Azerbaijan

Public Expenditure and Financial Accountability (PEFA) Performance report: Repeat assessment

December 10, 2014

Document of the World Bank

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Confédération suisse
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Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Currency and equivalent units

(Exchange Rate Effective December 10, 2014)

Currency Unit	=	Azerbaijan New Manat (AZN)
US$1	=	0.784 AZN
Euro 1	=	0.972 AZN

Government fiscal year

January 1 to December 31

PEFA assessment period

2011 - 2013

Weights and measures

Metric system

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Acronyms and abbreviations

AGA	Autonomous Government Agency
AZN	Azerbaijan new manat
Budget System Law	The Law on Budget System of the Republic of Azerbaijan (with all amendments until 2009)
CAAT	Computer assisted auditing tools
CAPSAP	Corporate and Public Accountability Project
CBA	Central Bank of Azerbaijan
CC	Chamber of Commerce
CIT	Corporate Income Tax
Civil Service Law	Law of the Republic of Azerbaijan on Civil Service
CoA	Chamber of Accounts
CoFoG	Classification of the Functions of Government
CoM	Cabinet of Ministers
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CPI	Consumer Price Index
Customs Code	Customs Code of the Azerbaijan Republic
DCIO	Department for cooperation with international organisations, Ministry of Economy and Industry
DSA	Debt Sustainability Analysis
ECA	Europe and Central Asia
EFS	Higher Oversight Entities
EITI	Extractive Industries Transparency Initiative
EPC	Economic Policy Committee
EU Delegation	Delegation of the European Union to Azerbaijan
EUROSAI	European Organization of Supreme Audit Institutions
FARABI	Financial and Accounting Reporting Application for Budgetary Institutions
FMIS	Financial Management Information System
FY	Fiscal/financial year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM 1986	Government Finance Statistics Manual (IMF, 1986)
GFSM 2001	Government Finance Statistics Manual (IMF, 2001)
GIZ	Gesellschaft für Internationale Zusammenarbeit
IBA	International Bank of Azerbaijan
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International standards of audit
ISSAI	International Audit Standards for Supreme Audit Institutions
MDAs	Ministries, Departments, Agencies
Milli Majlis	National Assembly, the legislative branch of the Azerbaijan Government
MEI	Ministry of Economy and Industry
MoE	Ministry of Education

MoF	Ministry of Finance
MoH	Ministry of Health
MoT	Ministry of Taxes
MTEF	Medium Term Expenditure Framework
NA	Not Applicable
NACAP	National Anti-Corruption Action Plan
NAR	Nakhchivan Autonomous Republic
NASBO	National Accounting Standards for Budget Organizations
PA	Procurement agency
PCOEP	Parliamentary Commission on Economic Policy
PDMA	Public Debt Management Agency
PDS	Public Debt Sustainability
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIN	Payee Identification Number
PIs	Performance Indicators
PIT	Personal Income Tax
PIU	Project Implementation Unit
PMF	Performance Measurement Framework
PPL	Law on Public Procurements
PRSP	Poverty Reduction Strategy Paper
PSAs	Production-Sharing Agreements
RoA	Republic of Azerbaijan
SAI	Supreme Audit Institutions
SAP	Systems and data processing software developed by SAP AG
S&P	Standard and Poor's
SCC	State Customs Committee
SECO	Swiss State Secretariat for Economic Affairs
SCS	State Committee for Securities
SCoS	State Committee on Statistics
SFCS	State Financial Control Service
SIP	State Investment Program
SNG	Subnational Government
SOCAR	State Oil Company of the Azerbaijan Republic
SPA	State Procurement Agency
SPPRED	State Program for Poverty Reduction and Economic Development
SSPF	State Social Protection Fund
STA	State Treasury Agency
TIMS	Treasury Information Management System
TIN	Tax Identification Number
TSA	Treasury Single Account system
USD	United States Dollar
VAT	Value Added Tax
Vision 2020	Azerbaijan 2020: Vision for the Future
WB	World Bank

Executive Summary

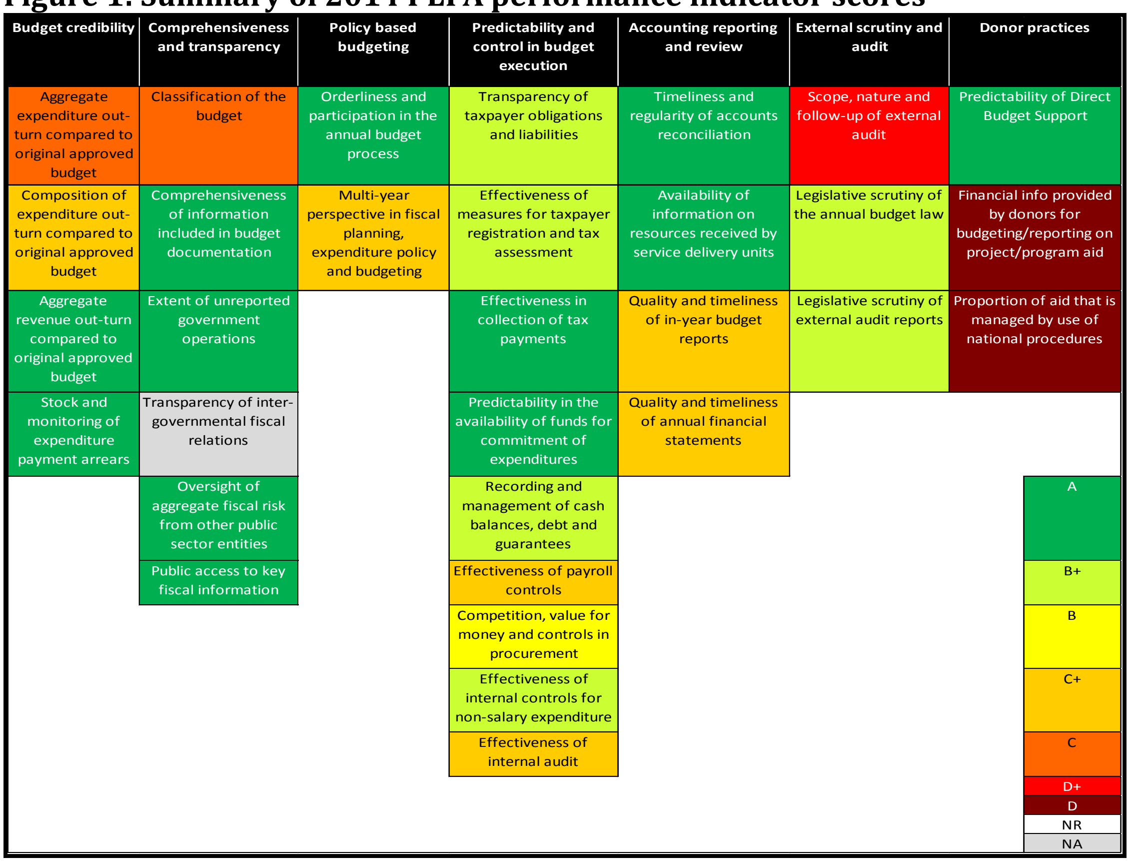
A public expenditure and financial accountability (PEFA) repeat assessment was conducted in the Republic of Azerbaijan (RoA) between February and July 2014 by an independent expert team, led by the World Bank (WB). The assessment was financed jointly by the Swiss State Secretariat for Economic Affairs (SECO), the European Union Delegation to Azerbaijan (EU Delegation) and WB. A previous assessment was performed in 2008 but not published.

The results indicate that RoA has achieved good performance in many areas covered by the PEFA framework. Overall, the PFM framework has improved significantly since the 2008 assessment. The areas of strength include comprehensiveness and transparency of information, predictability in availability of funds, timeliness of information available in the financial system and no payment arrears.

There remain areas where further effort is needed to strengthen capabilities including independent scrutiny and oversight in relation to tax administration, procurement, internal audit and external audit.

The main findings of the assessment are summarised in the Figure 1.

Figure 1: Summary of 2014 PEFA performance indicator scores



2014 PEFA performance indicator scores

PFM Performance Indicator		Overall Rating		2014 Dimension Ratings			
		2008	2014	i.	ii.	iii.	iv.
A. PFM-out-turns: credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	**C**	C			
PI-2	Composition of expenditure out-turn compared to original approved budget	B	**C+**	C	B		
PI-3	Aggregate revenue out-turn compared to original approved budget	A	**A**	A			
PI-4	Stock and monitoring of expenditure payment arrears	B+	**A**	A	A		
B. Key cross-cutting issues: comprehensiveness and transparency							
PI-5	Classification of the budget	D	**C**	C			
PI-6	Comprehensiveness of information included in budget documentation	B	**A**	A			
PI-7	Extent of unreported government operations	A	**A**	A	A		
PI-8	Transparency of inter-governmental fiscal relations	B	**NA**	NA	NA	NA	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B+	**A**	A	NA		
PI-10	Public access to key fiscal information	B	**A**	A			
C. Budget cycle							
C(i) Policy-based budgeting							
PI-11	Orderliness and participation in the annual budget process	B+	**A**	A	A	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	**C+**	C↑	B	D↑	B
C(ii) Predictability and control in budget execution							
PI-13	Transparency of taxpayer obligations and liabilities	B	**B+**	B	A	B	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+	**B+**	A	C	A	
PI-15	Effectiveness in collection of tax payments	C+	**A**	A	A	A	
PI-16	Predictability in the availability of funds for commitment of expenditures	A	**A**	A	A	A	
PI-17	Recording and management of cash balances, debt and guarantees	A	**B+**	B	B	A	
PI-18	Effectiveness of payroll controls	C+	**C+**	B	A	A	C
PI-19	Competition, value for money and controls in procurement	B	**B**	B	A	B	D
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	**B+**	A	B	A	
PI-21	Effectiveness of internal audit	D	**C+**	C	B	B	
C(iii) Accounting, recording and reporting							
PI-22	Timeliness and regularity of accounts reconciliation	A	**A**	A	A		
PI-23	Availability of information on resources received by service delivery units	D	**A**	A			
PI-24	Quality and timeliness of in-year budget reports	C+	**C+**	C	A	A	
PI-25	Quality and timeliness of annual financial statements	C+	**C+**	B	A	C	
C(iv) External scrutiny and audit							
PI-26	Scope, nature and follow-up of external audit	D	**D+**	D↑	A	A	
PI-27	Legislative scrutiny of annual budget law	C+	**B+**	B	B	A	A
PI-28	Legislative scrutiny of external audit reports	C+	**B+**	A	A	B	
D. Donor practices							
D-1	Predictability of direct budget support	NR	**A**	A	A		
D-2	Financial information provided by donors for budgeting/reporting on project/program aid	D+	**D**	D	D		
D-3	Proportion of aid managed by national procedures	D	**D**	D			

Azerbaijan - PEFA Performance report: Repeat Assessment
December 2014

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the ‘**PEFA CHECK’**.

PEFA Secretariat

December 9, 2014

Summary assessment

(i) Integrated assessment of PFM performance

1) Credibility of the budget

The RoA faced significant economic challenges in 2011 as a consequence of an economic slowdown and natural disasters. In order to stimulate aggregate demand, the RoA increased substantially the amount of correction to the annual state budget in 2011, which led to higher than originally approved spending. This had a dampening effect on respective PEFA ratings. The PEFA scores for the 2014 assessment on expenditure variances were lower than the 2008 assessment because the size of in-year adjustments during 2011 were more substantial than occurred during any of the years in the previous assessment. Revenue received in 2011 also departed significantly from budget estimates. However the rating remained at the highest level of the PEFA scoring range because the variation was within the limit set for this indicator.

