

# **REPUBLIC OF AZERBAIJAN**

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## **ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

### **IMPROVING THE FINANCIAL REPORTING AND AUDITING OF SOCIAL SECURITY INCOME**

Specialty: 5303.01 Accounting

Science: 53 Economics

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## **A GENERAL OVERVIEW OF THE STUDY**

**Relevance of the topic and degree of its development.** The extent to which a state provides social protection measures to its population is a key indicator of its socio-economic development. Social protection measures refer to the support provided to individuals who have little or no income due to various reasons, whether objective or subjective. These measures are implemented by considering the redistribution of national income, with a focus on the low-income population segment. Social insurance income plays a crucial role in the implementation of these measures.

Social insurance plays a crucial role in the organization of social protection and serves various economic, social, and investment functions. As society undergoes qualitative changes and experiences socio-economic advancements, the importance, functions, and role of social insurance in ensuring social protection for the population increase significantly. This is primarily driven by the expansion of the range of social risks that need to be addressed. Alongside the constitutional basis, there are additional socio-economic factors driving the development of social insurance. One such factor is to enhance the operational efficiency of the insurer, typically the State Social Protection Fund, with a focus on strengthening its social function rather than being solely fiscal in nature. Hence, the insurer becomes a critical component of the financial mechanism of social insurance, and the effectiveness of the social protection system relies on its operations. Another factor is the emergence of social risk management as a new aspect of risk management theory and practice, with social insurance serving as a tool for transferring risks. Lastly, there is a correlation between the optimal state of the tax system and changes in social taxes based on the demographic and economic situation of the country.

Currently, transfers from the state budget play a crucial role in ensuring the effective operations of the State Social Protection Fund. The primary reason for these transfers is the outstanding debts related to insurance payments, which creates a burden on the state budget. Given the limited financial resources, the Fund's objective is to fulfill its assigned functions effectively by reducing the reliance on budgetary

allocations. Effective financial control is instrumental in achieving this goal. Therefore, it is vital to establish an efficient financial control system for the funds. Alongside proper financial management and accurate financial reporting, the supervisory body should also conduct performance audits to evaluate management effectiveness, resource utilization, cost efficiency, and alignment with objectives. Consequently, performance auditing is characterized as an all-encompassing examination of management from a broader perspective.

Ensuring the appropriate and efficient utilization of state funds forms the foundation for meeting modern socio-economic development standards in the country. Additionally, it creates opportunities for improving the living standards of the population and fostering development in various sectors. This, in turn, serves as a crucial prerequisite for the country to achieve its primary strategic objectives and enhance its global standing among other nations.

The current accounting system in the public administration sector lacks the ability to provide comprehensive information about financial performance, asset movement, specific obligations, and fund utilization efficiency. This limitation hinders effective operational decision-making and the establishment of integrated structures that require accounting improvements. To obtain comprehensive and accurate accounting information, it is necessary to adopt international accounting and reporting standards. Therefore, the relevance of the dissertation topic lies in enhancing the efficiency of financial resource management for social insurance through the development of financial monitoring and control. It also involves adapting accounting and auditing practices in the public administration sector to international standards, implementing modern management accounting as a paradigm for off-budget public administration bodies, promoting integrated corporate accountability, increasing public oversight over relevant processes, exploring new sources to enhance the financial stability of the State Social Protection Fund, and proposing legislative improvements in these areas.

Numerous research studies conducted by both local and foreign economists have focused on various aspects of the social insurance system's development, including its economic and financial stability.

These studies have explored the theoretical, methodological, and practical aspects of organizing accounting and reporting, financial control, and risk-oriented internal audits in budget departments.

Abbasov I.M., Shabzaliyev S.M., Yaqubov S.M., Muslumov S.Y., Novruzov V.T., Namazov C.B., Kazimov R.N., Abbasov Q.A., Khankishiyev B.B., Khudiyev N.N., Maharramov A.T., Novruzov N.A., Baghirov D.A. and other national scholars in economics conducted a comprehensive research about the subject. Foreign scholars including Abaltusov A.A., Averin A.N., Alpatova D.Y., Antropov V.V., Bichkov D.Q., Kolos E.A., Roik V.D., Silchenko S.A., Arensh A.A., KarloshV.M., Merrien F.Kh. and others determined the mentioned problem in their research and research in detail to solve the problem.

Despite the country's rapid socio-economic development, there remain several unresolved issues regarding the improvement of the social insurance system, enhancing the efficiency of financial resource management, and organizing accounting, reporting, financial control, and risk-oriented internal audits in the public administration sector in alignment with international standards. Consequently, the relevance of these topics, along with the limited research conducted thus far, has identified specific directions for further investigation. These directions encompass the goals and objectives, as well as the object and subject, of the research work.

