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ABSTRACT

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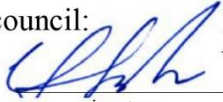
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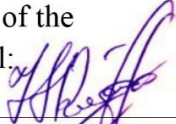
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GENERAL CHARACTERISTICS OF THE WORK

Relevance of the Topic and Degree of Development: The development priorities of the national economy have highlighted the importance of implementing comprehensive measures to improve financial control and enhance its effectiveness. In the current economic environment, the restructuring of production relations, mobilization of material and financial resources, and their efficient use are essential tasks. Undoubtedly, the analysis of economic activities, regulation, and the existence of advanced accountability are crucial in solving this issue. The large-scale economic reforms and modernization of the management system carried out in Azerbaijan have provided a strong impetus for the formation and development of independent financial control mechanisms, especially audit services. Over the years, significant steps have been taken in the country to form a legal and normative base for auditing as a service, increase professional knowledge in the field, and apply international experience. At the same time, the development of the audit services market in the country has been ensured, and various measures have been taken to promote high-quality services in this field. However, there are certain deficiencies and issues in the audit services market. In particular, the unprofessional behavior of independent auditors and audit organizations in some cases, the presence of practices that lead to unfair competition in the market, the conduct of low-quality audits, and the application of methods that damage professional reputation in service contracts are noteworthy issues. Artificially lowering contract fees and other negative trends are also factors hindering the healthy development of the market. The concepts, state programs, and strategic roadmaps adopted in the past decade necessitate the establishment of the audit system according to modern requirements. Specifically, documents such as the “Development Concept of Audit Services in the Republic of Azerbaijan” and the “Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan” outline specific directions for improving the audit system. These approaches emphasize the urgency of taking immediate steps for the development of the national audit system.

The growing share of the private sector in the economy has increased the need for a reliable assessment of the financial condition of entrepreneurial entities, which has made the development and improvement of auditing essential. In this regard, the Chamber of Auditors of the Republic of Azerbaijan has taken systematic steps in recent years to strengthen the responsibility of auditors, develop methodological approaches to measure the “shadow economy,” provide practical support to audit firms regarding the implementation of international auditing standards, prepare sectoral audit programs, and develop instructions for conducting and documenting audits. Auditing is especially important to increase the stability of financial systems of business entities, develop business strategies, and study local, regional, and global markets. The importance given to auditing in the “Development Concept of Audit Services in the Republic of Azerbaijan (2021-2030)” is reflected in the document. As a specific type of financial control, auditing plays a key role in several issues outlined below:

- The implementation of reforms carried out by the state in the economy, finance, and other sectors;
- Compliance with legislative requirements to ensure economic and financial stability, which are considered essential conditions for sustainable development;
- Protection of property rights;
- Ensuring the proper and efficient use of financial resources;
- Detection of illegal expenses and their recovery, etc.

The effective organization and improvement of auditing have been the focus of both domestic and international experts. The theoretical, methodological, and methodological issues related to the organization of auditing and audit services have been studied by Azerbaijan’s economists such as A.F.Musayev, A.S.Hajiyev, C.B.Namazova, D.A.Bagirov, F.Sh.Hajiyev, I.M.Abbasov, Q.R.Rzayev, R.Sh.Hajiyev, S.M.Sebzaliyev, T.A.Sadiqov, V.T.Novruzov, Y.A.Mammadov, Z.A.Samadzadeh and others. These studies address important issues related to the organization and regulation of auditing in our country, as well as the development problems in this area, and they also present methodological teaching materials. At the same time, the deep studies of foreign scholars such as C.K.Lobbek, C.Robertson,

E.C.Amelina, E.A.Arens, F.L.Deflis, R.Adams are highly appreciated in the field of audit services. It should be noted that works by A.D.Sheremet, I.N. Bogataya, L.F. Donchova, M.A. Azarskaya, N.V.Parushina, R.P.Buliga, V.B.Ivashkevich, V.T.Chaya, and others in the CIS countries are of particular interest. However, as auditing as a field enters the modern era, its rapid development based on global challenges and its expansion on digital platforms calls for deeper research in this service area.

International experience shows that auditing is of great importance as a type of entrepreneurial activity. It is essential to establish audit service companies to conduct audits in business entities operating in various sectors of the national economy. However, there are certain problems in the establishment of this type of activity in the republic, among which the need for the preparation of qualified specialists in a digitalization environment, the preparation of important methodological normative acts and guidelines, and the lack of books and other methodological materials that can be used in education are notable. Taking all these into account, it should be emphasized that in times of economic development, the study of the theoretical and methodological foundations of auditing, as well as the development of new technological approaches, methodological instructions, and recommendations for its organization and implementation, is considered highly relevant. In this dissertation, the research of such development problems in auditing and their potential solutions is considered essential.

Research Object and Subject: The object of the research consists of the mechanisms of organizing audit services in enterprises and organizations. The subject of the research is the auditing activity, its organizational problems, and the directions for its improvement.