The fact that the Government was able to reduce the variances between budget approved and outturns in expenditure and revenue in 2012 and 2013 indicates that they had taken effective measures to improve estimation and management of the budget following the challenges of 2011.

There were no arrears during the assessment period because the Government retained sufficient cash balances to meet obligations when, and even before, they fell due. The Treasury Information Management System (TIMS) enables detailed and accurate monitoring of commitments and payments.

2) Comprehensiveness and transparency

The RoA performs well in terms of comprehensiveness and transparency of budget information. However, differences between RoA classifications and Government Finance Statistics (GFS) have resulted in lower scores in this group of indicators. Budget documentation includes all of the elements expected under the PEFA methodology except details of fiscal deficits and financial assets.

Fiscal deficits are reported, but they do not fully comply with the International Monetary Fund (IMF) Government Finance Statistics Manual (GFSM). The current functional classification was developed in collaboration with the IMF and World Bank in 2004, however it is not fully consistent with GFSM classification because it includes one additional high-level function. The Minister of Finance has approved a draft order to address the deviation from GFSM and this is expected to be taken forward after the 2015 budget deliberations are finalised.

Municipal government operations are negligible as a share of total government activity and have not been rated in this assessment. The region and rayon[1] administration network is funded mainly from central government tax revenue, including the receipts from most national taxes collected in each area. Rayon budgets may be supplemented by central government where locally collected revenues do not cover expenditure in full. In 2013 budget revenue generated in rayons was estimated at AZN 696 million, supplemented by AZN 816 million in transfers from central government.

Reporting on public enterprises and extra-budgetary funds is provided to a high standard in RoA. All major public enterprises submit fiscal reports to central government quarterly and their accounts are audited annually.

The public has access to most types of information that is considered essential according to the PEFA methodology in relation to the RoA central government budget with one exception. Brief summaries of Chamber of Accounts (CoA) reports are available to the public, but the full reports are not. The range of budget-related information available is more extensive than reported in the 2008 assessment.

CoA activity reports are submitted to the Milli Majlis. Hard copies of these reports are distributed to members of parliament in advance, and then discussed at the plenary sessions in Milli Majlis. The summary of activity reports, notices of key meetings and speeches by the Chairman of the CoA are published on the official internet site[2]. The CoA is developing and improving its audit activities through internal leadership and external support so this may be an area that will show further improvement in future.

The budget information reviewed in the 2014 PEFA assessment is more comprehensive and transparent than in 2008 due to an improvement in the budget classification, particularly in relation to the classification of investments. The information included in budget documentation is more thorough and the quality and detail relating to extra-budgetary operations has improved. Moreover central government monitoring of public enterprises was more frequent and public access to key fiscal information had improved.

3) Policy-based budgeting

The budget preparation process for the 2014 budget was orderly and participative. There is a clear and detailed budget calendar in the Budget System Law[3] and it was followed in line with the law during the assessment period, allowing budget entities two months to complete detailed estimates. A comprehensive budget circular was issued to budget entities in 2013 reflecting

[1] Rayons are sub-regional entities.
[2] The CoA website is accessible at: www.ach.gov.az
[3] *The Law on Budget System of the Republic of Azerbaijan* (with all amendments until 2009)

ceilings approved by Government. The past three budgets, 2012 to 2014, were approved before the beginning of the fiscal year.

The draft consolidated budget for 2014 presented to the legislature included data on the budget year and projections for three years on a rolling basis. There is evidence of medium-term budgeting being used to manage multi-year shifts in spending patterns in relation to state programs, investment expenditures and administrative expenditures for central ministries and regional administrations. There are some links between the national development agenda set out in *Azerbaijan 2020: Outlook for the Future (Vision 2020*), ministry level strategic plans and budget submissions, particularly in relation to state program expenditures and targets, but Ministry strategies are not costed separately in some cases.

The IMF undertook Public Debt Sustainability (PDS) analysis in 2011 and 2013. Debt was not a significant issue in the previous PEFA assessment but needed more attention during this review. The current arrangements are adequate to provide the information required, however, the government is strengthening its debt management capability with support from international partners.

Sector strategies were prepared for all sectors in 2013. The strategies incorporate sectoral targets and priorities included in *Vision 2020*. Some of the strategies are not specifically costed, but the programs and initiatives included in the strategies are reflected in fully developed medium term budget plans. The majority of substantial investments were selected on the basis of relevant sector strategies and recurrent cost implications, in accordance with sector allocations, and included in forward budget estimates for each sector.

The overall process of policy-based budgeting improved in 2013 and 2014 compared to the previous 2008 PEFA assessment. The primary driver for this improvement was the application of the new Presidential Decree No. 239 of March 2010, which required strict monitoring of the development, execution and assessment of the State Investment Program (SIP). The SIP is integrated into the budget process and the changes have resulted in more discipline and rigour in the overall budget preparation and execution process.

4) Predictability and control in budget execution

There is mixed performance in terms of predictability and control of budget execution. There are some beneficial features of tax administration in terms of the access to information, registration and outreach provided by the Ministry of Taxes (MoT) across the country. Collection of revenue improved since the last assessment. Administration of procurement and the role of the State Procurement Agency (SPA) have also been strengthened during the last three years.

The SPA maintains a website with information on planned and completed procurements in addition to information and resources for procurement agencies

(PAs) and other users. However, the absence of independent appeals arrangements for tax administration and procurement means that the external pressure exerted by such mechanisms on authorities to perform at the highest standard is not strong in RoA. Development of these functions could improve public confidence in the fairness of treatment they receive.

There is a detailed framework of internal controls at all levels and stages of the budget execution process through multiple controls supported by electronic systems. Personnel and payroll information is managed well and records are updated and reconciled regularly. The Financial Accounting and Reporting Application for Budgetary Institutions (FARABI) system being implemented includes a module for unification of personnel data, payroll and other human resource management functions. The FARABI system aims to provide stronger integration and reconciliation arrangements for payroll and personnel data. The absence of comprehensive payroll audit across the whole of central government is an area of concern, but could be addressed if CoA expanded its activities in future to cover a larger proportion of the payroll activities, including payroll audit.

Cash flow management is functioning well and Ministries, Departments and Agencies (MDAs) are able to plan their cash needs at least six months in advance. There is scope to improve debt management reporting and reconciliation, which may be addressed through systems improvements that are under consideration by the Public Debt Management Agency (PDMA) of the Ministry of Finance.

Budget inspection and internal audit have improved since the last assessment through stronger performance across all dimensions of planning, reporting and action on audit findings. The RoA has benefited from international donor support for internal and external audit, including twinning arrangements with European countries. There is scope for further strengthening of internal audit arrangements and the State Financial Control Service (SFCS) of the Ministry of Finance has established a new unit for internal audit. The SFCS is also financing internal audit advisors for other organizations, including the State Customs Committee (SCC) and the Ministry of Economy and Industry (MEI).

5) Accounting, recording and reporting

The RoA continues to have strong processes for account reconciliation. It scores at the highest level for reconciling all central government accounts daily and clears advances at least monthly, in accordance with Treasury regulations. This is consistent with 2008 arrangements. In-year reporting is also strong, with reports being provided monthly and within four weeks of the end of each quarter. Although there remains a need for improvement of information at the commitment level, reports are comparable with budget classifications and include all information in relation to payments.

The TIMS, implemented since the last PEFA assessment, has contributed to improvement across many areas of budget execution and reporting. However this has only resulted in increases in indicator scores for a few areas, often because RoA already had strong performance in many areas affected by TIMS at the time of the 2008 PEFA assessment.

The benefit of improvement arising from TIMS is particularly noticeable in relation to availability of information on resources for service delivery units. The TIMS provides high quality information, electronically, in real time on the allocation and disbursement of funds. The availability of this information appeared to have been a challenge during the 2008 assessment.

Annual financial reports regularly meet the deadline set in legislation for submission to the Parliament (Milli Majlis), which is within six months of the end of the financial year.

6) External scrutiny and audit

External audit is at an early stage of development in RoA. The CoA is able to review approximately 30 percent of central government expenditure annually and its work is primarily focused on compliance and control matters. The CoA legislation provides a wide scope and the Chamber has adopted International Organization of Supreme Audit Institutions (INTOSAI) standards as a basis for its work. The CoA provides a report on the annual budget execution each year that identifies issues and recommendations that are followed up by the Economic Policy Committee (EPC) of Milli Majlis. The CoA is making progress on improving its performance in many respects. It is strengthening work planning arrangements, piloting the conduct of financial and performance audit, and working with international organizations to build its capacity and improve audit quality.

The budget calendar allows two months for Milli Majlis to review budget documents, which is considered sufficient time for scrutiny of the Government's proposals. The arrangements for review are orderly and respected, and comply with parliamentary conventions. There are written procedures for legislative scrutiny and debate and a committee structure exists which reviews the budget proposals in detail. Procedures were approved in 2010 for budget discussions which will apply for the following five years and the discussions are recorded in parliamentary proceedings. The procedures for budget discussions can be varied from standard procedures, subject to the parliamentary rules, for example to allow for longer presentations by members on matters of importance in budget sessions.

The EPC reviews budget documents and audit reports. It invites all relevant public sector organizations to its hearings and provides recommendations and comments to the Executive, which acts on some of the recommendations. The CoA is invited to all relevant meetings of EPC in relation to matters within its mandate.

(ii) Assessment of the impact of PFM characteristics

Aggregate fiscal discipline in RoA was maintained effectively during the assessment period, with the exception of 2011 when external factors outside the control of Government prompted corrective action within the budget year. This action resulted in a substantial shift in allocation to infrastructure investments and social protection.

The RoA's capability to maintain fiscal discipline is supported by effective monitoring of public enterprises and guarantees, regular debt sustainability analysis, orderly and well-functioning budget process, and broad coverage of central government revenue and expenditure in the budget process. Budget ceilings are set for the current and next budget year. Indicative ceilings are developed for other years by MoF but they are not communicated to budget organisations.

The control exercised by RoA over revenue and tax collections means that cash planning can be made in a more predictable environment, although revenue remains dominated by money from natural resources. Expenditure controls are effective, reducing the risk of accumulating unmanageable obligations.

Timely reconciliation of revenue and expenditure, and regular financial reporting, provide government with up-to-date information for monitoring progress. The limited nature of audit and independent scrutiny entails both a risk to the effectiveness of government operations and a missed opportunity for improving fiscal discipline.

Improvement in PFM systems since 2008 has added support to aggregate fiscal discipline in the 2014 assessment. Revenue forecasts have improved and expenditure obligations are more accurately monitored as a result of TIMS. Other enabling factors such as improved monitoring of public enterprises and additional reporting, required under Presidential Decree No. 239, have contributed to better information on the budget.

Strategic resource allocation is supported by good fiscal discipline in most years and a well-functioning budget process. The strength of in-year allocation and control processes helps to ensure that budget decisions made by Milli Majlis are implemented, although the limited role of audit and external review means that misallocation may not be identified or effectively followed up.

The foundation for strategic allocation of resources improved between 2008 and 2014 as a result of developments in several areas. The introduction of TIMS allowed better monitoring of resources received by service delivery agencies and strengthened reporting and control arrangements. Improvements in the budget classification and preparation, particularly in relation to the investment budget, have supported more effective resource allocation, although further improvements in classifications would enable a better alignment with GFSM.