**Goals and objectives of the research.** The main objective of the study is to enhance the control, accounting, reporting, and overall management of non-budgetary state funds by adhering to international standards and promoting the effective utilization of resources. In line with this purpose, the research has established the following specific tasks:

- Investigating the theoretical and institutional foundations underlying the establishment of the social insurance institution.

- Analyzing and summarizing the features of contemporary models of the social protection system by studying international practices.

- Systematizing the methodological aspects of accounting and auditing pertaining to social insurance income.

- Assessing and analyzing the current state of financial resource

accounting in the State Social Protection Fund (SSPF).

Identifying the characteristics of accounting and reporting organization in the public administration sector.

-Summarizing the approaches to organizing financial control and internal auditing for the efficient functioning of the social insurance system.

-Identifying strategies for effective resource utilization in the provision of social protection to the population.

-Determining the key aspects of establishing an accounting system that meets modern and international standards within the SSPF.

-Evaluating the effectiveness of financial control and internal auditing within the public administration sector.

**Object and subject of the research.** The object of research is the State Social Protection Fund, which primarily relies on social insurance income for its budgetary resources.

The subject of the research encompasses identifying strategies to enhance the efficiency of budget management within the State Social Protection Fund. It also involves addressing economic-organizational, theoretical-methodological, and practical challenges that arise during the establishment of accounting and auditing practices in accordance with international standards. Additionally, the study focuses on exploring the complex set of accounting-analytical economic relationships related to these processes.

**Research methods.** The research draws on both fundamental and applied scientific studies conducted by Azerbaijani and foreign scholars. These studies specifically focus on topics such as the establishment of social insurance systems within the realm of social protection, exploration of financial resources, efficient management of state financial assets, organization of accounting, reporting, financial control, and risk-oriented audits in non-budgetary state administrative bodies. The adaptation of these practices to international standards is also examined. Moreover, an analysis of the normative-legal acts in Azerbaijan pertaining to these areas is undertaken to provide a comprehensive understanding of the subject matter.

The research process involved utilizing various statistical methods for processing empirical data, analyzing time series dynamics,

employing techniques such as induction and deduction, examining relative and average quantities, conducting logical generalization, employing systematic, factorial, and comparative analysis, among other methods. These approaches were employed to support the findings and recommendations derived from the study.

The research drew information from diverse sources, including statistical data from the State Statistical Committee of the Republic of Azerbaijan, the State Tax Service, the Accounting Chamber, and the State Social Protection Fund (SSPF). Normative legal acts governing the social protection system, guidelines on accounting, reporting, and auditing practices, international standards, and online information resources were also utilized as valuable sources of information.

### **Main provisions for the defense.**

-The economic and social aspects of effectively managing social risks within the framework of social protection have been examined.

-The role and significance of the social insurance institution in the organization of social protection for the population has been investigated.

-The study analyzed prevalent economic models of social protection worldwide and determined their applicability to the social protection system in Azerbaijan.

-Methodological aspects of accounting and auditing in the field of social insurance and proposing optimal solutions for existing challenges have been explored.

-The current state of accounting for social insurance income and expenditures and evaluating the efficiency of its organization has been assessed.

-A novel method for accurately reflecting the income and expenditures of the State Social Protection Fund (SSPF) in accounting has been developed.

-Proposals for enhancing accountability within the SSPF as an extra-budgetary fund have been developed.

-The factors that necessitate the adoption of electronic audit as a new approach for efficient control processes in the field of social protection have been investigated.

-The research has argued for the establishment and development

of private pension funds as a novel approach in the realm of social protection.

-The alignment of budget classification codes with the chart of accounts to improve accounting and reporting in extra-budgetary state funds has been studied.

-Essential requirements for effective financial control and internal auditing in the public administration sector have been defined.

**The scientific novelty of the study** lies in the development of a methodology for aligning the accounting of income and expenses in social insurance bodies with modern international standards. Additionally, the research offers insights and recommendations for improving accounting and reporting practices. It also explores the economic and social dimensions of effective social risk management and investigates the role of the social insurance institution in the broader context of social protection. Moreover, the study examines prevalent economic models of social protection worldwide and their relevance to the Azerbaijani social protection system.

The research encompasses the following contributions:

-Examining and analyzing the importance of social insurance in relation to social risks, highlighting its necessity and benefits.

-Investigating the characteristics of accounting and reporting in extra-budgetary state funds, specifying requirements for budget accounting information and reports.

-Developing a methodology for organizing risk-oriented internal audit based on international best practices.

-Analyzing the current state of the SSPF budget, identifying development trends, and addressing the challenges hindering its progress.

-Evaluating the effectiveness of budget expenditures allocated for social protection measures.