Purpose and Tasks of the Research: The main goal of the dissertation is to determine the directions for improving audit services based on new theoretical approaches and the study of the development problems of auditing. In line with the above-mentioned goal, the following tasks were identified and explored in accordance with the structure of the dissertation:

- Justification of new approaches to the essence of the concept of

“auditing activity”;

- Study of the problems related to the development of auditing methodology and methodology in the Republic of Azerbaijan;
- Evaluation of the current state of audit services organization and development in the Republic of Azerbaijan;
- Evaluation of the control system for the quality of the work of audit organizations and the audit services provided;
- Determination of directions for the development of auditing to strengthen accountability and increase transparency in the digital economy, as well as preparation of proposals for strengthening its theoretical, methodological, and normative legal foundations.

Research Methods: The theoretical and methodological basis of the research includes the results of international experiences, theoretical and experimental studies by foreign and local scholars and experts, as well as widely used methods and approaches in the scientific and practical fields of economics and auditing, along with the use of legislation and the normative-legal framework in this regard.

Key Propositions Defended: The following propositions related to the improvement mechanisms of auditing services are defended in the dissertation:

Proposition 1: The perspectives on the essence of auditing must change in modern conditions. In this regard, more attention should be paid to the development problems of the auditing services methodology.

Proposition 2: Although progress has been made in the development of auditing services in Azerbaijan, the expected results have not been achieved in this area, especially with the dominance of foreign organizations in the service market.

Proposition 3: Problems still exist in the auditing service market of the country, particularly economic and regulatory issues, which require special attention.

Proposition 4: Research shows that the development directions of auditing services must be defined in line with modern demands and international challenges.

Proposition 5: The development of the auditing service market and improving the quality and accessibility of the services provided

necessitates the digitalization of this sector.

Scientific Novelty of the Research: The scientific novelty of the research is related to the evaluation of the organization and development problems of auditing services in the modern era and the development of substantiated proposals and recommendations for the advancement of this field. The key scientific novelties resulting from the research can be summarized as follows:

- **New Approaches to the Concept of “Auditor Activity”:** New approaches to the essence of the concept of “auditor activity” have been substantiated through the examination of the theoretical and methodological foundations of auditing.
- **Improvement of the Normative-Legal Framework of Auditing:** Directions for improving the normative-legal framework of auditing have been identified with a focus on strengthening accountability and increasing transparency, both in theoretical and practical terms.
- **Evaluation of the Control System for Audit Services:** The existing control system for the quality of auditing services has been evaluated, and suggestions for its improvement have been proposed.
- **Improvement of Auditing Methodology and Use of Modern Information Technologies:** Proposals have been prepared for the improvement of auditing methodology, the use of modern information technologies, and the enhancement of human resource potential to improve auditing services in the country.

Theoretical and Practical Significance of the Research: The theoretical significance of the research is characterized by scientifically substantiated propositions regarding the formation of the material-technical audit market and its effective functioning, as well as improving the impact of this sector's development. The practical results presented in the dissertation may contribute to determining the strategy for improving the development of auditing and provide an economic justification for the series of measures prepared.

Approval and Application: The key scientific-theoretical propositions, results, and recommendations of the dissertation have been published in 8 articles and 5 theses in renowned journals and

conference proceedings recommended by the Higher Attestation Commission of the President of the Republic of Azerbaijan. Some of the conference materials include: “The Impact of Auditing on the Development of Market Relations in Modern Conditions” (Baku, 2017), “The Need for the Development of the Accounting and Auditing System in the Republic of Azerbaijan” (Moscow, 2019), “Digitalization in Auditing” (Baku, 2022), “Auditor Activity in Azerbaijan” (Italy, 2022), and “Quality Factors in Auditor Services” (Baku, 2023). Additionally, the author has published articles such as “Formation and Development Trends of Auditor Services in the Republic of Azerbaijan” (Baku, 2018), “Problems of Development of the Auditing Service Market in the Republic of Azerbaijan” (Baku, 2019), “Fundamentals of the Concept of Auditing and Its Development Features” (Baku, 2019), “Organization of Auditing in a Market Economy” (Poland, 2022), “Audit and Its Development Stages in International Practice” (Baku, 2022), and “Digitalization in Auditing and Its Application in Azerbaijan” (Russia, 2023). “Development Indicators of Audit Services and Problems of the Audit Service Market in the Republic of Azerbaijan”(Baku 2024), “The development of audit services as a guarantee for the formation of a fair competition environment in a society model based on dynamic, inclusive, and social progress” (Baku 2024). The economically substantiated recommendations and proposals in the dissertation have been accepted for application by the Chamber of Auditors of the Republic of Azerbaijan.

Institution Where the Dissertation Was Conducted: The dissertation work was carried out at the “Accounting and Auditing” Department of Azerbaijan Cooperative University.

Structure and Volume of the Dissertation: The structure of the dissertation reflects the logic of the outlined issues, the research methodology, and the algorithm for solving them. The dissertation consists of an introduction, three chapters, a conclusion, and a bibliography. The introduction (11721 characters), Chapter I (76070 characters), Chapter II (80018 characters), Chapter III (41561

characters), the conclusion (17676 characters), and the 118 bibliography. Excluding tables, figures, bibliography, and the list of abbreviations, the character count of the dissertation is 227097. In the course of the dissertation, 7 figures, 23 graphs, and 5 tables were prepared in line with the subject matter.