RoA demonstrates orderly budget preparation, strong cash planning and timely information on resources for service delivery. This provides a firm basis for planning by service providers. The information on budgets is complemented by effective commitment management internal controls to ensure that money is used in accordance with clear decisions and rules. Medium term investment planning is incorporated into the budget process. Internal and external audit have improved since the last assessment, but this remains an area where strengthening of arrangements could help to improve the efficient and effective use of funds for meeting government priorities.

Improvements in procurement administration, coordination and accessibility since 2008 have been beneficial to efficiency and cost control. However the persistent use of non-competitive methods and limitations on independent review and complaints arrangements mean that there is further scope for improving efficiency by strengthening transparent and competitive procurement. It is promising to note that proposals have been prepared to achieve this and have been provided to authorities for consideration.

The strengths of the RoA PFM system include the comprehensiveness of central government coverage, sound budget processes with effective control and good reporting arrangements. These have contributed to the achievement of aggregate fiscal discipline, allocation of resources as approved by Milli Majlis and efficient service delivery. However, there is scope for improvement in the integration of medium-term planning and budgeting arrangements, more extensive use of open and competitive procurement and increasing the quality, scope and impact of audit. Those improvements would offer significant benefits in terms of all three broad objectives of PFM. More detail on opportunities for improvement is provided throughout Section 3 of the report.

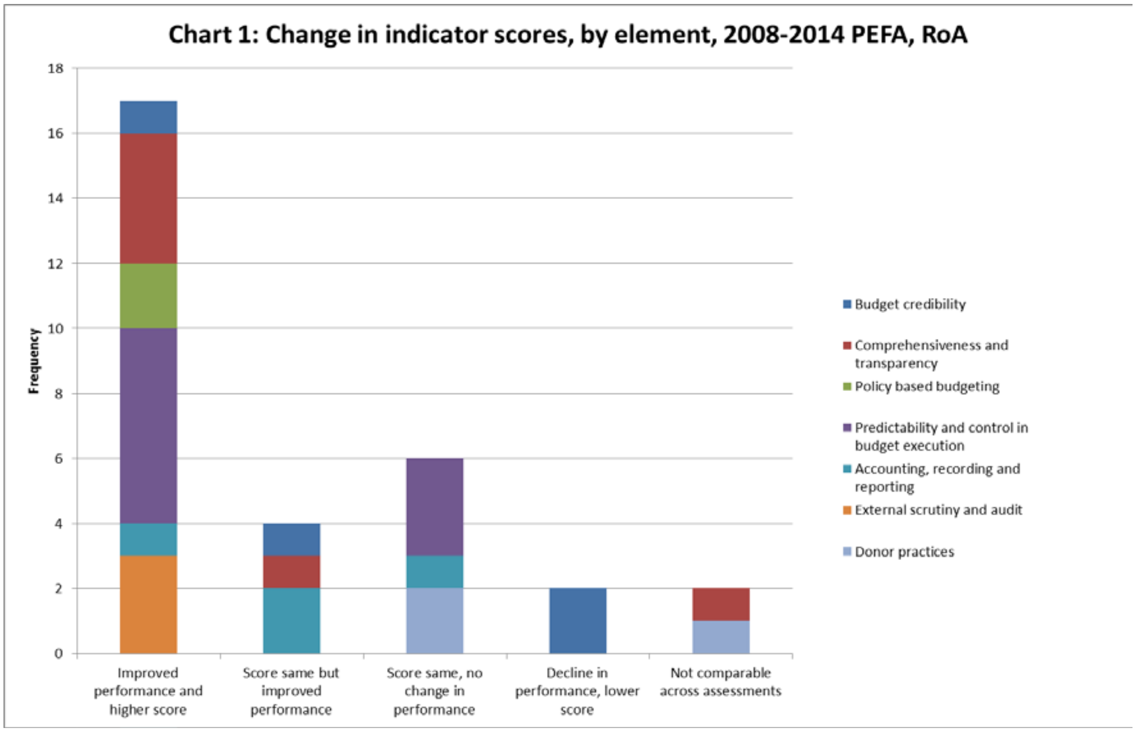
(iii) Prospect for reform planning and implementation

The Ministry of Finance (MoF) plays a strong role in leadership of PFM reform arrangements within RoA, supported by other Government organizations, the EPC and CoA. The RoA's commitment to improving PFM is illustrated by the improvement across many PEFA indicators since the 2008 assessment. At the national level, reform planning is supported by the national development agenda set out in *Vision 2020*, which identifies the importance of continued institutional reform, strengthening fair competition and citizens' rights, better public services and improved strategic planning.

The RoA is continuing to improve PFM but more reform is needed in some areas, as illustrated by the variation in PEFA scores. For example, although efforts are being made to strengthen internal and external audit arrangements, the scores of other indicators continue to be higher relative to this area, and suggest that there is scope for continued improvement.

(iv) Overview of performance changes (2008 and 2014)

There was a significant improvement in scores across all elements of the PEFA framework for RoA (except donor practices) between the 2008 and 2014 assessments, as shown in Chart 1.



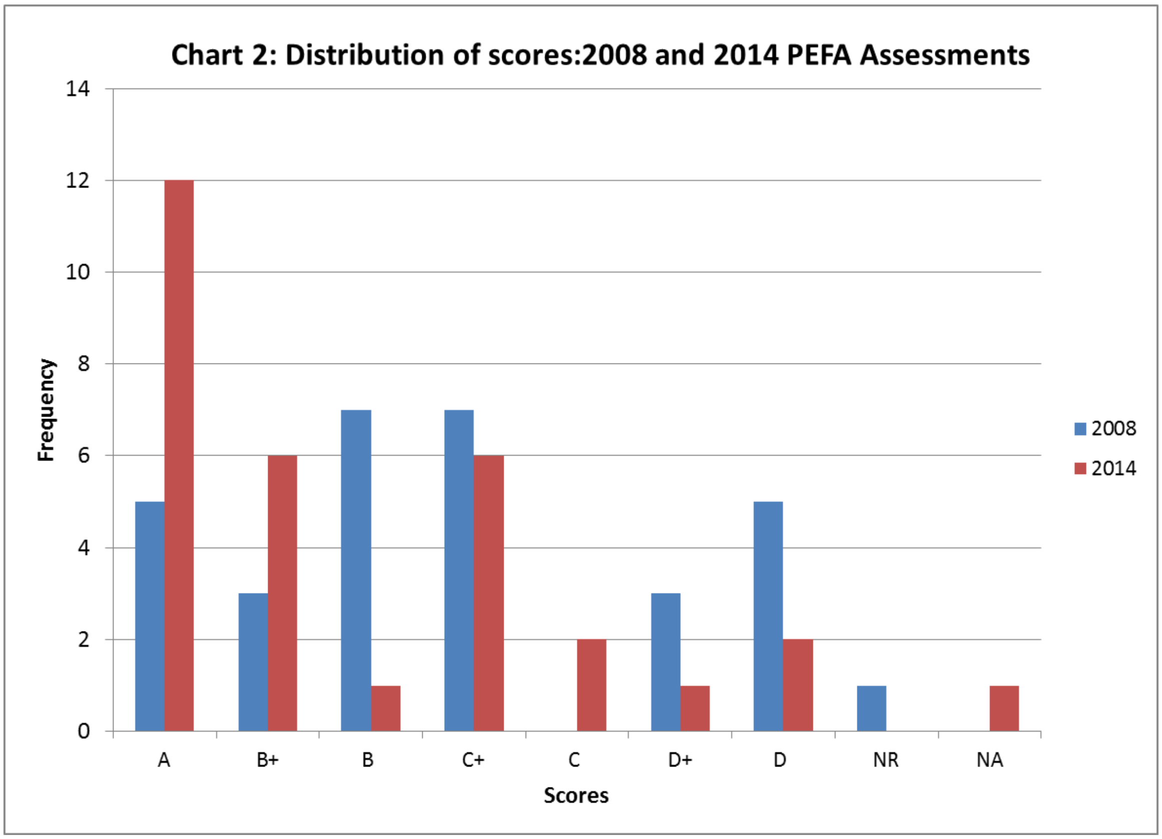
Source: PEFA Assessments 2008 and 2014

Improvements in scores were recorded in 17 of the 31 indicators. Performance also improved in seven indicators where the scores did not change, either because the ‘weakest link’ (M1) scoring method was used, which did not reflect improvements in indicator dimensions, or the 2008 score was already the highest possible in the PEFA range.

There was a real decline in performance for only two indicators, PI-1 and PI-2, which relate to expenditure variance. Three indicators were not comparable between assessments because of changes in methodology or because of different interpretations by assessors across the two reports. For example, PI-8, relating to transparency of intergovernmental relations, was not scored in 2014, although it had been in 2008. Debt sustainability (PI-12, ii) was not scored in 2008 because the level of debt was considered insignificant but this was scored in 2014.

The two indicators where a decline in performance was identified relate to differences in the information available to assessors and supplementary guidance from the PEFA Secretariat since the last assessment. If the 2008 indicators were re-assessed by the 2014 team, it is unlikely that a decline in performance would have been shown because conditions are largely unchanged for those indicators.

Chart 2 provides further information on the distribution of scores in 2008 and 2014. The improvements across the full range of performance indicators resulted in more than doubling of 'A' scores from five in 2008 to twelve in 2014. Two donor practices indicators scored 'D' in 2014 and these were the only D scores. All other indicators scored higher than D. The two donor indicators that were rated D should not be taken as a completely negative reflection on donors. Although there is scope to improve the use of country PFM systems, which donors are obliged to consider under the Busan partnership for effective development cooperation[4], the low score for provision of information to government was because it was not requested by the relevant ministry. MEI obtained all necessary information from implementing entities and did not seek additional data from donors. It is likely that donors would have provided the information if it had been requested so the D scores do not indicate a lack of communication and cooperation.



Source: PEFA Assessments 2008 and 2014

[4] Details of the Busan partnership for effective development cooperation can be found at http://www.oecd.org/dac/effectiveness/busanpartnership.htm

1. Introduction

1.1 Background and objectives

The objective of this PEFA repeat assessment is to provide the RoA Government with an evaluation of the performance of its PFM arrangements. It follows a previous (unpublished) assessment performed in 2008. This report includes reference to relevant information from the 2008 assessment where appropriate.

The PEFA evaluation process seeks to provide a better understanding of PFM performance, including identification of areas where further attention is needed to strengthen the PFM framework and move to a higher standard in terms of internationally accepted good practice. It also provides a reference for the government to assist in the preparation of a PFM reform action plan. Such a plan would aim to improve performance in areas where there is a significant gap between RoA and internationally accepted good practice, particularly in relation to areas highlighted in the PEFA assessment.

1.2 Process of assessment and report preparation

This assessment is a joint project funded by SECO, EU and WB. The project team[5] included WB staff, from Washington DC headquarters and the Baku office, and local and international consultants with experience in PEFA assessments.

Government involvement in the PEFA assessment was coordinated by the MoF, Budget Department, which assisted with logistics and communications with other Government bodies and public sector institutions. The Budget Department followed up on request for data and documents from other organisations and sought to ensure that the right people were included in meetings with the team and that they were aware of what was expected of them. The Budget Department also coordinated comments on the draft report. The team is particularly indebted to His Excellency Mr Samir Sharifov, Minister of Finance, Mr Fazil Farajov, Director of Budget, and Mr Fuad Ganjaliyev, Chief of Division, Budget Department, for their support to the project and the extensive time committed to assisting the PEFA project team.