-Justifying the advantages of an integrated model to identify and address regional inequalities in social insurance.

-Advocating for the implementation of electronic audit as a modern control method to enhance the efficiency and effectiveness of the SSPF's operations.

-Determining directions for improving accounting and reporting



practices in non-budgetary state administrative bodies according to international standards.

Additionally, the following proposals are put forward as part of scientific innovation:

- Creating and facilitating the establishment of private pension funds as an effective social protection measure.

- Applying a result- and strategy-oriented budgeting model to enhance budget processes in the public administration sector.

- Implementing the integrated model to address regional disparities in social insurance and ensure more equitable coverage.

**Theoretical and practical significance of the research.** The research holds both theoretical and practical significance, as it contributes to the advancement of scientific knowledge in the management of state finances and the social insurance system. It particularly impacts the development of accounting and reporting practices within administrative bodies of non-budgetary state funds, as well as the methodical approaches employed in organizing financial control. The research findings provide a solid scientific-theoretical foundation that can be utilized to enhance the efficiency of accounting, reporting, and control activities. Moreover, the practical implications of the research offer valuable insights and recommendations for improving the management of state finances, specifically in the context of accounting, reporting, and control work. Overall, the research contributes to the theoretical-methodological aspects of these fields and provides opportunities for improving the effectiveness of financial management and control processes.

The theoretical concepts and practical outcomes of the research can be effectively applied in the instruction of subjects such as "Audit" and "Accounting and Analysis."

Furthermore, the findings of the dissertation work serve as a basis for establishing key parameters of state social policies and shedding light on the developmental aspects of the State Social Protection Fund (SSPF). They contribute to enhancing the efficiency of budgetary fund utilization, promoting transparency in accounting information within non-budgetary state administrative bodies, improving the analytical and information support systems, and refining

the practices of accounting, reporting, financial control, and auditing. Additionally, the research outcomes hold significance in justifying the directions for adapting to international standards.

**Approbation and Utilization.** The findings of the research work hold practical value and can be effectively implemented in the operational activities of various entities such as the State Tax Service, DOST Centers, the central apparatus of the State Social Protection Fund (SSPF), as well as its central and regional branches. The practical application of the research outcomes can contribute to enhancing the efficiency and effectiveness of their respective functions.

Furthermore, the results and scientific innovations derived from the research have been disseminated through participation in international scientific and practical conferences hosted by institutions like the Baku Business University and the Ministry of Labor and Social Protection of the Population. They have also been published in articles and theses in local and international journals, thereby providing a platform for sharing the knowledge and insights gained from the research with a broader audience.

**The name of the institution where the dissertation work has been carried out.** The dissertation work has been carried out at the Department of Accounting and Auditing of the Azerbaijan State University of Economics.

**The dissertation consists of the following structural sections:** introduction (15,218 characters), three chapters (Chapter I - 66,765 characters, Chapter II - 83,236 characters, Chapter III - 79,952 characters), conclusion (9,130 characters), and a reference list with 113 cited sources. The work includes 14 tables, 10 diagrams, and 2 graphs. The total length of the research work is equivalent to 236717 characters.

## MAIN CONTENT OF THE DISSERTATION

The introductory part of the dissertation encompasses several key aspects, including the justification of the relevance and current state of the subject matter, the identification and clarification of the object and subject of research, the formulation of goals and objectives, the presentation of the main principles and findings, the description of the research methods employed, the highlighting of scientific innovations, and the discussion of other relevant matters.

The first chapter of the research work titled "**Theoretical and Methodological Foundations of Accounting and Auditing of Social Insurance Income**" examines various aspect, including the theoretical and institutional foundations underlying the establishment of the social insurance institution, the examination of models of the social protection system and the international experience in this field, as well as the analysis of methodological aspects pertaining to the organization of accounting and auditing of social insurance income.

Social insurance serves as a crucial component of social protection measures across nations, providing significant material and moral support to individuals facing challenging circumstances. The significance of these funds has been particularly highlighted during the global COVID-19 pandemic in 2020. The pandemic resulted in severed international relations, closed borders, and the implementation of strict quarantine measures within countries, leading to a decline in both state and personal incomes. During this period, social insurance revenues played a vital role in mitigating the income losses of the population and facilitating the effective implementation of social protection measures, working in conjunction with the state budget<sup>1</sup>. The fundamental principle underlying the operation of the social insurance mechanism is the proactive concern of the state for its citizens in the face of prevalent social risks<sup>2</sup>.

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<sup>1</sup> Агеева, Е.В. Особенности адаптации социальной защиты населения к кризисным условиям // -Москва: Креативная экономика, – 2021. Том 15, №12, -с. 4485-4498.