Structure of the dissertation: table of contents

Introduction

Chapter I. Conceptual foundations of the development of auditing in the Republic of Azerbaijan

1.1. The Role and Economic Essence of Auditing in the Financial Control System

1.2. Problems in the Development of the Methodology, Methods, and Techniques of Auditing

1.3. The Normative-Legal Foundations of Regulating Auditor Activities

Chapter II. Assessment of the current state of Auditor Service organization in the Republic of Azerbaijan

2.1. Analysis of the Organization and Development of Auditor Services in the Republic of Azerbaijan

2.2. Evaluation of the Quality of Auditing in Azerbaijan

2.3. The Impact of International Auditing Standards on Ensuring the Transparency of Financial Reporting

Chapter III. Improvement directions of auditing service organization in the digital economy environment

3.1. Directions for Improving the Methodology of Auditing in Azerbaijan

3.2. Improvement of the Use of Modern Information Technologies in Audit Procedures

Conclusion

References

GENERAL CHARACTERISTICS OF THE DISSERTATION

Proposition 1: The views on the essence of audit should be changed in the modern context. In this regard, attention should be given to the development problems of the methodology of auditing services.

In the modern era, the essence of audit is increasingly linked to the development of the informational society and economy. In this context, the preparation and adoption of accurate and substantiated management decisions is particularly important. Currently, the audit service serves not only this system but also the interests of the state and the subjects of society. We believe that more attention should be given to harmonizing the interests of these two sides—the state and economic entities—within modern auditing services. Research suggests that a unified, modern view of the concept of “audit,” as well as its relationship with the concept of “control,” has not yet fully formed. Based on the modern requirements of audit, we believe that audit activities should include the audit of financial statements, as well as the collection and evaluation of facts related to the economic activities and financial condition of an entity. From this perspective, audit should be considered an independent review of financial statements to assess the accuracy of the information, continuity of operations, efficiency, and other aspects.

We believe that audit cannot only be linked to the verification of the accuracy of financial statements. It also involves the verification of the documentation of business transactions, tax declarations, and the legitimacy of the financial obligations and claims of the audited entity, along with services related to auditing. The purpose of audit addresses various issues, yet its main activity is the verification of financial statements. Financial auditing involves the evaluation of the reliability of information reflected in financial statements. Typically, this type of audit is carried out by audit organizations that provide opinions based on their findings. In terms of form and content, this type of audit is widespread in Azerbaijan. A significant turning point in the development of international auditing occurred in 2008 with the global financial crisis, which subsequently focused attention on improving the auditing methodology. The insufficient scientific development of audit theory and its failure to address the changes occurring in the modern economy have

led to a deep crisis in audit as a field of activity.¹

By the end of the 20th century, the need to increase transparency and strengthen accountability in national economies accelerated the development of audit institutions and the process of preparing related principles and standards. In all developed countries, those wishing to pursue a career in accounting and auditing undergo many years of education and experience, as well as participate in numerous examinations. The development of market relations in the economy has increased the necessity to build trust in companies' reputations and financial results.²

Currently, the issue of strengthening accountability and increasing transparency in the development process of the economy has come to the forefront. To achieve this, it is necessary to deepen efforts to improve the functions and principles of auditing, thus increasing its role. Drawing from international practices, the principles of objectivity, integrity, confidentiality, and enhancing the professionalism of auditors should be emphasized. These principles will enable more effective organization of audits, the selection of optimal methods, the identification of expected risk probabilities, and the reduction of such risks. In the “Azerbaijan 2030: National Priorities for Socio-Economic Development,” the tasks of ensuring sustained economic growth, further diversification of the national economy, and the effective realization of the country’s export potential are emphasized.³ Achieving these goals is possible through the improvement of the economic management system, strengthening the fight against the shadow economy and corruption, and ensuring the transparency of information and its appropriate presentation to users. The role of audit in solving these issues is undeniable. In the current state of global economic development, special attention is given to the development of methodological approaches and technologies for

¹ Вахрушина, М.А., Малиновская Н.В. Корпоративная отчетность: новые требования и направления развития // Международный бухгалтерский учет. – 2014. – № 16.с. 5-7.

² Егоров, М.Е. Рынок аудиторских услуг: состояние, проблемы и решения / М.Е. Егоров // Аудитор. – 2012. – №8, – с. 23-31.

³ Azərbaycan 2030: sosial-iqtisadi inkişafa dair Milli Prioritetlər. <http://e-qanun.az/framework/46813>.

organizing and conducting audits. The theory of audit development should be examined not only systematically but also in relation to individual issues. In particular, in the modern era, audit theory should be associated with the legislative-methodological aspects of regulating audit activities.

In the system of economic relations and related sciences, the clarification of the subject, object, and functions of audit, as well as the assessment of its role, reveals a number of problems that require further research. The lack of a unified approach to solving these issues prevents the improvement of audit methodology, and the necessity of independent financial control in the context of the audit crisis remains under question. The theory of audit should be based on values such as responsibility, transparency, and openness. We believe that three main aspects in audit should be the subject of special research:

- Limitations (internal control and accounting systems are not perfect);
- Inevitable risk (the possibility of errors and/or fraudulent actions not being detected within the audit framework);
- Subjectivity of the auditor's report (the auditor's opinion is based on their professional judgment).