1.2.1 Methodology

The PEFA Performance Measurement Framework (PMF) is an integrated monitoring system that allows measurement of PFM performance for a specific time period. In this report the assessment period covered information from 2011 to 2014. The current assessment framework includes 28 indicators structured into three categories: PFM system out-turns; cross-cutting features of the PFM

[5] Assessment team composition and roles are summarized in Annex 6. The report was edited by Carol Kiernan.

system; and the budget cycle. The assessment also considers three donor-specific indicators.

The assessment is based on review of published macroeconomic and fiscal data of the central government, documents relating to the operation of PFM systems, research studies on various aspects of fiscal and financial management, and interviews with government officials in relevant ministries, directorates, departments and other institutions to collect information for scoring the performance indicators (PIs).

The PEFA PMF applies a scoring system on a scale from A to D, with A being the highest and D the lowest rating of PFM performance. In this assessment for RoA, the performance indicators are scored using methodologies prescribed by the PEFA PMF, and other guidance and practical tools issued by the PEFA Secretariat.[6] The report provides background information, procedures and processes related to the relevant indicators to provide context and to support the scoring. It also includes a review of economic and fiscal developments, institutional arrangements, legal and regulatory frameworks to explain the broader operating context of the PFM system.

The PEFA guidelines for repeat assessments provide a framework for presentation of the comparative assessment parts of this report because a previous assessment was performed in 2008, though it was not published.

The PEFA report for RoA has involved the following activities:

1. Drafting and review of the PEFA concept note (December 2013-January 2014).
2. Selection of external consultants by the EU Delegation with participation of MoF staff and comments from WB (January 2014).
3. Video and audio conferences between WB, development partners, government officials and team members to discuss the approach and assessment of key issues (January-March 2014).
4. Team discussions and meetings with RoA MoF key counterparts (February and March 2014).
5. WB request for data and meetings sent to MoF (early March 2014).
6. Team review of existing documentation[7] (from 18 March 2014).
7. Fieldwork (31 March – 13 April 2014).
8. PEFA introductory seminars on 1 and 4 April 2014 for over 50 participants mainly from MoF, other entities of central government, EU Delegation, SECO, Asian Development Bank, Oxfam, Gesellschaft für Internationale Zusammenarbeit (GIZ) and WB.

[6] PEFA Secretariat, *Public Financial Management Performance Measurement Framework*, Washington DC, January 2011. Other guidance and tools used include the *PEFA Fieldguide, Good Practice when Undertaking a Repeat Assessment, PEFA CHECK*, Concept Note and Terms of Reference Checklist, *and Good Practices in Applying the PFM Performance Measurement Framework*. These materials were accessed from the PEFA Secretariat website: www.pefa.org.

[7] Refer to Annex 6.

9. Meetings and working sessions between team members and government counterparts in all entities relevant to PEFA assessment (2–11 April 2014).
10. Aide memoire explaining main activities, findings and next steps sent to the Government by WB (May 2014).
11. Informal discussion of preliminary draft assessment for all indicators with MoF (May 2014).
12. Draft report provided to Government and peer reviewers (July 2014).
13. Second field visit for discussions with key stakeholders on detailed elements of report and methodological issues (August 2014).
14. Revised report prepared and submitted for quality assurance to PEFA Secretariat and WB management (October-November 2014).
15. Final report provided to the Government (December 2014).
16. Government will publish the final PEFA report on MoF website (2014).

1.2.2 Structure of the report

The remainder of the report is structured as follows:

- Chapter 2 provides background information and the economic and fiscal context for the assessment.
- Chapter 3 explains the scores for all 31 indicators.
- Chapter 4 describes the government's PFM reform program.
- Annexes 1-8 provide more detailed reference information.

1.2.3 Quality control process

Report quality was assessed by the PEFA Secretariat and peer reviewers. The Secretariat reviewed the draft report to establish the consistency of the assessment against the PEFA methodology and PEFA CHECK quality assurance requirements were applied. Further details of these processes are provided in Annex 5.

1.3 Scope

This PEFA repeat assessment covers the State budget for central government, including expenditure for the 66 cities and rayons. Actual expenditure of the State budget amounted to AZN 19,112.6 million in 2013 or 87.4 percent of the consolidated budget. The State budget[8] of RoA is comparable with the central government budget[9], excluding externally financed projects[10], the State Oil Fund of Azerbaijan (SOFAZ), the State Social Protection Fund (SSPF) and the budget of the Nakhchivan Autonomous Republic (NAR), an autonomous state within RoA.[11].

[8] Item 1, Table 1.
[9] As per IMF GFSM (2001) definition.
[10] Item 2, Table 1.
[11] Constitutional amendment 2009, article 134-141.

SOFAZ and SSPF are extra-budgetary funds but their operations are publicly reported.[12]

Table 1: State and consolidated real budget expenditure 2012 and 2013

	2012		2013	
	AZN million	As % of Total consolidated budget	In AZN million	As % of Total consolidated budget
1. State budget expenditure	17,417	86.8	19,143.5	86.2
includes:				
1.1 Current expenditure	*9,278*	--	*9,193*	--
1.2 Capital expenditure	*2,162*	--	*2,308.2*	--
1.3 Investments (projects)	*5,763.7*	--	*6,913.8*	--
2. Externally financed projects	1,000	5.0	835	3.8
3. SOFAZ (*)	639		1,148	
4. SSPF (**)	957		1,039	
5. NAR (***)	61		53	
6. consolidated budget (=1+2+3+4+5)	**20,072**	**100**	**22,218**	**100**

(*) Excludes transfers to the State budget (AZN 9,905 million in 2012 and AZN 11,350 million in 2013)
(**) Excludes transfers from the State budget (AZN 1,044 million in 2012 and AZN 1,077 million in 2013) and the percentage of the wage bill in the State budget transferred to SSPF for social security contributions (AZN 456 million in 2012 and AZN 473 million in 2013)
(***) Excludes transfer to NAR from the State budget (AZN 258 million in 2012 and AZN 278 million in 2013)
Source: Calculations of the PEFA team based on the executed budgets for 2012 and 2013 (MoF)

A significant amount of SOFAZ outlays represent transfers to the State budget: AZN 9,905 million in 2012 and AZN 11,350 million in 2013 respectively. Transfers from the State budget to the SSPF amounted to AZN 1,044 million in 2012, and AZN 1,077 million in 2013 respectively. The State budget transferred AZN 251 million and AZN 278 million to NAR in 2012 and 2013 respectively.

[12] See P1-7.

2. Country background information

The RoA is one of three states in the Caucasus region, which were formerly part of the Soviet Union. It is a Presidential Republic. The President is elected every five years and appoints the Prime Minister and other Ministers, the Governors of the rayons, members of the judiciary and many other office holders. The single chamber Parliament, Milli Majlis, enacts legislation that comes into effect when promulgated by Presidential decree.

2.1 Economic context, development and reforms

Robust economic growth in RoA during 2002 to 2010, due to oil revenue receipts and the development of the non-oil sector, led to a reduction in poverty. Increasing oil production and favourable oil prices underpinned the growth performance of the RoA economy in this period with overall economic growth averaging 16 percent a year. Oil GDP grew by 22 percent per annum while non-oil GDP expanded by 11 percent. Poverty declined from nearly 50 percent in 2001 to 13.2 percent in 2008 and further to 5 percent in 2013.[13] The current account registered a surplus (16.7 percent of GDP in 2013) in recent years but the deficit in the non-oil current account persisted (23.6 percent of non-oil GDP in 2013). The country built up foreign exchange reserves (nearly 70 percent of the GDP in 2013) and reduced its debt levels.

The long period of economic growth continued in 2011, albeit at a slower rate. The oilfield yields in RoA did not correspond with expectations resulting in increased costs and lower production from 2011. The RoA experienced one of the lowest growth rates in 2011 compared with other countries in the Europe and Central Asia (ECA) region. The pace of economic activity continued to be subdued in 2012 largely due to a decline in oil and gas production, despite 9.7 percent growth in the non-oil economy, highlighting the dominance of the oil and gas sector. Stabilization of oil production in 2013 enabled the economy to grow by 5.8 percent that year.

The Government used saved oil receipts to boost growth in the non-oil sector. Non-oil GDP growth has exceeded oil sector growth since 2008, with the exception of 2009. The public-investment driven non-oil sector grew by 9.4 percent in 2011, 9.7 percent in 2012 and 9.9 percent in 2013. Public investments have been scaled up, financed with oil receipts, but the efficiency of public investments and the process of project selection and appraisal can be further improved. Public investments were led by infrastructure with construction expanding at an average annual rate of 20 percent between 2003 and 2012. The trend continued in 2013 with a growth of 23 percent. Other non-tradable items such as hotels and communication grew strongly while agriculture experienced more modest growth at around 4 percent per annum between 2003 and 2013.

[13] In 2013 the poverty line was adjusted to AZN 4 per day.

Further information on general economic developments in Azerbaijan can be found in IMF staff reports for Article IV consultations[14].

Table 2: Macroeconomic indicators 2011-2013

	2011	2012	2013
Real GDP growth (%)	0.1	2.2	5.8
- oil sector	-9.3	-5	0.9
- non-oil sector	9.4	9.7	9.9
Inflation (CPI, period average)	7.9	1.1	2.4
GDP per capita (AZN)	5612.2	5874.8	6149.1

Source: State Statistical Committee

2.2 Development and reforms

2.2.1 Development and poverty reduction strategies

Vision 2020, approved by the President in December 2012, outlines the strategic direction for RoA's development. *Vision 2020* envisages a doubling of RoA's GDP per capita to AZN 10,000 and transformation of RoA economy into a diversified and competitive high-income country. It focuses on the development of physical and human capital and institutions – the core assets of the country. While the vision statement contains sector-specific policies, the primary focus is on assets. The objective is to achieve an average annual growth rate of 7 percent in the non-oil sector.

Before *Vision 2020*, the overall development strategy was outlined in the Government's Poverty Reduction Strategy Paper (PRSP) for 2003-2005 and 2008-2015, known as the State Program for Poverty Reduction and Economic Development (SPPRED). Other strategies that took over SPPRED include the State Program for Economic and Social Development of the Regions and the State Program for the Social and Economic Development of Baku and its Suburban Settlements. The original SPPRED envisaged gradual alignment of the public resources to programs for poverty alleviation and reduction, including social risk management, health and education. It also linked the country's poverty reduction objectives to the higher resource flows available over the medium and long term.

2.2.2 Fiscal policy and fiscal development

Strong economic growth over the past few years resulted in increased government revenue and has been accompanied by an expansionary fiscal policy. Consolidated government revenue increased from 28 percent of GDP in 2006 to 39.7 percent in 2013. Public expenditure increased from 27 percent of GDP to 37.9 percent over the same period. While expenditure was largely pro-cyclical

[14] For example: IMF, *Staff report for the 2014 Article IV consultations*, 13 May 2014.

during the high growth period up to 2009, it has been counter-cyclical in the past 3 years due to the declining oil revenue growth.

The real exchange rate appreciated by 46.3 percent between 2006 and 2012. The Budget surplus declined from 2011 to 2013 and in 2013 there was a consolidated budget deficit amounting to 1.8 percent of GDP in 2013.

Public expenditure has been trending upwards since 2006 with more than a four-fold nominal increase in consolidated government expenditure between 2006 and 2012. Overall expenditure grew by 28 percent in 2011 and another 14 percent increase in 2012. In 2013 budget expenditure increased 8.8 percent.