<sup>2</sup> Алпатов, Д.Ю. Фонд социального страхования РФ: особенности и перспективы // Молодой учёный, - 2014. №8.2, (67.2), - с.4-5.

Considering the sensitivity of society and the diverse nature of risks, it is essential to develop and implement various forms of risk protection.

Social risk encompasses additional costs arising from loss of income, illness, and occupational injuries, irrespective of individual intent, which can adversely affect individuals' financial well-being. Protection against such risks cannot be solely managed by individuals, thus events falling under the category of social risk are of a public nature. The social dimension arises from the fact that while wage loss is individualized for individuals, it has negative implications for the overall economy. While it may not be possible to entirely eliminate situations classified as social risks, it is crucial to establish optimal working conditions to mitigate their consequences. This includes ensuring fair wages, effective organization of leisure time, prevention of overwork, implementation of operational health insurance mechanisms, regular medical check-ups for employees, and other necessary measures aimed at minimizing the impact of social risks.

Several institutional factors determine the importance of social insurance institutions, including:

- Compensation of lost income: Social insurance institutions play a crucial role in compensating insured individuals for their lost income, which is directly linked to their wages.

- State control and mandatory payments: There is strong state control in the field of social insurance, and individuals are obligated to make regular contributions to the insurance funds.

- Unconditional compensation: Social insurance provides compensation for lost income without imposing additional conditions, ensuring financial support during social insurance events.

- Insurance payments for the insured: Social insurance institutions exclusively provide insurance payments to individuals who have enrolled in the insurance program.

- Consideration of dependents: Social insurance systems often take into account minors who are under the care of the insured, ensuring that their needs are also covered by insurance payments.

- Linking pensions to insurance payments: The amount of pension payments is typically determined by the insurance contributions

accumulated in the individual account of the insured person, providing a direct relationship between past contributions and future benefits.

-Formation of social insurance incomes: Social insurance incomes are generated through mandatory deductions from the wage fund of employers and from the incomes of the insured individuals.

-Uniform approach to social insurance events: Social insurance institutions adopt a standardized approach in dealing with various social insurance events, ensuring consistent treatment and benefits across different situations.

The development of the social insurance sector plays a crucial role in ensuring social protection for the population. Social protection encompasses a wide range of measures aimed at safeguarding individuals and addressing their various needs. Given the broad participation of the population in social protection programs, it becomes imperative for countries to prioritize this field. The social protection systems across different countries exhibit significant variations, as they adopt diverse models to address the needs of their populations. It is important to recognize that the social protection system is not only a social concept but also an economic one. The economic dimension arises from the fact that the population approaches existing social challenges from an economic standpoint. Within the European Union, four main economic models of social protection are commonly observed: the continental or Bismarck model, the Anglo-Saxon or Beveridge model, the Scandinavian model, and the southern European model. Each model reflects distinct approaches to social protection, shaped by the specific economic and social contexts of the respective countries. Overall, the development and implementation of effective social protection systems are vital for promoting the well-being and resilience of the population.

Each of these models has its own set of advantages and disadvantages. However, their application depends on the economic conditions of a country. Economically prosperous nations tend to provide more extensive social protection to their populations compared to countries with weaker economies. It is important to note that countries have the flexibility to adopt any of these established models or even develop new approaches. In essence, the social protection policies of

individual countries cannot be compelled to adhere to any specific model. Regardless of the chosen model or the country's experience, the overarching goal remains the pursuit of social justice and the implementation of a fair and equitable approach for all individuals.

Determining the precise model of social protection policy in Azerbaijan is challenging. Through a comparative analysis and evaluation of social-economic elements, we observe elements from continental, Scandinavian, Anglo-Saxon, and southern European models in the field of social protection for the population. However, overall, an Azerbaijani model of the social protection system is emerging, tailored to the unique national characteristics of the country.

Social insurance income holds a vital significance in the implementation of social protection measures. Thus, it is crucial to thoroughly analyze the methodological aspects of accounting and auditing related to social insurance income. To achieve this, the following issues need to be addressed:

- Ensuring accurate recording of the sources contributing to the formation of social insurance income, including indicating the specific directions of income as required by legislation and accurately reflecting the corresponding fund amounts.

- Clearly indicating the amount of fees paid to the State Social Protection Fund (SSPF) for previous years within the income from MSIP fees for the current year.

- Implementing effective controls to verify the accurate categorization of economic activities for both legal entities and individuals involved in social insurance payments.

- Enhancing oversight to ensure the correct allocation of paid mandatory social insurance premiums into individual personal accounts of citizens.