If we consider the structure of modern audit scientific theory as an integrated system, we can say that it should currently include audit postulates that require change, taking into account the changes in the economy, as well as the draft concept of audit development. We believe that to eliminate the problems in the field of audit and improve audit practice, a hierarchical structure of scientific audit theory should be determined (Figure 1).

One of the factors influencing the development of auditing is the proper determination of its functions. The development and resolution of this issue has not been sufficiently addressed in the work of both domestic and foreign specialists.

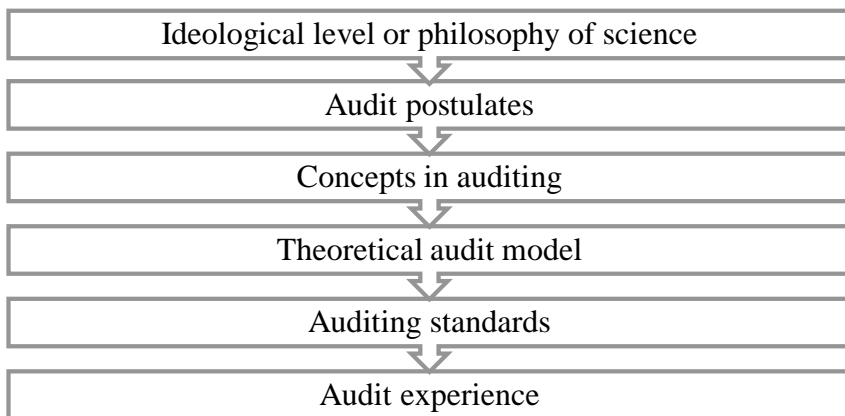


Figure 1. The structure of the theory of hierarchical level scientific auditing

Source: Scheme designed by the author.

The compilation of scientific principles of auditing constitutes the leading link in the methodological plan for the development of auditing as a science. In our opinion, the leading principles of auditing as a science, as well as the requirements for auditors as a practical activity, should be clearly defined in the theory and practice of auditing. In Azerbaijan's audit practice, the following additional postulates should be used:

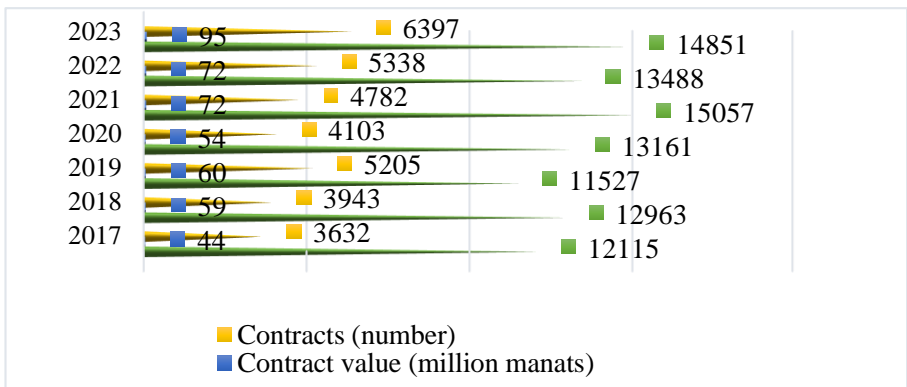
- Every subsequent audit reduces the value of previous ones and is always less informative.
- Professional skepticism should be the basis for auditing.
- The auditor's opinion depends on their interests (professional, moral, and material).
- No one is free from incorrect conclusions.
- The interests of company management, owners, and creditors should not overlap.
- The higher the internal contradictions within the company, the more reliable its report will be; otherwise, it is less reliable.

Based on international experience, it is necessary to apply other (deductive) approaches in audit methodology (risk identification, planning, formalization of auditor opinions, etc.). The next problem in the theory and practice of auditing is understanding the content of the system's elements (methodology, method, and technique), their interrelation, and the sequence of their development. In this regard, we

believe that the concept of “method” should not be idealized compared to the concepts of “methodology” and “technique.” The development of auditing can be seen as a complex, multi-step process of innovation. Throughout the development of auditing, scientific knowledge (methodology, method, technique) plays a role in designing the directions for improving auditing and its standards. However, it is important to emphasize that the justification and practical application of these depend on the auditors themselves.

Proposition 2. Although progress has been made in the development of auditing services in Azerbaijan, the expected results have not yet been achieved. In particular, the dominance of foreign organizations in the service market stands out.

The economic policies and reforms implemented in the Republic of Azerbaijan have influenced the development of audit services. For example, compared to 2017, the number of contracts in the audit service market in 2023 increased by 1.8 times, reaching 6,397 contracts, while the volume of services provided increased by 2.2 times to 95 million manats. During this period, there was a 23% increase in the average contract amount in the country’s service market. It should also be noted that in 2017, the share of audit services in GDP was 0.06%, in non-oil GDP it was 0.1%, and in services to the population, it was 0.4%. In 2023, these indicators reached 0.7% in GDP, 1.3% in non-oil GDP, and 8.2% in services provided to the population.



Graphic 1. The level of development of the main indicators of the audit service market.

Source: <https://audit.gov.az/>.