Debt sustainability is not a current concern in RoA. Overall public debt was estimated at 14.1 percent in 2013, while the foreign debt is 8.2 percent of GDP. Assets of the oil fund accounted for nearly 50 percent of GDP with approximately two-thirds of external debt being concessional. Domestic debt was largely in the form of short-term treasury bills though the Government also issued one to three-year bonds.

The consolidated deficit is budgeted at 4 percent of GDP in 2014 and will be financed through borrowings.

Table 3: Budget 2011-2013 (AZN million)

	2011	2012	2013
Consolidated budget revenues	23226	22338	23223
State budget revenues	15701	17282	19496
Transfers from SOFAZ	9000	9905	11350
Revenues from the Ministry of Taxes	5472	6026	6664
Oil sector	2592	2735	2900
Non-oil sector	2880	3291	3764
Revenues from Customs Committee	1142	1208	1383
Nakhchivan AR budget revenues*	149.2	60	65
SOFAZ revenues**	6628	4023	2537
SSPF revenues***	847	975	1125
Consolidated budget expenditures	17541	20073	22218
State budget expenditures	15398	17417	19144
Capital expenditures	7938	7926	9222
Current expenditures	7113	9278	9193
Nakhchivan AR budget expenditures*	50.8	61	53
SOFAZ expenditures**	549.5	639	1148
SSPF expenditures***	812.2	*957*	1039
Expenditures on externally financed projects	731	1000	835
Consolidated budget balance	**5685**	**2266**	**1005**
State budget balance	**303**	**-135**	**353**

Table 3 - Excluded items	2011	2012	2013
* Transfer to Nakhchivan	252	258	278
** Transfer from Sofaz to State budget	9000	9905	11350
*** Transfer to SSPF	886	1044	1077
*** Government employees social contribution	426.9	456	473

Source: MoF

2.2.3 Allocation of resources

Allocations for all budget sub-functions increased significantly in the past three years, as shown in Table 4. Industry and construction received the largest allocation, accounting on average for 36 percent of the total expenditure. This pattern is explained by the policy of boosting growth in the non-oil sector through public investment in infrastructure.

Table 4: Actual budgetary allocation 2011-2013 (AZN million)

MAIN FUNCTIONS	2011	2012	2013
General public services	1071.7	1027	1635.3
Defense	1345.3	1400.7	1484.9
Judicial power, law enforcement, public prosecution	710.3	929.2	1049.3
Education	1268.5	1453.2	1437.8
Healthcare	493.4	609.4	618.9
Social protection, social security	1495.4	1769.5	1750.3
Culture, art, media, sport	189.8	240.8	274.8
Housing and municipal economy	312.3	437.9	398.3
Fuel and energy	0	0	2.4
Agriculture, forestry, fishery, hunting, environment	444.7	468.2	488.2
Industry and construction	5866.3	5783.7	6932.6
Transport and communication	61.6	85.4	110.5
Economic activities	118.3	185.5	275.7
Other services	2019.7	3025.9	2684.2
Total	**15397.3**	**17416.4**	**19143.2**

Source: MoF Budget Department

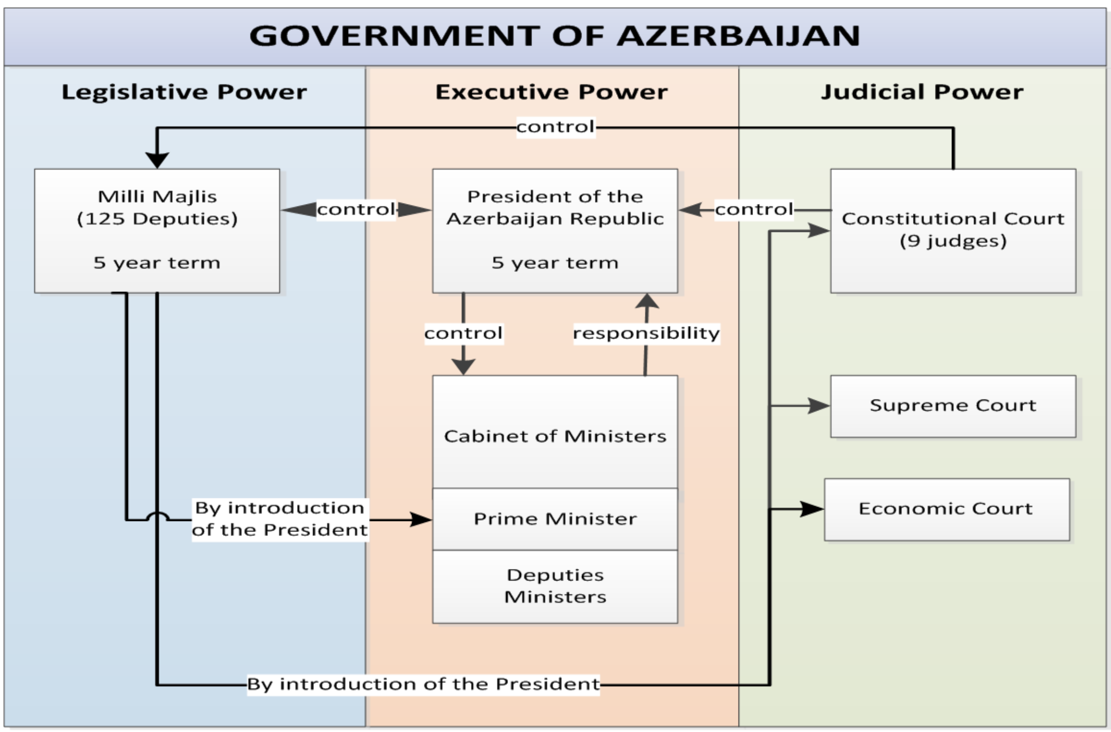
2.2.4 Decentralization and local governments

In RoA, the sub-national governments, other than NAR, account for less than one per cent of total general government expenditure. The bulk of services delivered at the local level are the responsibility of the rayons, which are part of the central government. Rayons are managed administrative bodies whose leader is appointed by the President. Allocations to the rayons are fixed in the budget and are completely transparent. Municipalities receive transfers from the State budget as determined by MoF mainly for recurrent costs.

2.3 The legal and institutional framework for PFM

The high level legal and institutional framework for RoA is summarised in Figure 2. The framework was established under the Constitution of the Republic of Azerbaijan on 12 November 1995[15]. There are three branches, each with specific powers over the other branches. The legislative branch is represented by the parliament, Milli Majlis, whose 125 deputies are elected by the people every five years. The executive branch is led by the President, the head of state, who is elected every five years. The President is supported by a prime minister, appointed by Milli Majlis on the President's recommendation. The Prime Minister is supported by a Cabinet of Ministers (CoM) and Deputy Ministers. Judicial power is exercised by the courts. The RoA incorporates NAR which has its own three branch institutional framework.

Figure 2: RoA high level institutional structure



Source: adapted from
http://www.azerbaijan.az/_GeneralInfo/_PoliticalSystem/_politicalSystem_e.html

2.3.1 Legal framework for financial management

The legal framework for financial management is described in the Budget System Law, amended in 2012 and 2014, with further specific provisions outlined in the annual Budget Laws. The Government issues annual State budget and consolidated budget proposals addressing SOFAZ, SSPF and Budget

[15] RoA, *Constitution*, November 1995.

organizations' extra-budgetary revenue and expenditure. The timetable requires the draft budget to be prepared by MoF for submission to the CoM by 15 September. On approval, the budget is submitted to the President by 25 September and to Parliament by 15 October.

2.3.2 Institutional framework

The main responsibility for PFM rests with MoF, and in particular with its Budget, Tax Policy and Revenue, and Treasury Departments. Inter-ministerial Commissions have been established to prepare individual elements of the consolidated budget, including revenue planning and public investment. The planning of expenditure in the functional areas are the responsibility of departments reporting to the First Deputy Minister of Finance, while actual budget execution, including checking of documentation before payments are made, is the responsibility of the Treasury.[16] Public investment planning is the responsibility of MEI and is integrated into the budget preparation process. The MoF interacts directly with NAR Government and with the 66 rayons and cities whose expenditure allocations are fixed in the annual Budget Law. Line Ministries participate only in discussions of funding to be made available to institutions under their direct control.

Revenue and expenditure, including all rayon and extra-budgetary transactions, are centralized through the Treasury Single Account system (TSA). There are approximately 45,000 budget organisations and 65 local financial organisations. In accordance with principal and subordinate tax legislation, revenue collection is predominantly the responsibility of MoT, which covers income, profit tax and most VAT. The SCC collects customs and excise duties and VAT from imported goods and services. Revenue from the oil and gas Production-Sharing Agreements (PSAs), and other revenue from oil exploitation and transportation, accrue in the first instance in SOFAZ. Some SOFAZ revenue is transferred directly to support the State budget. The remaining revenue received by SOFAZ is used to finance infrastructure or other domestic investments included in the consolidated budget or invested in external financial assets.

2.3.3 Special PFM features

The RoA provides services at national and regional level from the central budget and there are no significant responsibilities for finances at the municipal level. The RoA manages its public finances on a cash basis.

3. Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

PI-1: Aggregate expenditure out-turn compared to original approved budget

Rationale for this indicator:
PI-1 assesses the reliability of expenditure plans as a guide to budget out-turns. The closer out-turns are to approved budgets, the more reliance can be placed on initial budgets approved by parliaments. Large and unpredictable variations reduce the confidence of parliaments and the public in government's ability to prepare credible and robust budgets.

This indicator is assessed using the consolidated budget figures because they closely reflect total central government expenditure. Donor funded projects and debt service payments are excluded from the consolidated amounts.

(i) **Difference between actual primary expenditure and the originally-budgeted primary expenditure**

Table 5 presents figures illustrating deviation of the consolidated budget expenditure from the initially budgeted amounts. Consolidated budget expenditure comprises State budget expenditure and the expenditure of SOFAZ, NAR and SSPF. Consolidated budget expenditure numbers are included in the budget package presented to Parliament. The MoF also reports actual execution of the consolidated budget expenditure.

Table 5: Deviation in the execution of budget expenditure

	2011		2012		2013	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Consolidated budget expenditure	15121	17541	20204	20073	24500	22218
Projects financed by donor loans	889	731	1472	1000	1300	835
Interest payments on public debt	172	170	151	90	185	155
Primary expenditure	14060	16640	18580	18983	23015	21229
Out-turn, in percent*	18.4		2.2		-7.8	

Source: MoF Budget Department
* (percentage of originally budgeted expenditure)

In 2011 there was a 30 percent increase in consolidated budget expenditure compared with the previous year. The growth rates for consolidated budget expenditure were 14 percent in 2012 and 9 percent in 2013.

In 2011 and 2012 the government revised the budget in May of each year. The most substantial revision occurred in 2011 when the government increased expenditure by 16 percent above the approved budget. The increase in State budget expenditure within the year was 23.7 percent. This was mainly driven by an oil price recovery after the global crisis, which was US$61 in 2009 and US$79 in 2010. There was further strong growth in oil prices in late 2010, reaching US$105 in the first quarter of the 2011.

In 2013 consolidated primary expenditure was actually lower than the original budget, 7.8 percent in 2013. In contrast, consolidated primary expenditure was higher than the original budget in 2011 and 2012.

