changes to the tax code and accelerating reforms in all areas is a positive case. However, there are still many cases that hinder transparency and lead to corruption, and double accounting and tax evasion are clear, especially in private sector enterprises. There are still facts of artificially reducing employees' salaries in official accounting and financial documents. In terms of the effectiveness of the legislation in anti-corruption and the "shadow economy", the development and implementation of mechanisms for the regular and active application of these issues is one of the important conditions.

Therefore, in a period of deepening global influence, resources should be found and used more efficiently to increase the efficiency of financial and economic activities in a period of deepening global impact. The transparency of economic development processes should be increased significantly, the structure of the economy should be diversified and improved following the requirements of the modern age, and transparency of financial and economic activities should be ensured, especially in various areas of activity of the non-oil sector. Moreover, the accountability of economic activity fields with the potential to create added value should be strengthened, and taxation bases should be expanded. In other words, more efficient new tax base resources should be created and developed, the amount of taxes collected in the state treasury should be increased, the role of the audit institution in efficient and intended use of investment and financial resources in the financial and economic cycle should be increased and effective auditor activity mechanisms should be provided.

The role of audit was particularly highlighted in the "Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan" approved by the decree of the President of the country dated December 6th, 2016. In the short and long term, it is of great importance to increase the transparency of the financial services market, to develop the capital market, to form and operationalize the securities institution more broadly, to ensure the availability of financial services and to systematically and consistently carry out the tasks and measures required in the use of financial resources, in the objective display of the results of financial and economic activity in accounting documents, and in increasing the transparency of financial reports. In all these processes, auditing service and auditing system can perform principal functions.

To increase transparency and strengthen accountability, especially at the level of enterprises, we consider the following issues to be important as a mechanism to improve the audit organization in economic activity: 1) auditing

and audit analyzes are required based on the work of large audit firms or small audit firms with audit branches in the subjects of economic activity; 2) the need of development and approval of methodological approaches and methodological methods at the country level, and determination of criteria and principles for the audit of financial statements of subjects of economic activity; 3) the audit methodology should be drawn up taking into account the specifics of individual sectors of the economy, as well as on the basis of criteria that allow to increase the competitiveness of enterprises in a market economy; 4) for a more efficient organization of the audit, it is important to systematically study progressive audit mechanisms and audit service models at the international level, examine the possibilities of applying these mechanisms, taking into account the complex issues related to the economic development characteristics of the country and the problems of the development of financial markets, and apply them according to local, that is, national characteristics. 5) during the development of the audit institute, it is needed to eliminate the obstacles to the development of the country's auditing system, to ensure the functionality of the existing mechanisms of the auditing system and, to update them when necessary, and to introduce and apply audit tools that respond to global threats.

Currently, in the context of the main goals of economic development models in our country, it is important to highlight the importance of the strategic roadmap approved by the Decree of the President of the country on December 6th, 2016, ensuring transparency and integrity of financial reports in various areas of the country's economy, preventing situations that may lead to the shadow economy, preventing corruption. On the effectively use of the audit mechanism and operational tools of the audit institute several important principles come to the fore: 1) It is important to keep fiscal discipline and legislation at a high level and to carry out targeted audits in this regard; 2) A comprehensive analysis of the situations that make possible the conditions of corruption, organization of audits to eliminate these negative situations, and presentation of relevant results to important state bodies and central executive structures in which the power of decision-making, and the functionality of the audit tools should be ensured. Measures should be expanded to minimize official-citizen contact in the country, create optimal and flexible mechanisms, to automate service areas at the maximum level, and to efficiently organize the movement of financial flows and investment flows and to create productive production and service areas through digital technologies should be expanded. Continuous measures should be taken to increase the efficiency of the auditing system and strengthen the role of audit in these processes in order to make

the most efficient use of intellectual resources, to develop human capital and study international experience in these areas, and to adequately reveal the resources of national economy development and involve them in economic and financial circulation.

CONCLUSIONS

Global risks are increasing, and every year, problems and limitations are experienced in the movement of financial flows and concentration of investment flows in economic development processes at the world level. All of these require a deeper level of accountability and transparency, and in these processes, there is a serious need for multi-functional auditing services and more specifically auditing mechanisms to address these issues. Due to factors such as the competition of economic powers at the world level, conflicts in the integration relations between different regions of the world, the struggle for the distribution of world markets, the acceptance of sanctions by the United States and the European Union against many countries and "trade wars", it is necessary to conduct a more optimal and impartial audit at the world level, to protect the principality and objectivity of international organizations and financial institutions. In this respect, the importance of defining novel approaches to the use of both international auditing and auditing at the national level and developing a country auditing system is indisputable.

In such conditions, further development of the auditing system is needed, and this issue is especially important for Azerbaijan as an independent state. To use financial resources in the country as intended, increase transparency and strengthen accountability in various areas of the national economy, follow tax legislation and increase the role of the auditing system in ensuring the integrity of accounting and financial reports, a group of issues should be focused and measures should be taken:

For the development of the audit institute and the improvement of the audit system in Azerbaijan in modern conditions, auditing rules and principles should be adapted to new challenges, responsibility for criteria and principles of preparation and approval of accounting financial statements should be increased, accountability level assessment methodology and monitoring mechanism should be developed.

As the main and important tasks of the audit system, the issues of completeness and reliability, control, accounting and strategic development in auditing should be improved, the legislation should be followed, the flexibility of audit activity should be increased, and the principle of profitability should be kept.

In the context of global threats, the role of the audit system should be expanded in ensuring the adequacy of economic development processes, improving existing mechanisms, detecting resources not used in economic activity, finding deficiencies in financial and economic activity and acting appropriately.

It is important to diversify the service structure of this field for expanding the activities of the audit system, and as a result, the intensification of the activities of auditors in the following directions can be more effective: creation of accounting and financial accounting of the subject of economic activity and compliance with the terms of the legislation; analysis and evaluation of the current state on the financial and economic activity of the enterprise or organization; preparation of tax calculations and declarations of entrepreneurship and business subjects, and provision of practical assistance; organization of application of modern and digital technologies for financial accounting; increasing the efficiency of the use of financial resources in the post-pandemic period.

The adoption of the "Competition Code" in Azerbaijan should be ensured to protect financial discipline, to ensure integrity of accounting and financial reporting, to determine factors that create conditions for corruption in operational processes and take appropriate measures, ensure a systematic fight against bribery, deepen the processes of automatization of service areas, take complex measures to raise the role of audit to a new level in increasing accountability and transparency due to the improvement of the efficiency of the audit system and the objectivity of auditing.

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