The growth of the audit services market in the country has been mainly driven by the increase in the number of organizations providing these services. Specifically, in 2023 compared to 2017, the number of local audit organizations increased by 2.3 times, the number of foreign audit organizations increased by 13%, and the number of freelance auditors grew by 1.5 times. There were noticeable differences in the growth rates of audit services indicators in the country's service market. While the average growth rate of the number of contracts from 2017 to 2023 was 14%, the growth rate of contract values was 15%.⁴ Over the past 25 years, the development of foreign audit organizations has been observed at a high level, which is reflected in all indicators of the service market. It can be seen that in 2023, compared to 2017, the volume of services provided by foreign audit organizations increased by 1.6 times, by local audit organizations by 7.4 times, and by freelance auditors by 3.3 times. In 2017, the volume of services provided by foreign audit organizations was 7.4 times higher than the services provided by local audit organizations and freelance auditors. In 2023, however, the volume of services provided by foreign audit organizations was 2.5 times higher than those provided by local audit organizations and 10 times higher than those provided by freelance auditors. It is worth noting that in 2017, there were 62 local audit organizations, 45 freelance auditors, and 15 foreign audit organizations operating in the service market, while in 2023, the number of local audit organizations increased by 2.3 times, freelance auditors by 1.5 times, and the number of foreign audit organizations only increased by 13% (2 organizations).⁵ Research suggests that the increase in the volume of services provided by local audit organizations and freelance auditors during the compared period was solely due to the increase in their numbers.

The contract values performed by foreign audit organizations consistently remain significantly higher than those executed by local audit organizations and freelance auditors. Over the past decade, the average contract value of foreign audit organizations in the service market has

⁴ Auditorlar Palatasının hesabatları. Bakı, 2010-2023. <https://audit.gov.az/>

⁵ Auditorlar Palatasının hesabatları. Bakı, 2010-2023. <https://audit.gov.az/>

been approximately 15 times higher than the corresponding indicators for local audit organizations and freelance auditors. This development trend in the service market suggests that the growth of national audit institutions in the market is primarily driven by exogenous (external) factors.

In the development of Azerbaijan's audit services market, other notable different trends are also emerging. Initially, it should be noted that during the periods when this service has been available, the development of mandatory audits has consistently remained at a high level.

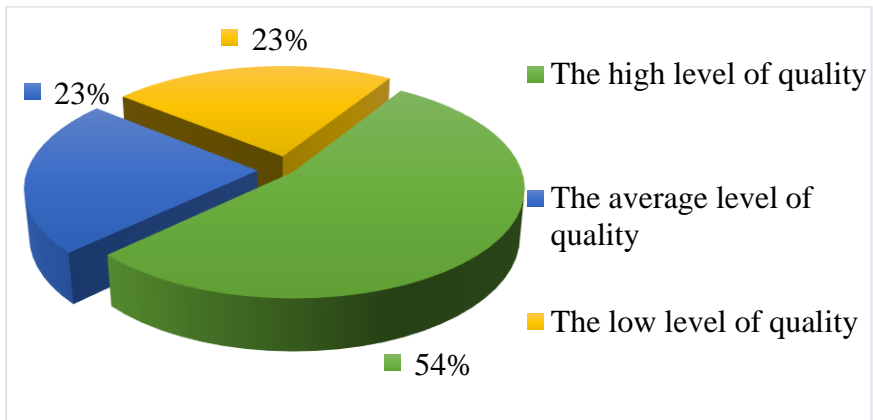
The highest audit indicators in the country are found in banks and insurance companies. Later, municipalities, joint-stock companies, and foreign companies were added to this list. Research has shown that in 2017, the share of mandatory audits in the services provided in the market was 71%, while voluntary audits accounted for 29%. However, by 2023, the share of mandatory audits in such services decreased to 58% (a 13% decrease), while the share of voluntary audits increased to 42% (a 13% increase).⁶ In the total volume of services provided by local audit organizations, financial statement audits (mandatory audits) hold a dominant position. The expected results in the development of voluntary audits in the country have not yet been achieved.

Proposition 3. Problems remain in the audit services market in the country, particularly economic and regulatory issues attract significant attention.

Quality issues in the audit services market in Azerbaijan are notable, and research indicates that these problems arise due to various reasons. It should also be noted that such issues are primarily linked to both legal regulation and practical activities that do not meet market demands. Survey results conducted among audit service clients show that the quality of services provided by auditors is still not at a high level. Specifically, 54% of clients reported that the services were of high quality, 23% stated they were of medium quality, and 23% considered them to be of low quality⁷ (Graphic 2).

⁶ Auditorlar Palatasının hesabatları. Bakı, 2010-2023. <https://audit.gov.az/>

⁷ Auditorlar Palatasının apardıği sorğuların nəticələri. <https://audit.gov.az/>



Graphic 2. Results of the Quality Issues in the Audit Services Market in 2023 (%).

Source: <https://audit.gov.az/>.