Score C: In 2011 the expenditure out-turn was more than 15 percent higher than the approved budget. In the other two years the variance was less than 10 percent.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-1	**B**	**C**	**In 2011 the expenditure out-turn was more than 15 percent higher than the approved budget. In the other two years the variance was less than 10 percent.**	**Strong growth in expenditure, associated with in-year budget increases, resulted in higher deviations during the most recent assessment period compared with the previous assessment.**

PI-2: Composition of expenditure out-turn compared to original approved budget

Rationale for this indicator:
PI-2 assesses the reliability of expenditure composition between main expenditure categories. It complements PI-1 as a guide to the reliability of budget estimates for predicting budget out-turns. The methodology for this indicator has changed since the last assessment with the addition of a second dimension relating to charging of expenditure to the contingency reserve. This new dimension provides an indication of how well governments are able to manage within normal approved budget allocations without relying on substantial contingency funds.

Data on functional expenditure in RoA is only available for the State budget so this indicator uses State budget figures, in contrast to PI-1, which uses consolidated budget information. The State budget accounts for 86 percent of the consolidated budget expenditures. The expenditures of other entities included in the consolidated budget but not in the State budget are SOFAZ investment expenditures, which are mainly for long term investments, and approximately

40 percent of SSPF expenditures. Non-budget sources of revenue for NAR are not included, but are not significant (0.2 percent of total expenditure in 2013).

(i) Extent of variance in expenditure composition during the last three years

High expenditure growth during the period under review was accompanied by significant changes in revenue and the composition of public spending to maintain growth in the light of declining growth in oil extraction. The composition variance was highest in 2011 with 23.4 percent variance, as shown in Table 6. This was mainly due to a substantial increase in industry and construction expenditure. Expenditure composition variance demonstrated a declining trend after 2011, moving from 7.9 percent in 2012 to 3.1 percent in 2013.

Score C: Variance in expenditure composition was 23.4 percent in 2011 but was less than 10 percent for 2012 and 2013.

Table 6: Variance of expenditure and contingency share of the State budget

	2011	2012	2013
Expenditure composition variance	23.4%	7.9%	3.1%
Contingency share of budget	3.4%	6.4%	3.5%

Source: WB staff calculation based on MOF data

(ii) The average amount of expenditure charged to the contingency vote over the last three years

There is a special line in the annual budget for funds allocated to the contingency vote, which was included in the budget package and execution reports. Funds allocated to the contingency vote increased during the period of assessment and in 2013 the amount allocated to this budget line was 65 percent more than it was in 2011. The contingency vote as a share of total expenditure was around 3.5 percent in 2011 and 2013 but increased to 6.5 percent in 2012.

The contingency vote line in the budget functional classification is divided into two separate funds: the contingency fund of the State budget and the contingency fund of the President of RoA.

Score B: The average amount charged to the contingency reserve over the three years of the assessment was less than 6 percent of the original budget.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-2	**B**	**C+**	**Scoring method: M1**	**The main reason for deterioration in the score was the higher variance in 2011 arising from a substantial in-year increase in industry and construction expenditure.**
(i)	B	C	Variance in expenditure composition was 23.4 percent in 2011 but was less than 10 percent for 2012 and 2013.	The high variance for industry and construction was also evident towards the end of the previous assessment, but to a lesser extent.
(ii)	NA*	B	The average amount charged to the contingency reserve over the three years of the assessment was less than 6 percent of the original budget.	This component was not part of the assessment criteria in the previous assessment.

* *Note: there was a change in PEFA methodology between assessments*

PI-3: Aggregate revenue out-turn compared to original approved budget

Rationale for this indicator:
PI-3 examines the reliability of budget revenue estimates. It assesses the variance between the original budget revenue estimates approved by parliaments and the final revenue out-turns. As with the expenditure variances, the larger the variation, the lower the score, reflecting lower confidence in the predictive value of approved budget estimates. The PEFA methodology for measurement of this indicator changed in 2011, which resulted in recognition of underestimates of annual revenue as well as overestimates. Overestimates of revenue received were the sole focus of the pre-2011 performance assessment criteria.

(i) Actual revenue compared to revenue in the originally approved budget

Table 7 indicates actual budgeted revenue as a percentage of the initial approved estimate for 2011, 2012 and 2013 by the institution that provided funds to the State budget. In all three years the actual revenue was higher than budgeted revenue. The biggest variation was 30 percent, in 2011, which was mainly driven by a 39 percent increase in SOFAZ transfers to the State budget as a result of the mid-year budget revision. Tax revenues were 24 percent higher than the initial estimate in 2011. In subsequent years actual revenue was higher than the initial budget, but to a lesser extent than 2011. In 2013 the revenue out-turn was only 1.8 percent above the initial budget estimate.

In 2012 higher than budgeted revenue was the result of an increase in profit tax paid by oil companies, which was associated with higher oil prices. In 2013 actual revenue was slightly higher than initially budgeted which was attributable to strong economic growth.

Table 7: Aggregate execution of current revenues 2011-2013

State Budget	2011			2012			2013		
	Initial budget	**Actual revenue**	**Var.**	**Initial budget**	**Actual revenue**	**Var.**	**Initial budget**	**Actual revenue**	**Var.**
MoT	4420	5471.9	23.8%	5311.6	6025.5	13.4%	6400	6664	4.1%
SCC	1120	1141.5	1.9%	1200	1208.3	0.7%	1380	1383.3	0.2%
State Committee on Management of State Property	5	5.1	2.0%	5	5.2	4.0%	5	6.5	30.0%
Transfers from State oil fund	6480	9000	38.9%	9905	9905	0%	11350	11350	0%
Other	36	82.2	128%	16.4	137.5	738%	24	92.7	278%
Total State budget	**12061**	**15700.7**	**30.2%**	**16438**	**17281.5**	**5.3%**	**19159**	**19496.3**	**1.8%**

Source: MoF

Score A: Actual revenue was between 97 percent and 106 percent of budget revenue for two of the last three years.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-3	**A**	**A***	**Actual revenue was more than the budgeted revenue in all three years but less than 106 percent of budgeted revenue in 2012 and 2013.**	**Aside from the large variance in 2011, the reliability of revenue estimates improved substantially during the most recent assessment period. If the same criteria had been applied in 2008, the score would have been D due to the substantially greater revenue received than estimated in the approved budget.**

** Note: there was a change in PEFA methodology between assessments*

PI-4: Stock and monitoring of expenditure payment arrears

<u>Rationale for this indicator</u>:

PI-4 considers whether there was an accumulation of expenditure arrears and, if so, whether efforts were made to control the situation.

The first dimension of this indicator assessed the significance of expenditure arrears data at the end of 2013. The second dimension examined whether information on arrears is collected regularly and is assessed using data from 2012 and 2013.

(i) Stock of expenditure payment arrears

There were no expenditure arrears on 31 December 2013 (0 percent of State budget actual expenditure). The absence of arrears was the result of the high influx of cash, mainly from oil receipts. All payments were made immediately through TIMS and often before the due date.[17]

Score A: There was no stock of any type of arrears on 31 December 2013.

(ii) Availability of data to monitor the stock of expenditure payment arrears

The TIMS allows the monitoring of arrears in real time and they are reviewed routinely as part of daily and monthly checks on payments and commitments. The system also indicates a due date for each payment, which enables the age of each arrear (if any) to be identified.

Score A: For 2012 and 2013 reliable and complete data on the stock of arrears was generated in real time in TIMS and routinely monitored as part of daily and monthly checks on payments and commitments.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-4	**B+**	**A**	**Scoring method: M1**	**Improvement in performance between 2007 and 2013 due to the introduction of TIMS.**
(i)	A	A	There was no stock of arrears on 31 December 2013.	No change in performance.
(ii)	B	A	Reliable and complete data on the stock of arrears was generated in real time in TIMS and routinely monitored as part of daily and monthly checks on payments and commitments.	The improvement was due to the introduction of TIMS in 2010-2011, which records the age of each arrear.

[17] Communication of the Deputy Head of STA, based on TIMS data.

3.2 Comprehensiveness and transparency

PI-5: Classification of the budget

> Rationale for this indicator:
> *PI-5 assesses the classification system used for the formulation, execution and reporting of the central government budget. It considers the scope, content and consistency of the classification system as a basis for producing consistent reports and information on all aspects of the budget. The reference period for this indicator is the last completed FY (2013).*

(i) The classification system used for formulation, execution and reporting of the central government's budget

The Budget System Law indicates that the budget classification should comprise a revenue and expenditure category that includes functional, economic and administrative segments.[18] These classifications apply in practice to both the State and the consolidated budgets.

The revenue classification includes 5 tiers, of which 3 are mainly used (section, sub-section and paragraph).[19] It is consistent with the IMF GFSM (2001) revenue classification.

The functional classification was developed in 2004 in consultation with the World Bank and IMF. The classification adopted by RoA includes 14 functions. The functional classification partially conforms to the IMF GFSM because it includes one additional function (function 14), which covers other services. Expenditure under 'Not elsewhere classified' accounted for 14.5 percent of budgeted spending in 2013. Approximately one quarter of this amount related to the Presidential Reserve Fund and the State Budget Reserve Fund, with most of the remainder comprising other targeted funds and special expenditure.[20]

The economic classification includes 3 tiers, namely sections, sub-sections and paragraphs, and is consistent with the IMF GFSM (2001).[21] It covers budget formulation, execution and reporting.

The administrative classification has a single tier structure used for all budget organizations. Budget classifications are summarized in Table 7.

[18] Article 4.2.
[19] Tiers 4 (article) and 5 (sub-article) are mainly used to identify more detailed and specific revenues types.
[20] The GFSM does not include this function since the top tier of functional classification is considered to be comprehensive of all government spending.
[21] The economic classification has two lower tiers (article and sub-article) but they are rarely used.

Table 8: Budget classification and conformity to IMF GFSM

Budget classification	Formulation	Approval	Execution
Revenue	YES (GFSM)	YES (GFSM)	YES (GFSM)
Expenditure: functional	(NON GFSM)	(NON GFSM)	(NON GFSM)
Expenditure: economic	YES (GFSM)	YES (GFSM)	YES (GFSM)
Expenditure: administrative	YES (GFSM)	YES (GFSM)	YES (GFSM)

Sources: State and consolidated budget (2013), Budget execution reports (2013)

Score C: Budget formulation and execution is based on GFS administrative and economic classifications. The functional classification partially conforms to GFS standards and cannot produce consistent documentation according to those standards.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-5	**D**	**C**	**The functional classification partially conforms to GFS standards and cannot produce consistent documentation according to those standards.**	**Performance improved in comparison with 2008 due to improvement in the classification of investments.**

PI-6: Comprehensiveness of information included in budget documentation

<u>Rationale for this indicator</u>:
PI-6 examines the extent of information provided to the legislature in relation to the annual budget. It assesses whether nine important elements are presented in an appropriate format to allow for a broad understanding of the assumptions, key indicators and intentions underpinning the budget proposal.

The indicator considers the last budget presented to the legislature during the assessment period, which was in November 2013, relating to the 2014 financial year.

i) Share of essential information contained in budget documentation most recently issued by the central government.

The legislation requires that a certain number of key documents be prepared and submitted in parallel with the State budget.[22] Table 8 summarises the documentation provided by the Government in terms of the important elements identified in the PEFA guidelines. The documents and information provided by the Government were available to the public when the draft budget for 2014 was submitted to the Milli Majlis.