The dissertation's second chapter, titled "**Analysis of the Current State of Accounting and Auditing of Income and Expenses of the State Social Protection Fund,**" focuses on evaluating and analyzing the existing condition of the Fund's income and expenses accounting and auditing. It also explores the specific aspects related to the organization of accounting and reporting, the transition to new accountability practices, and the establishment of state financial control

and internal audit within the social insurance system.

The income of SSPF consists of mandatory state social insurance taxes, other sources and deductions from the state budget<sup>3</sup>.

The transfer of management in the area of MSIP fees to the Tax Service has been the primary factor contributing to the increase in income, as shown in Table 1. However, despite this positive development, there are still some deficiencies that need to be addressed. For instance, the alignment between the growth rate of the average monthly salary and the projected income from social security fees in the SSPF's budget for the next year is not fully optimized. Furthermore, the communication and interaction between the SSPF's and the State Tax Service in terms of collecting social security fees are not yet fully established. These are some of the identified shortcomings that require attention and improvement.

**Table 1**  
**Income and expenditures of SSPF between 2017 and 2022, in million manat**

Indicator	2017	2018	2019	2020	2021	2022
Income	3421,0	3752.2	4126.5	4748.3	5177.6	5726.8
MSSP fees	2085.7	2327.1	2921.6	3553.1	3847.2	4583.4
Other inputs	32.3	87.8	22.2	17.3	23.0	11.4
Expenditures	3486,8	3757.7	3951.2	4711.1	4842.6	5251.6
State budget transfers (transfer)	1303.0	1337,3	1182.7	1177.9	1307.4	1132.0

Source: The table has been developed based on information received from the website <https://sai.gov.az/filter?type=re>

Table No. 1 presents a decrease in the amount of allocations from the state budget to the Fund, which can be attributed to various factors. These include the increase in receipts from the Ministry of Internal Affairs and Communications, as well as the implementation of measures aimed at detecting and recovering unjustified payments. While these actions have contributed to the reduction in allocations, it is important to note that this decrease has also brought about some challenges. Specifically, the scope of obligations financed by allocations in both the Fund's budget and the state budget is not fully defined, creating a potential area of concern.

In the current legislation on the budget of the Fund, the section

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<sup>3</sup> Гареева, И.А. Социальное страхование в современной России / И.А.Гареева, М.В.Дорохина // Ученые заметки ТОГУ, -Хабаровск:- 2017, Том 8, № 1, с. 310-313.

on other incomes only includes receipts for the partial cost of sanatorium-resort trips. However, the legislation also mentions other potential sources of income such as funds recovered from financial sanctions, fines, and overpaid pension and allowance amounts, including overpayments discovered by the Fund itself. In our view, it would be more appropriate to include all these mentioned sources in the section on other incomes, providing a comprehensive and accurate representation of the various sources of income for the Fund.

Table 2 demonstrates that the income of the Fund is primarily allocated to fulfill the objectives for safeguarding the pension and social security rights of the nation's citizens.

**Table 2**  
**Directions of expenditures of SSPF between**  
**2017 and 2022, in million manats**

<b>Cost directions</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Costs-Total	3486.8	3757.7	3951.2	4711.1	4842.6	5251.6
Payments to the population, total	3383.8	3604.8	3843.2	4586.9	4717.0	5083.8
To the payment of labor pensions	3288.7	3523.4	3747.5	4473.6	4586.9	4945.1
Payment of benefits to the MSSP fees account	95.1	81.4	95.7	113.3	130.1	138.7
Delivery of pensions and allowances to the population, service fee expenses for conducting bank transactions	23.9	19.9	21.4	16.6	18.7	20.1
Expenses for the implementation of sanatorium-resort treatment and health measures for those insured under the ACSC line	19.1	20.0	20.0	20.5	20.5	21.5
The costs of maintaining the apparatus and other structural units of the body determined by the relevant executive power organization	34.4	35.4	49.5	68.1	67.7	89.3
Expenses for payment of membership fees to international organizations, thousand manats	0.06	0.06	0.06	0.06	0.06	0.05
Return of the loan for the "Pension and social security" project return costs is governed by the "Credit Agreement for Development" signed between the Government of Azerbaijan	1.6	1.6	0.4	1.2	0.6	0.6



and IDA on September 23, 2004, approved by the President of Azerbaijan's Order No. 518 dated November 11, 2004.						
Other	23.94	75.94	16.65	17.70	5.0	5.5

Source: Prepared by the author based on <https://sai.gov.az/filter?type=rey>

The higher costs of labor pension payments are influenced by various factors, as shown in the table. These factors include an increase in the minimum pension amount, partial payment of pension for the previous period in accordance with the law changes after July 1, 2017, full payment for pensioners working for individuals who received labor pension due to disability, recalculation of labor pensions for those working for six years or more after July 1, 2017, and others. To optimize costs in this area, it is suggested to transfer the calculated pension amount for the previous period in a lump sum to the individual's account instead of multiple installments. This approach would expedite transparency efforts in disability appointments, prevent unauthorized appointments, and facilitate the complete automation of pension appointments.

