

## **Topic – “Auditing the completeness of revenues and audit of State closing account”**

Prior to my speech, on behalf of the Chamber of Accounts of the Republic of Azerbaijan and on my own behalf I would like to express my gratitude to the Supreme Audit Institution of Czech Republic for organization and conducting this seminar under umbrella of EUROSAI.

Dear participants, dear colleagues,

First of all, I would like to draw to your attention that the Chamber of Accounts of the Republic of Azerbaijan is a newly established institution compared with other SAIs. The law of the Chamber of Accounts was formed in 1999, but its full activity began since 2001. In fact, though 13 years activity and at the same time the activity of SAIs being focused mainly on the expenditures of the state budget due to international experience (or the budgets of the extra-budgetary state funds) our Chamber of Accounts has made definite progress in the audit of state revenues.

Please be informed that the institutional provision of the activity of the Chamber in the field of audit of state revenues are carried out by Department of Control over the State Revenues, as well as Division of control over tax revenues and the Division of control over non-tax revenues inside that department.

The main information sources for us are the reports and other information received from the relevant executive authorities and State Statistics Committee. The other information sources include reports and information received from state-owned large tax payers.

The functional activity directions of the Department are the analytic activity and conducting audits. All the necessary tasks within the analytic activity are carried out to audit and to present the Opinion on the audit of State closing account. In our SAI we name it – Opinion on the execution of the state budget revenues of previous year.

Under this activity the relevant reports and information of public bodies on payment types of state revenues (tax and other compulsory payments) and indicators on main sources, as well as the results of the audits of tax

administrations and state-owned large tax payers are widely analyzed. During the analysis the special attention is paid to the compliance of the same indicators received from different sources, as well as the dynamics of the different indicators in comparison with those in previous years. In addition, the adequacy level with macro-economic indicators reflecting the formation of the amount of revenues calculated to the state budget and the revenues received (especially tax revenues) is estimated.

During our analytic work on Opinion we also estimate the impact of amendments and changes made to the legislative acts to the volume of the state revenues from separate sources.

In order to give more detailed opinion on the audit of State closing account by expanding information sources the Chamber of Accounts concluded agreements regulating the mutual cooperation policies with the number of public bodies including the Ministry of Finance, the Ministry of Taxes and the Committee of State Statistics. Due to those agreements the Chamber of Accounts was provided with additional information presented on approved report forms. Also solution of issues related with SAI's activity in operative manner was also considered in this agreements.

The other main activity of the Department is planning and conducting the audits covering the completeness of revenues. Actually, the reports and different information related to the execution of the state budget of the previous years, as well as the results of the analysis made are used to define the audit objects for the next year.

The potential audit objects are divided into two main groups. The first group covers the central executive authorities and their structures to provide the state budget revenues. And the second group mainly includes state-owned large tax payers.

As an example of the tax revenues of the state budget I would like to talk in detail on the main characteristics of conducting audit on two directions noted.

Due to legislation the central executive authority that provides the tax revenues to the state budget (excluding the taxes made on the import of the goods) is the Tax Ministry, and the structures under this Ministry are in the focus of the audits. As a rule, the purpose of the audits is to define the observance to the tax legislation in the tax bodies, as well as to organize the control over accurate, timely and full calculation of the taxes and the tax payments, and to fulfill the other tasks considered with legislation in accordance with the activity directions. While auditing the tax bodies the following fields are covered:

a) the execution condition of the forecasts on tax and other state revenues in the reporting periods covered with the audit;

b) the condition of planning and implementation of tax control measures;

c) determination of the condition of being held liable for violation of tax legislation;

d) compliance with the rules established for the payment of taxes, that is to say, determination of calculated taxes payment condition and condition of measures undertaken to accumulate the tax debts into the state budget;

e) the condition of internal control.

For information, I would like to note that in existing laws regulating the work of our SAI the term "audit" stated as a general term and not divided into different types of audit like financial audit, performance audit and compliance audit (as I mentioned above it was accepted in 1999, so then we were newbies in this kind of activities). By the way, taking into account international standards and best practices, we are working on a new draft law regulating the activities of our SAI and it is in the stage of completion.

Currently, partial mentioned audit standards reflected as internal normative documents in our SAI's rules, named Planning, implementation and clearance the results of financial control measures. However, in practice evaluation of the activity of tax administrations carried out with widely using standards of the performance audit and compliance audit.

Finally, we send the relevant decision of the Board of Chamber of Accounts to the audited entity and to the Head office (that is Ministry of Taxes). At the same time, information about conducted activities asked.

The audit of state-owned large tax payers included to the second group is carrying out by engaging the experts of the Ministry of Taxes. So the letter addressed to the Ministry of Taxes for allocating the experts to be included to the audit group until the beginning of the audit. The report documented for the audit results drafted with the presence of experts of the Ministry and altogether signed. Finally, we send the relevant decision of the Board of Chamber of Accounts on that report and audit results to the Ministry of Taxes. Moreover, we make requirements on conducting relevant activities, as well as calculation of the deviation amounts revealed from tax into the personal account sheet of taxpayer and additional payment to the state budget if necessary. The same decision sent to the audited entity and the information about conducted activities asked from both of them.

As a rule, the purpose of auditing large taxpayers is to define the calculation of state taxes and payment to the state budget. In the audit of the large tax payers the following areas are covered:

a) calculation of the state taxes to the legislative acts - that is to say, determination the taxable base for different types of taxes on the basis of primary documents and detection the differences between tax reports during the period covered by the audit;

b) the condition of the settlements with budget for state taxes – that is to say, determination of calculated taxes payment condition and in case of tax debts condition of measures undertaken to accumulate the tax debts into the state budget;

c) the condition of internal controls.

Within the audits of large tax payers, the standards of the financial audit are widely used.

In conclusion, I would like to point out that the strategic targets of the activity of SAI's in the audit of state revenues should make contribution to the provision of permanent increase of the revenues for long term perspective by optimizing the

economy financing alongside with fully revealing the revenue potential for short term perspective by conducting audits. As the main economic reason in liquidity problems observed in nowadays related with excessive debt of public and commercial sectors.

Thank you for your attention.