It has been considered necessary to continue improvements in the regulation of the sector to raise the quality level of auditors' activities. In order to accelerate the development of the audit services market in the country and bring the quality of services to modern world standards, reforms in the following areas are deemed essential:

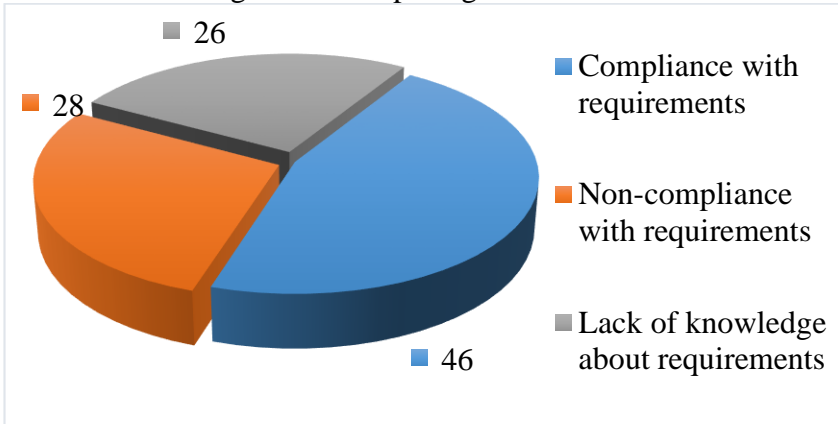
- Increasing continuous professional education,
- Strengthening the fight against unfair competition and dumping in the service market,
- Improving research and disciplinary measures in the field of audit services.

There are still unresolved issues regarding the average value of services in this market, and often such problems affect the deliberate reduction of audit service quality and the development of unfair competition in the market. In Azerbaijan, there are regulatory and advisory methodological documents that define the minimum thresholds for the value of audit services (contract values). These documents substantiate important provisions such as covering these and other necessary expenses and achieving profits from audit services, ensuring a balance between all costs and the income generated.

Surveys and research conducted among auditors have shown that the minimum thresholds for the cost of services are adequately adhered to 46% of the time when contracts are signed. The level of non-compliance with the requirements in this field is 26%, while 28% of respondents are

unaware of these requirements⁸ (Graphic 3).

A high increase has been recorded in the number of auditor organizations, independent auditors, as well as auditor organizations using foreign audit organizations and foreign legal entities' trademarks between the years 2017 and 2023. The increase among independent auditors was 53%, while the number of auditor organizations grew by 104%. This upward trend indicates an improvement in the quality of audit services, customer satisfaction, and trust, as well as a rise in competition in the audit service market, and a general development of the audit service sector. Auditor training and the deepening of reforms



Graphic 3. Compliance with the established minimum thresholds (requirements) for the value of audit services provided in 2023 (%).

Source: <https://audit.gov.az/>.

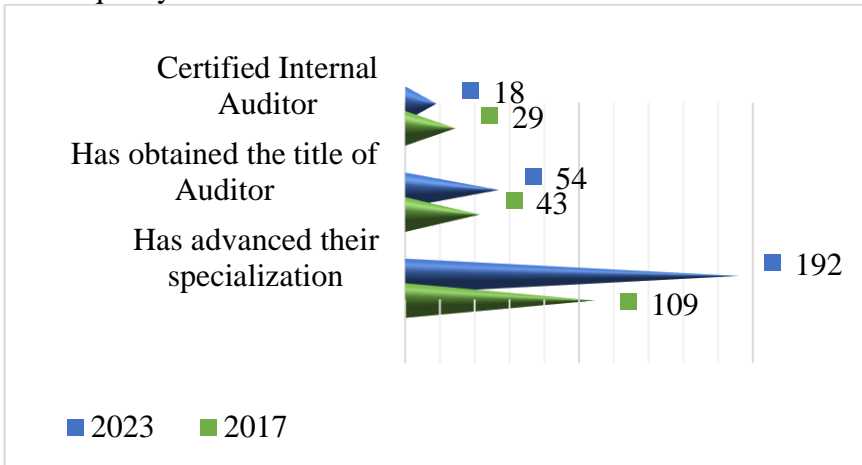
in this field are considered key conditions for the development of the service market. Compared to 2017, in 2023, the number of auditors who successfully upgraded their qualifications increased by 76%, while the number of individuals holding the title of auditor rose by 25%.⁹ However, there was a decrease in the number of specialists who obtained the Internal Auditor certificate. It would be incorrect to view the low indicator as a reflection of the current development of audit. This result can be explained from several perspectives. The new standards require

⁸ Auditorlar Palatasının apardığı sorğuların naticələri. <https://audit.gov.az/>

⁹ Auditorlar Palatasının apardığı sorğuların naticələri. <https://audit.gov.az/>

professionals to have deeper knowledge and skills, as well as responsibility and discipline (Graphic 4).

The quality of audit services has not been defined in professional standards (and other normative-methodological documents). These standards outline the characteristics of audits (audit categories) and the requirements that should ensure the quality of the audit. Although both national and international scholars have paid great attention to the issue of improving the quality of audit services, the concept of “audit quality” is interpreted from various perspectives. In our opinion, the concept of “audit quality” can be clarified and characterized as the



Graphic 4. Specialization Indicators of Auditors (number of individuals).

Source: <https://audit.gov.az/>

alignment of the information reflected in the auditor’s report with the requirements of the users of that information, which is related to the auditing process. This also allows for the development of methods to improve quality, applying a systematic and process-oriented approach to ensuring audit quality, and impacting the efficiency of processes. From the perspective of the audit’s complex characteristics, we believe that the concept of “audit quality” should be considered a general category, while “audit process quality” and “audit service quality” are manifestations of its essence.