Table 2 demonstrates an increase in the expenses associated with the maintenance of the Fund's apparatus and other structural units. The primary factor contributing to this rise is the establishment of a public legal entity based on the SSPF through a presidential decree. Consequently, significant changes were implemented in the Fund's structure, leading to a considerable increase in employee salaries and maintenance costs by the end of 2020. To optimize costs in this regard, we suggest establishing reception centers for the Fund in various regions and leveraging the services of the Agency for Sustainable and Operational Social Security (DOST Agency) which fall under the Ministry of Labor and Social Protection of the Population and ASAN Service Centers. By doing so, there would be no need for the Regional Territorial Branches of the Fund. Instead, specialists from these branches can offer services to citizens at the mentioned reception centers, DOST branches, and ASAN service centers, while transmitting the submitted documents to the Fund's Central Branches electronically. This approach would effectively reduce the maintenance costs of the Fund, eliminate direct interaction between citizens and officials, and

promote transparency in this domain.

Considering that the SSPF's mandatory state social insurance contributions do not align with the commercial nature of business activities, it is inappropriate to reflect transactions in this area using the chart of accounts designed for entities following International Financial Reporting Standards (IFRS). Consequently, we propose a conditional division of the SSPF's activity into two parts to better accommodate its accounting needs: 1) non-commercial activity and 2) commercial activity. This division would ensure a more suitable and logical approach to reflecting the SSPF's operations in accounting records.

The commercial activity of the SSPF plays a secondary role within its overall operations. It involves managing and utilizing the funds collected in the SSPF budget for commercial purposes. The commercial activities of the SSPF can encompass a wide range of operations, involving income generation from various sources and incurring expenses for organizing and conducting these activities. As a result, financial outcomes such as profits or losses are generated from these commercial endeavors.

To explore potential enhancements in accurately representing the SSPF's activities in accounting, we believe it is appropriate to examine two distinct options. These options aim to investigate possibilities for improving the proper reflection of the SSPF's activities in the accounting system:

1. Adopting the Chart of Accounts for International Financial Reporting Standards (IFRS): This option involves aligning the SSPF's accounting practices with IFRS standards. By utilizing the specific chart of accounts designed for entities following IFRS, the SSPF can ensure that its financial transactions are recorded and reported in accordance with internationally recognized accounting principles.

2. Utilizing the Chart of Accounts for International Accounting Standards (IAS): This option focuses on implementing the chart of accounts tailored for entities adhering to International Accounting Standards (IAS). By aligning the SSPF's accounting procedures with IAS standards, the accuracy of reflecting its activities in accounting can be improved, ensuring consistency with globally accepted accounting practices.

Upon careful examination of the chart of accounts specified in the accounting rules based on IFRS, it becomes evident that the provided accounts do not adequately capture the income of the SSPF from separate sources. The chart of accounts primarily caters to commercial activities, lacking specific accounts for the diverse sources of income. In the "Revenues" section of the chart of accounts, which falls under the 6th section, there are groups designated for recording main operating income, other operating income, income generated from activities, financial income, and extraordinary income. These groups encompass the necessary accounts for recognizing income from their respective sources. Also, there is a need for synthetic accounts.

The chart of accounts includes various sub-accounts assigned to the main synthetic accounts that are primarily designed for recording income. However, these accounts are generally suitable for accounting the commercial activities of an accounting entity. In our assessment, the main synthetic accounts and their sub-accounts specified in the chart of accounts may not be appropriate for accurately accounting for the revenues of the SSPF, as discussed in the previous sections of the research work, considering their economic nature and individual characteristics. This is because, as stated in the SSPF's charter, the organization's primary focus lies in non-commercial activities, with commercial activities playing a secondary role.

In the chart of accounts specifically designed for public sector organizations, there are two main groups of synthetic accounts dedicated to organizing income accounting. The first group is intended for recording income from non-exchange operations, while the second group focuses on income from exchange operations. Considering that non-exchange operations primarily involve non-commercial activities, and exchange operations relate to commercial activities, it is evident that the accounting of income from non-commercial operations, which represents the primary activity of public sector organizations, is appropriately allocated in the relevant chart of accounts.

Specifically, it is recommended to record income from non-commercial operations in the account "602-Non-exchange income from receipts on mandatory payments," along with other accounts within the "62-Income from non-exchange transactions" group. On the other hand,

income from commercial operations, which is considered a secondary activity of the organization, should be recorded in the "611-Sales" account within the "61-Income from exchange operations" group. By utilizing these designated accounts, the proper classification and recording of income from both non-commercial and commercial activities can be achieved in accordance with the nature of the organization's operations.