Table 9: Information in budget documentation

PEFA elements	Fulfilled 2008	Fulfilled 2014	Documents provided by the Government
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates.	Yes	**Yes**	Macroeconomic assumptions detailed by sector, growth rates given for oil and non-oil sector, inflation and exchange rates also provided. (Source: State Budget Package for 2014, Volume II - approved in November 2013)
2. Fiscal deficit (GFS or other internationally recognised standard).	No	**No**	Debt repayments were included as expenditure. These are not considered to be expenditure by GFSM, but are a financial transaction. Calculation of the deficit using this amount of expenditure means that this criterion is not fulfilled. (Source: State Budget Package for 2014, Volumes V and VI - approved in November 2013)
3. Deficit financing, describing anticipated composition.	Yes	**Yes**	Deficit financing, describing anticipated composition. (Source: State Budget Package for 2014, Volume VI - approved in November 2013)
4. Debt stock, including details at least for the beginning of the current year.	Yes	**Yes**	(Source: State Budget Package for 2014, Volume I and Volume IV - approved in November 2013)
5. Financial assets, including details at least for the beginning of the current year.	No	**No**	Balance of treasury account available. Share and participation in enterprises not available. (Source: State Budget Package for 2014, Volume VI - approved in November 2013)

[22] The Budget System Law, article 12.

PEFA elements	Fulfilled 2008	Fulfilled 2014	Documents provided by the Government
6. Prior year's budget out-turn, presented in the same format as the budget proposal.	Yes	**Yes**	Execution for 2012 included in the same format as it was proposed. (Source: State Budget Package for 2014, Volume V - approved in November 2013)
7. Current year's (2013) budget (either the revised budget or estimated out-turn), presented in the same format as the budget proposal.	Yes	**Yes**	Estimates for 2013 budget execution included in the same format as it was proposed. (Source: State Budget Package for 2014, Volume V - approved in November 2013) Execution report for the period January-August 2013 also available. (Source: State Budget Package for 2014, Volume VI - approved in November 2013)
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5) including data for the current and previous year.	No	**Yes**	Summarized data for both revenue and expenditure according to economic and functional classification for 2012 (execution), 2013 (partial execution) and 2014 (projection) available. (Source: State Budget Package for 2014, Volume V, pages 1-4, 192 and 663 - approved in November 2013)
9. Explanation of the budget implications of new policy initiatives, with estimates of the budget impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes	**Yes**	Includes estimates of budgetary impact of all major revenue policy changes and changes to expenditure programs. (Source: Presentation of draft State and consolidated budget for 2014, November 2013, pages 26-46)

The 2014 budget documentation fulfils all benchmarks except for details of the fiscal deficit and financial assets. The calculation of the fiscal deficit is not in accordance with GFS or other internationally recognised standard because it includes debt repayments in expenditure.

Score A: Recent budget documentation fulfils 7 of the 9 information benchmarks.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-6	**B**	**A**	**Recent budget documentation fulfils 7 of the 9 information benchmarks.**	**Information on summarised budget data according to the main classification heads was available in 2014 but not in 2008.**

PI-7: Extent of unreported government operations

Rationale for this indicator:
PI-7 assesses the comprehensiveness of financial information in respect to all budgetary and non-budgetary activities of central government. The reference period for this indicator is the last completed FY (2013).

(i) The level of extra-budgetary expenditure (other than donor funded projects) not included in fiscal reports.

Fiscal reports include all extra-budgetary operations. Other funds included in the budget are the Presidential Fund, the Road Fund, the Defense Fund and the State Budget Reserve Fund. SOFAZ and SSPF operations are not included in the State budget but are included in the Consolidated Budget, published separately and are fully transparent. The budgets for SOFAZ and SSPF are presented to Parliament and budget execution is reported by the entities. SOFAZ's approved and executed budgets are available on the internet.[23] Fiscal statistics are also available on the internet for SSPF.[24]

Score A: All extra-budgetary expenditure (other than project funds) are included in fiscal reports.

(ii) Income and expenditure information on donor-funded projects included in fiscal reports.

All projects financed through foreign loans are included in the Public Investment Program and in-year/year-end execution reports. Project financing is almost entirely provided in the form of loans.[25]

Score A: Complete income/expenditure information for all donor projects is included in fiscal reports except for inputs provided in-kind.

[23] www.oilfund.az
[24] www.sspf.gov.az
[25] In 2013, RoA received total loans of US $1,657.1 million (6.5% of the State budget) and grants of US $13.4 million (0.0005% of the State budget).

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-7	**A**	**A**	**Scoring method: M1**	**No change in score but the quality and extent of information available improved.**
(i)	**A**	**A**	All extra-budgetary expenditure (other than project funds) are included in fiscal reports.	The quality and availability of information has improved since the previous assessment.
(ii)	**A**	**A**	Complete income/expenditure information for all donor projects is included in fiscal reports except for inputs provided in-kind.	The quality and availability of information has improved since the previous assessment.

PI-8: Transparency of intergovernmental fiscal relations

Rationale for this indicator:
PI-8 assesses transparency and timeliness of inter-governmental fiscal relations and the extent to which consolidated fiscal data is reported. The reference period for this indicator is the last completed FY (2013).

Rayons, cities and other local entities with operational responsibilities are administrative units of the central government.[26] They are not independently functioning local governments. The President of RoA appoints their chief executives of regional administrations and their budgets form part of the State budget.[27] They do not collect their own taxes but receive transfers from the State budget and a share of taxes collected nationally. On 31 December 2013 there were 56 rayons and 10 cities.

In RoA, municipalities are independently elected and defined as local self-governments in the current legislation. In 2013 there were 1716 municipalities. The municipalities have an elected council, the authority to collect local taxes and duties, and to approve and execute their own budgets.[28]

In 2012 municipalities received AZN 3.5 million in subsidies from the State and they spent AZN 35.8 million with AZN 32.3 million derived from their own revenue. Total spending by municipalities represented 0.2 percent of the executed State budget and 0.178 percent of the executed consolidated budget in

[26] Constitution of the Republic of Azerbaijan, 18 March 2009, article 124. Cities cover a smaller territory but function as if they are rayons. The PEFA team visited Absheron rayon 9 April 2014 and Khachmaz rayon on 26 August 2014.
[27] In 2014, AZN 32 million was assigned to the Rayon of Absheron (source: State Budget of Azerbaijan 2014).
[28] Constitution (2009), section 4, article 142-146.

2012.[29] These amounts were extremely low and insignificant in relation to public sector spending. Therefore it was decided to consider this indicator as not applicable (NA) because municipalities are immaterial as local governments do not provide services and constitute an extremely low percentage of public spending.

i) Transparent and rules based systems in the allocation among sub-national governments of transfers from central government

There is no legal obligation for the State to subsidize the municipalities. However in 2013 all of them received a subsidy. The Budget System Law provides indications on how the subsidy should be calculated.[30] These indications are very general and based on population and economic contribution.

Score NA: The amounts transferred to municipalities are immaterial so this dimension was rated not applicable.

ii) Timeliness of reliable information to sub-national governments on their allocations from central government for the coming year

Municipalities are required to forward budget execution reports on the previous year to MoF by 15 May of each year. Based on these reports, the amounts of transfers (subsidies) to the municipalities are determined. The municipalities do not know the amounts of subsidies they will receive until after the beginning of the year. This is because the MoF needs to review financial statements from the municipalities before the amount of transfers is determined, in accordance with the Budget System Law.

Score NA: The amounts transferred to municipalities are immaterial so this dimension was rated not applicable.

iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories

All municipalities report at least yearly on income and expenditure to MoF (ex-ante and ex-post) with the reporting being consistent with government fiscal reporting. The data on reporting is consolidated yearly into a report by the State Committee on Statistics (SCoS) and broken down in 7 sectors. Fiscal information was collected for 90 percent of sub-national government expenditure and consolidated in annual reports within 10 months of the end of the fiscal year. The amounts of municipal income and expenditure were immaterial to the total consolidated finances.

[29] Data on the revenue of municipalities (excluding subsidies) was not available for 2013 at the time of the PEFA assessment (April 2014).
[30] The Budget System Law, article 34.4.

Score NA: The amounts transferred to municipalities are immaterial so this dimension was rated not applicable.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-8	**B**	**NA**	**In 2014 the NA rating was given due to the extremely low level of income and expenditure by municipalities.**	**Comparison between assessments is not possible although the circumstances have not changed significantly between 2007 and 2013.**
i)	D	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.
ii)	A	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.
iii)	A	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

Rationale for this indicator:
PI-9 assesses the extent to which central governments monitor fiscal risks with national implications that arise from the activities of other general government sector entities. Fiscal risks can take the form of government guarantees, operational losses caused by quasi-fiscal operations, and expenditure payment arrears.

The reference period for this indicator is the last completed FY (2013).

The main Autonomous Government Agencies (AGAs) in Azerbaijan are SOFAZ and SSPF. There are several important public enterprises in RoA such as SOCAR[31], the International Bank of Azerbaijan (IBA) [32], Azerbaijan Airlines[33], the Baku Metro[34], The Azer Energy, State railways[35], Caspian Shipping Company[36] and Azersu (Water Company)[37].

i) Extent of central government monitoring of the autonomous government agencies and public enterprises.

All Public Enterprises (PEs) submit fiscal reports to the State Treasury Agency (STA) quarterly and forward their audited financial statements to the Tax and Revenue Department of MoF annually.[38] The MoF consolidates the information into a report to monitor fiscal risks on an annual basis. The MEI and MoF review both the business plans and the investment plans of public enterprises.

Score A: All major PEs submit fiscal reports to central government quarterly and audited accounts annually. Central government consolidates fiscal risk issues into a report on an annual basis.

ii) Extent of central government monitoring of fiscal positions in sub-national governments.

This dimension is considered to be not applicable as explained in PI-8. Municipal government in RoA is immaterial to the government sector.

[31] SOCAR is involved in exploring oil and gas fields, producing, processing, and transporting oil, gas, and gas condensate, marketing petroleum and petrochemical products in domestic and international markets, and supplying natural gas to industry and the public in Azerbaijan.(www.socar.az).
[32] IBA is an open joint stock company with 51 percent shares owned by the Azerbaijan government. IBA is a universal bank with a full range of financial products and services through its national franchise, subsidiary banks in Russia, Georgia and Qatar (www.ibar.az).
[33] www.azal.az
[34] www.metro.gov.az
[35] www.railways.gov.az
[36] www.caspar.az (under reconstruction)
[37] www.azersu.az
[38] Also available on-line for several public enterprises.

Score NA: The amounts transferred to municipalities are immaterial so this dimension was rated not applicable.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-9	**B+**	**A**	**Scoring method M1**	**Improvement compared to 2008 due to preparation of a consolidated report fiscal risks in 2014.**
i)	B	A	All major PEs submit fiscal reports to central government quarterly and audited accounts annually. Central government consolidates fiscal risk issues into a report on an annual basis.	There is improvement in the score and in performance. A consolidated fiscal risk report is prepared, which appears not to have been the case for the 2008 PEFA assessment.
ii)	A	NA	As for PI-8, this dimension does not apply because SNG entities do not provide any services and they represent an extremely low amount of public spending.	The absence of a score in 2014 means that the change is not assessed.

PI-10: Public access to fiscal information

Rationale for this indicator:
PI-10 assesses the extent to which information on central governments' budgets and their execution is readily accessible to the general public. The reference period for this indicator is the last completed FY (2013).

(i) **The number of elements for which public access to information is available (based on specifications in the PEFA PMF).**

Table 10 summarises the PEFA requirements for this dimension and identifies whether the requirement is met. The 2008 assessment results are provided in the table for comparison.