Factors affecting audit quality include the quality of the work

performed by audit organizations and auditors. It is essential to differentiate between internal and external factors. We believe that it is appropriate to classify the main issues in the Azerbaijani audit services market as follows:

- Regulatory and control issues (service quality, quality control, etc.)
- Problems related to professionalism and specialization
- Market regulation issues (competition, value, etc.)
- Issues related to modern technology and infrastructure
- Ethical-behavioral issues.

Proposition 4. Research shows that the development directions of audit services should be determined with consideration of modern requirements and international challenges.

One of the most important directions for the development of audits is the necessity of forming administrative, economic, and ethical mechanisms for audit regulation. This approach leads to the need for more advanced regulatory methods. The improvement of audit service quality is not only related to the interests of the client and the auditor, but also to the positions of other stakeholders (state, society, founders, creditors, etc.) in the activities of audit services. Improving the professional and qualification level of auditors is one of the directions for the development of this field. From the perspective of national economic development, audits can be classified as efficiency audits, social (labor and labor relations assessments of the audited entity) audits, environmental and investment audits, etc.

In modern conditions, the following factors should be highlighted in the development of audits:

- Creation of a regulatory-legal base for audits that aligns with international requirements
- Improvement of the quality and effectiveness of audit services, development of effective quality control methods
- Identification of new directions in audit and related services
- Expansion of the use of modern information technologies and automation.

There are several challenges in the digitalization of the audit industry, including:

- Use of big data
- Ambiguity of personal supervision duties due to illegal employees of audit firms, leading to threats to the safety of business activities
- Difficulty in clearly defining and identifying confidential information for interested parties
- Threats of hacking attacks on intellectual systems and databases, the risk of selling or reselling data, or unauthorized access to confidential information.

As a service sector, audit plays a significant role in the socio-economic development process of modern society. In this regard, the application of more advanced regulatory models for audits is necessary. We believe that there is a need for a service model that will not only improve the legislative and regulatory system of audit services but will also create an effective system of relationships in this field. The quality of audit services should start with determining the audit burden during the examination of economic entities. The volume of resources, documents, and information to be assessed and checked defines the audit burden. Several stages of factors are essential to determine the audit burden of an audited economic entity (profile analysis of the entity, financial data, risk assessments, and analysis of management processes).

Research indicates that the transparency and informativeness of audit companies' activities are insufficient (including for potential users). In this regard, it is necessary for audit companies to expand the list of information they disclose about their activities. Improving the methodology for evaluating the quality of audit services is considered necessary for the development of the field. Important directions for such improvements include:

- Development of information support for quality control of audit activities (creation of a unified information system in the audit field)
- Preparation of methodological tools for external audits
- Improvement of internal control tools
- Development of internal control elements (summary audit, monitoring) and the preparation of detailed control programs, local normative acts, and checklists
- Increased individual responsibility of officials for the results of control work

- Assessment of an organization's intellectual capital and calculation of indicators characterizing its performance results
- Definition of quality indicators for audit activities
- Development of a risk-oriented approach in external audits.

Proposition 5. The development of the audit services market and the improvement of the quality and accessibility of the services require the digitalization of this field.

The development of modern audits is intrinsically linked to the preparation of highly qualified and professional audit personnel, with their professional and qualification levels continuously improving considering the changes in the economic environment. In our opinion, the preparation of audit personnel should begin in higher education institutions. Although the legislation does not classify audit activities according to specific criteria (economic sectors), specialized auditors in sectors such as credit, insurance, industry, information technology, tourism, etc., particularly those with prestigious international certifications, are given more attention.

It is also necessary to emphasize the organization of training in new types of audits, such as non-financial statement audits, social audits, and business audits, as these will contribute significantly to the field. While the formation of audit in the country has taken a short time, international practices are being used. In this regard, it is important to note that the improvement of the regulatory-legal framework for audit, the insurance of auditor responsibility, the alignment of audit procedures with international audit standards, and the resolution of similar issues are of particular importance in terms of meeting the modern requirements of audits.

Indicators reflecting the professional activities of individuals and legal entities involved in audits serve as a basis for evaluating the effectiveness of audit services (in terms of labor productivity and profitability of certain types of services). Therefore, as in other economic sectors, special attention should be paid to the procedures for forming indicators of audit efficiency. Among the main factors ensuring the development of the audit system in the country are the development and application of software for

automating the audit process, the improvement of cybersecurity systems, and the enhancement of audit procedures. All of these will increase transparency and reduce the time and costs involved in conducting audits.

In Azerbaijan, both the audit sector and its oversight are undergoing digitalization. Many audit firms actively offer remote services to clients, improving the control systems for their work in such a way that the remote format does not affect quality. The mandatory shift to remote work will encourage the digitalization of audit procedures. Auditors who use digital technologies are represented among the top global firms (“Big Four,” “Big Ten,” etc.). Relevant steps are being taken in Azerbaijan regarding the digitalization of audits (certification and issuance of licenses for auditors in electronic form, granting audit titles, permitting services, etc.).