In the activities of the SSPF and insurance entities, there is a consistent and significant execution of business operations aimed at collecting mandatory state social insurance fees and facilitating the distribution of mass social insurance payments. These operations are vital components of non-exchange activities and are conducted on a large scale and with continuity:

1) If the funds reported by economic entities regarding social insurance fees are considered as income of the Fund, they are treated as receivables of the respective entity.

2) A portion of the mandatory state social insurance premiums calculated by the social insurance subject is used to finance current insurance payments for insured individuals under that subject. This amount is recognized as an expense of the SSPF and is deducted from the receivables of the relevant subject.

3) The remaining portion of the calculated mandatory state social insurance premiums collected by the social insurance subject is transferred to the bank account of the SSPF.

4) The SSPF transfers the corresponding funds from its bank account to the personal card accounts of insured individuals to facilitate mass social insurance payments nationwide. These amounts are recognized as expenses of the SSPF.

The National Institute of Information Technology, along with its subordinate institutions like SSPF, is a prominent establishment in the country that extensively employs electronic information systems and conducts most of its services through automated processes. As a result, SSPF's operations are predominantly electronic. In our view, dispatching internal audit departments from the ministry or the fund to regional locations, where electronic systems are already in place, leads to unnecessary time loss and additional travel expenses. Instead, we

propose that these institutions carry out audit checks electronically, without physical delegation or in-person communication with local department employees. Audits can be conducted by reviewing online documents entered into the electronic information system, enabling the provision of tasks and recommendations to address any identified shortcomings. This approach would not only reduce maintenance costs for the institution but also facilitate immediate prevention of unwarranted and excessive payments. Overall, transitioning to electronic audits in the social insurance system would enhance objectivity and transparency, optimize costs, enhance personnel capabilities, and enable timely prevention of unjustified payments, among other benefits.

The third chapter of the research work focuses on “**enhancing the efficiency of managing financial resources, accounting, and auditing in the State Social Protection Fund**”. Within this chapter, various strategies and approaches are explored to improve the effectiveness of utilizing financial resources in social welfare, enhance accounting and reporting practices in the management bodies of non-budgetary state funds, and optimize financial management in the public administration sector. Additionally, the chapter delves into the examination of directions for enhancing the control and internal audit systems.

One avenue for effectively utilizing financial resources in social welfare is the establishment of private pension funds. Non-state pension funds play a crucial role in the country's financial system as they contribute to regulating key macroeconomic indicators such as the money supply, inflation level, and the formation of investment funds. It is important to note that a citizen's affiliation with non-state pension funds is independent of their state-determined pension. This system is often referred to as an additional pension provider for citizens. A distinct characteristic of this system is that it is entirely based on voluntary contributions made by individuals.

All operations within this domain are governed by a contract entered into between the individual and the non-state pension fund. This contract outlines the responsibilities and obligations of both parties, including the specified payment amount, conditions for the return of

funds to the individual, and other relevant matters.

In the current favorable investment climate in our country, there is a significant need for the establishment and growth of private pension funds, as well as the efficient utilization of the funds collected within these funds. A favorable investment climate encompasses the development of a market economy based on free competition and rapid reconstruction progress. Following the 44-day war, the Azerbaijani army successfully liberated a substantial portion of Azerbaijan's territory that had been occupied and severely devastated by Armenian usurpers for many years. To support construction and reconstruction efforts, including infrastructure projects, in these areas, it would be beneficial to utilize the funds of private pension funds in the form of investments.

The accounting system of the SSPF, as an extra-budgetary state fund and a public legal entity, has undergone significant and substantial changes multiple times in accordance with the provisions of its charter and relevant legislation. Specifically, from 2017 to 2018, the accounting system of the Fund followed the National Accounting Standards. Then, from June 30, 2019 to 2020, it transitioned to the International Accounting Standards for the Public Sector. Finally, from July 1, 2020 onwards, the accounting system of the Fund has been organized in accordance with the International Financial Reporting Standards (IFRS).

To enhance the management accounting of SSPF, it is recommended to implement analytical accounting for income and expenses. This involves maintaining separate analytical accounts for each social insurance subject in revenue accounting, and for each nomenclature item and economic classification item in expense accounting. By doing so, the turnover and balance amounts on these analytical accounts can provide valuable information for managing the collection of mandatory state social insurance fees and the distribution of mass social insurance payments within the SSPF. This approach allows for a more detailed and comprehensive analysis of the financial processes and facilitates effective decision-making.

Therefore, we recommend adopting the proposed synthetic and analytical accounting approach as a new method for recording

operations related to the collection of mandatory state social insurance fees and the implementation of mass social insurance payments in SSPF bodies. Additionally, based on the research findings, considering that the accounting practices of SSPF, as a public legal entity, are not aligned with IFRS as stipulated in the Law, but rather with IAS for PS, we suggest making the necessary amendments to Article 12 of the Law of the Republic of Azerbaijan on Accounting to reflect this clarification.<sup>4</sup>.

The establishment and organization of an efficient control system in our country can be attributed to the leadership of national leader H. Aliyev. Under his second term in office, significant advancements and progress have been witnessed in the economic sector, as in other areas. This period has been characterized by the effective utilization of budgetary funds, the alignment of income and expenses, the exploration of new revenue streams, and the fostering of private entrepreneurship. Overall, it has marked a phase of rapid development and enhanced collaboration between the government and the private sector.<sup>5</sup>.

It addresses the crucial factors that contribute to the effective and accountable management of public finances, including the financial resources of the State Fund in contemporary times:

In the field of finance and budget, transparency in the taxation sphere is important.

The stability of the financial system is crucial.

The effectiveness of budgetary and financial policies is emphasized.<sup>6</sup>.

This includes utilizing monitoring, assessment, and audit to enhance the efficient utilization of financial resources in the future. It also involves implementing mechanisms that ensure the efficiency of

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<sup>4</sup> Mühəsibat uçotu haqqında Azərbaycan Respublikasının Qanunu // 29 iyun 2004-cü ildə qəbul edilmişdir (2021-ci il oktyabrın 29-da qəbul edilmiş əlavə və dəyişikliklərlə). -Bakı: Qanun, -2005.

<sup>5</sup> Novruzov, V.T. Heydər Əliyevin iqtisadi siyasətində nəzarət amili // Heydər Əliyevin iqtisadi siyasətində nəzarətin yeri və rolu Elmi-praktik simpozium materialları,- Bakı, - 2013, s.16-22.

<sup>6</sup> Токун, Л.В. Риск-ориентированный подход в управления общественными финансами / Л.В.Токун, Е.И.Шаманина // Вестник Университета, -Москва: -2014. №12, -с.168-174.

state authorities in terms of resource allocation and the achievement of defined goals.

## **CONCLUSION**

The research conducted examined the theoretical and institutional foundations of social insurance institutions, models of the social protection system, theoretical and methodological aspects of organizing accounting and auditing of social insurance income, the current state of income and expense accounting in the Social Security Fund, as well as the features and improvements needed in accounting and reporting in the public sector, financial control and internal audit in the social insurance system, and the efficient use of financial resources in the social protection system. Based on this analysis, the following conclusions and recommendations have been drawn.

1. The research examined different approaches to understanding the concept of social risk, which is a fundamental element of the social protection system. Various protection mechanisms against events categorized as social risks were studied, and key indicators and characteristics of such risks were identified. Based on these findings, recommendations were formulated to mitigate the impact of events classified as social risks. These recommendations may include creating favorable working conditions for employees and ensuring fair wages, among other measures.

2. The research examined various economic models of the social protection system, highlighting their positive and negative aspects. It was found that Azerbaijan follows a mixed social protection model, and the indicators of other economic models were analyzed within the country's social protection system.

3. Analysis of the structure of social insurance income and expenses revealed that income has exceeded expenses in the past two years. This is primarily due to the transfer of mandatory social insurance fee collection to the tax service and cost optimization measures. However, certain shortcomings were identified, such as the need for a more detailed presentation of the annual budget draft, separate accounting of receivables from previous periods, and specific indications of pension payments in the expense section.

4. The current state of income and expense accounting in the



SSPF was examined, and it was determined that the accounting practices based on IFRS do not align with the economic nature of transactions. Recommendations were made to improve the accounting system in line with the requirements of International Accounting Standards for the Public Sector (IAS for PS), including proposing changes to the relevant legislation.

5. Establishing an effective management system in the social insurance system was emphasized as a crucial element. Transitioning to electronic audit was proposed as a means to enhance the control mechanism, reduce travel costs, save time, and overcome obstacles faced by local departments. Overall, the implementation of electronic audit in the social insurance system would increase objectivity, transparency, and cost optimization.

**The main content of the dissertation is elaborated in the following articles and theses:**

1. Hüseynov N.H. “Risk yönümlü idarəetmə sistemində daxili audit və nəzarətin inkişafı” AMEA-nın Xəbərləri. İqtisadiyyat seriyası, №1, səh. 121-126. Bakı 2020;
2. Hüseynov N.H. “Sosial sığorta daxilolmalarının uçotu və onların artırılması istiqamətləri” Bakı Biznes Universiteti, Audit jurnalı, №1, səh. 15-25. Bakı 2020;
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