To keep up with modern technologies, auditors will often need training, which will incur additional costs and necessitate the presence of personnel for the training. Despite having less experience, new staff tend to be more adept with technology and software, as experienced employees may often not receive the necessary training. The continuous development of technologies will lead to better evaluation of audit evidence. We believe that the implementation of the following measures is necessary for solving issues related to the digitalization of audits:

- Evaluation of client information systems and electronic document flow by auditors
- Use of modern technologies and software for analyzing activities and relationships in the service market (use of sensors, biometric data, voice recognition, meta-information exchange, clustering, and expert systems)
- Creation of meta-information exchange to efficiently and effectively verify relationships between similar companies.

While discussing the problems in this field, the training of the relevant personnel for the application of information technologies and the assessment of intellectual capital should be highlighted. Digitalization in our country implies an increase in the number of specialists in the field of information computer technology. Therefore, it is necessary to formulate the demand for training, the objectives of personnel development, and to prepare measures for improving employees' qualification levels, as well as assessing the alignment of personnel development strategies with the

overall strategies of audit organizations.

We believe that special attention should be given to the following directions in the digitalization of audit services in the country:

- Creation of digital software for conducting audits
- Implementation of digitalization measures for auditors to adapt to market competition
- Creation of a calculator for determining the cost of audits
- Development of methodological materials for conducting digital audits.

Despite all these efforts, wide use of new technologies and digital procedures in the provision of audit and related services will also be of great importance.

Conclusions and Recommendations

Based on the analyses and evaluations conducted in this dissertation, the following conclusions can be drawn:

1. Research in the field of auditing indicates that a unified approach to the modern nature of this service has not been fully established. This factor is primarily reflected in its content. Audit services have evolved beyond their traditional sectoral nature and should now be recognized as having economic, social, and public significance. This is because modern auditing plays a crucial role in the implementation of large-scale programs aimed at developing national economies and regions, increasing foreign investment in the country's economy, dynamically developing entrepreneurship, and ensuring employment for the working-age population.

2. One of the challenges in the development of auditing is that audit standards do not address the specific characteristics of small audit firms and individual entrepreneurs. This leads to inefficiencies in the operations of audit organizations and affects their effectiveness.

3. Although significant progress has been made in the development of auditing in Azerbaijan over the last decade, there are still unresolved issues in this field. For instance, the services provided by foreign auditing organizations in the market are consistently of higher quality and volume. So far, the share of mandatory audits in the market remains high, with

local audit firms preferring this type of service. Problems such as unfair competition, poor service quality, and deliberate undervaluation of contract values are also noticeable in the service market.

4. The development of the services provided must be directly related to the improvement of the professional and technical qualifications of audit personnel and the digitalization of the service market.

5. In the modern era, the following directions are crucial for the development of auditing in Azerbaijan:

- Improvement of the normative-legal framework of auditing;
- Enhancement of audit service quality and the development of effective quality control methods;
- Expansion of the application of various audit service types;
- Acceleration of regional development in auditing in Azerbaijan and the implementation of stimulating measures in this area;
- Expediting the organization and regulation of digital audit services.

The dissertation work is reflected in the following scientific works:

1. Gasimova.I.V. “The Impact of Auditing on the Development of Market Relations in Modern Conditions”, “Strategic Roadmap of the Azerbaijani Economy: accountability and transparency issues” International Scientific-Practical Conference, Baku. September 21-23, 2017, pp. 445-448.

2. Gasimova.I.V. “The Need for the Development of the Accounting and Auditing System in the Republic of Azerbaijan”, “Accounting: Achievements and Scientific Prospects of the 21st Century” International Scientific-Practical Conference, Moscow, November 28, 2019, pp. 126-130.

3. Gasimova.I.V. Ahmadov.G.N. “Digitalization in Auditing”, International Scientific-Practical Conference “Accountability and Transparency in the Digital Economy”, Baku, September 16, 2022, pp. 238-241.

4. Gasimova.I.V. “Auditor Activity in Azerbaijan”. Proceedings of the 1st International Scientific Conference “Scientific Results”, Rome, Italy, October 20-21, 2022, No. 1, pp. 17-26.

5. Gasimova.I.V. “Quality Factors in Auditor Services”, International Scientific-Practical Conference dedicated to the 100th

Anniversary of the National Leader of the Azerbaijani People, Heydar Aliyev, on the Topic of “Competition as a Key Factor for Sustainable Development,” Baku, April 28, 2023, pp. 169-172.

6. Gasimova.I.V. “Formation and Development Trends of Auditing Services in the Republic of Azerbaijan”, News of the National Academy of Sciences of Azerbaijan, Series of Economic Sciences. Baku, 2018, No. 6, pp. 242-248.

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12. Gasimova.I.V. “Development Indicators of Audit Services and Problems of the Audit Service Market in the Republic of Azerbaijan”, Azerbaijan State University of Economics Scientific Reviews Baku 2024 № 12 (4) s. 56-69

13. Gasimova.I.V. “The development of audit services as a guarantee for the formation of a fair competition environment in a society model based on dynamic, inclusive, and social progress” “AUDIT” Scientific-practical journal, Baku 2024, 4(46) s.21-34.



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