Table 10: Elements of information on which public access is essential

Documentation	2008	2014
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	No	YES. Draft published on MoF website and media informed www.maliyye.gov.az/en Budget guide prepared by MoF for citizens. Discussion in Parliament accessible to the public.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes	YES. Quarterly reports on website and required under the Budget System Law of the Republic of Azerbaijan 2002, Article, 20.1.[39]

[39] www.maliyye.gov.az/en

Documentation	2008	2014
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes	YES. 25 April statements sent to CoM and to CoA after approval. 15 May statements sent to Parliament. End of June Parliament voted on executed report.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	No	NO. Audit reports are not publicly available.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equivalent is published at least quarterly through appropriate means.	Yes	YES The information is available in Contract registry.[40]
(vi) Resources available to primary service units. Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	YES. This data is provided in the budget: Education: 8.4.1 and Health 8.5.1. The information is also provided on request.

Five of six elements of information are available. Complete external audit reporting is the only element of the list of essential items not available to the public, although brief summary information is available from the Milli Majlis.

Score A: The public has access to 5 of the 6 elements of essential fiscal information.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-10	**B**	**A**	**The public has access to 5 of the 6 elements of essential fiscal information.**	**Two additional elements of essential information have been made available to the public since the 2008 assessment.**

[40] www.tender.gov.az

3.3 Budget cycle

3.3.1 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

Rationale for this indicator:
PI-11 assesses the existence and application of regular procedures for formulating annual budgets and the involvement of political leadership and the legislature.

Dimensions (i) and (ii) consider the last budget approved by the legislature (2014). The last 3 FY budgets approved are considered (2012-2014) for dimension (iii).

(i) Existence and adherence to a fixed budget calendar

The most important deadlines of the budget preparation process are clearly indicated in the law.[41] These deadlines, which have been met for the period covered by this assessment, are presented in Table 11.

Table 11: Annual budget preparation calendar (main stages of the budget cycle)

Budget Cycle	Dates	Responsible Institutions	Respect for deadlines?
1. Beginning of the budget preparation process for year (n+1): Decree issued by CoM	3rd week of January (year n)	CoM	Yes
2. Mid - term budget forecast (incomes, expenditure, deficit and sources of financing the deficit) for year (n+1) drafted in accordance to specified mid - term economic and social development program	Prior to 15 March (year n)	MoF (input from MEI)	Yes
3. The initial drafts of the State and summary budget (MTEF) for year (n+1) and the summary budget forecast for the next 3 years (n+2, n+3 and n+4) are elaborated and presented to CoM (in united budget classification, functional and administrative classification of budget expenditure). Recurrent, capital budget and investment budget are submitted to CoM.	Prior to 15 April (year n)	MoF (input from MEI)	Yes
4. Preparation of the budget circular for year (n+1) and drafting budget indices of summary budget (MTEF) for the next 3 year period (n+2, n+3 and n+4). Distribution to MDAs. The draft circular is for the recurrent and capital expenditure only, not for the investment expenditure.	Prior to 1 May (year n)	MoF	Yes

41 The Budget System Law, articles 11.3, 11.5, 11.6, 11.8, 11.15, 11.16, 13, 15.3. An English version of the budget calendar is also available on MoF website (www.maliyye.gov.az/en).

Budget Cycle	Dates	Responsible Institutions	Respect for deadlines?
5. MDAs to submit draft budget to MoF on the basis of the circular (refer to 4. above)	Prior to 1 July (year n)	MDAs	Yes
6. Preparation of the draft State budget and summary budget for year (n+1) and indices of summary budget for the next three years (n+2, n+3 and n+4). Submission to the management of MoF including relevant annexes	Prior to 5 September (year n)	MoF	Yes
7. The draft State and summary budget for the next year (n+1) and indices of summary budget for the next three years (n+2, n+3 and n+4) have to be submitted to CoM	Prior to 15 September (year n)	MoF	Yes
8. The draft State and Summary budget for the next year (n+1) and indices of summary budget (MTEF) for the next three years (n+2, n+3 and n+4) to be presented to the President of RoA by CoM	Prior to 25 September (year n)	CoM	Yes
9. The draft State budget to be presented to the Milli Majlis	Prior to 15 October (year n)	The President of the Republic of Azerbaijan	Yes
10. Approval of the draft State budget by the Milli Majlis	20 December (year n)	Milli Majlis	Yes

The budget calendar is clear and is followed. Budget-funded MDAs have 2 months (from 1 May to 1 July) to prepare their estimates covering all expenditure, recurrent, capital and investments.[42]

Score A: A comprehensive and clear annual budget calendar exists and is followed. It allows MDAs sufficient time (at least eight weeks from receipt of the budget circular) to complete their detailed estimates on time.

(ii) Guidance on the preparation of budget submissions

A budget circular[43] is prepared and sent to MDAs before 1 May of year (n) preceding the budget year (n+1) (budget calendar 4). The circular includes explicit ceilings (for recurrent and capital expenditure[44]) that have been reviewed and approved by CoM (budget calendar 3 and 7). These two steps are followed when preparing the 2014 budget.

[42] In Azerbaijan, capital expenditure includes equipment and capital repairs. Construction and other projects are excluded, the latter being considered as investments.
[43] The circular for the preparation of the 2014 budget was dated 15 April 2013 with reference number 02/03/-67-2601. The circular was signed by the Minister of Finance Samir Sharifov

The budget circular provides an aggregate ceiling for each MDA.[45] The budget preparation process for capital investment items follows the 2010 regulations.[46] There are specific deadlines for preparing the investment program and the key deadlines are summarised in the Table 12. They are consistent with the deadlines of the overall budget preparation calendar and were enforced for the preparation of the 2014 investment program.

Table 12: Annual budget preparation calendar for the investment program [47]

Budget Calendar for Investments	Dates	Responsible Institutions	Respect for deadlines?
1. MoF submits to MEI initial volume of state investment expenditure for year (n+1) and for years (n+2, n+3 and n+4)	Prior to 30 March (year n)	MoF	Yes
2. Subject to initial volume of the submitted State investment expenditure, MEI prepares the preliminary draft investment program for year (n+1) and years (n+2, n+3 and n+4) and submits to CoM	Prior to 15 April (year n)	MEI	Yes
3. MoF submits to MEI adjusted volume of State investment expenditure for year (n+1) and for years (n+2, n+3 and n+4)	Prior to 20 June (year n)	MoF	Yes
4. MEI interacts with MDAs on draft program submitted to MoF to conform to the draft budget for year (n+1)	Prior to 1 August (year n)	MEI	Yes
5. MEI submits specified project to CoM	Prior to 15 September year (n)	MEI	Yes

The MoF sets ceilings for the State investment programs. On the basis of those ceilings MEI prepares a draft investment program that is submitted to the CoM. The MoF provides adjusted ceilings to MEI. The draft investment program is finalized with the specified projects being re-submitted to CoM.

The process for preparing investment programs is well regulated with ceilings approved by CoM prior to distribution of the budget circular.

Score A: A comprehensive and clear budget circular was issued to MDAs, which reflected ceilings approved by CoM prior to distribution of the budget circular.

[45] In 2013 executed investments represented 36% of the executed State budget.

[46] *Regulations for the Development, Execution, Monitoring and Assessment of the State Investment Program of the Republic of Azerbaijan*, article 3.11 approved by Decree # 239 of the President of the Republic of Azerbaijan, dated 17 March 2010.

[47] Ibid articles 3.11, 3.12, 3.13, 3.14 and 3.15.

(iii) Timely approval of the budget by the legislature

For the last 3 budgets (2012, 2013 and 2014) parliamentary approval of the State budget occurred before the beginning of the relevant FY (2011, 2012 and 2013).[48]

Table 13: Dates of budget approval 2011 - 2013

BUDGET FOR FY	DATE OF APPROVAL
2012	6 December 2011
2013	30 November 2012
2014	22 November 2013

Source: Laws of RoA about State budget, 2011, 2012 and 2013

Score A: The legislature approved the budget before the start of the fiscal year for all years covered by the assessment.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-11	**B+**	**A**	**Scoring method M2**	**Improved performance due to revised legislation on preparation of budget submissions.**
i)	A	A	A comprehensive and clear annual budget calendar exists and is followed. It allows MDAs at least eight weeks from receipt of the budget circular to complete their detailed estimates.	No change in performance.
ii)	C	A	A comprehensive and clear budget circular was issued to MDAs, which reflected ceilings approved by CoM prior to the circular's distribution.	Improvement in performance due essentially to the adoption and enforcement of new legislation (Presidential Decree 239, 17 March 2010.
iii)	A	A	The legislature approved the budget before the start of the fiscal year for all years covered by the assessment.	No change in performance.

[48] This is a legal obligation, Constitution (2009), article 109 2 and the Budget System Law, article 13.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Rationale for this indicator:
PI-12 examines the existence and operation of more advanced features of public sector budgeting, including medium term fiscal forecasts, functional allocations, debt sustainability analysis, sectoral strategies and integration of investment budgets with medium term estimates.

Dimension i) considers the last 2 completed FYs (2012 and 2013), dimension ii) considers the last 3 years (2011, 2012 and 2013), dimensions iii) and iv) consider the last completed budget (2013).

i) Preparation of multi-year fiscal forecasts and functional allocations

The draft consolidated budget presented to Parliament in year (n) includes data on the budget year (n+1) and projections for three years (n+2, n+3 and n+4) on a rolling basis. The four–year budget projections cover income and expenditure and are presented on the basis of economic and functional classifications.[49] The medium-term budgeting in RoA has been improving due to better forecasting.

Budget agencies prepare detailed 4-year estimates and update the content regularly, including for their contributions to State Programs. There is no clear link between multi-year estimates and subsequent setting of annual budget ceilings.

Score C↑: Forecasts of fiscal aggregates, on the basis of the main categories of economic and functional classification, are prepared for 4 years on a rolling annual basis. There is no clear link between multi-year estimates and subsequent settings of annual budget ceilings.

ii) Scope and frequency of debt sustainability analyses

The IMF performed public debt sustainability analysis in 2011 and 2013 during Article IV consultation.[50]

Score B: Debt sustainability analysis for external and domestic debt was undertaken twice in the period 2011-2013.

[49] Refer to PI-5.
[50] *IMF Country Report* no 12/5, 18 January 2012, pp 33-38; *IMF Country Report* 13/164, 19 June 2013, pp 38-42.

iii) Existence of sectoral strategies with multi-year costing of recurrent and investment expenditure

Sector strategies are produced in RoA. *Vision 2020* contains specific strategies for education, health, agriculture, regional development, ecology, tourism, energy and industry. These specific strategies are not always fully costed for the duration of the global strategy. There are, however, detailed costing of recurrent expenditures for some sectors, notably education, health and social protection expenditures for the period 2012-2015[51].

Each strategy is pursued on a yearly basis during budget implementation. Each ministry calculates the costs for its sector in the budget year (n+1) and for three subsequent years (n+2, n+3 and n+4) with *Vision 2020* providing a foundation for strategies in national priority areas. The MoF reviews the costing and applies elements of recurrent costs. The yearly implementation of the strategy is consistent with fiscal forecasts and is conducted on a rolling basis every year.

In addition to the annual costing and update of medium term estimates, mentioned above, capital expenditures are costed through the public investment program, which reflects ongoing strategies and investments. The latest available information on costing of capital expenditure covers the period 2014-2017 and the information is updated every year on a rolling basis, adding a year and updating the previous estimates for new developments. Sources of financing are clearly identified[52].

Score D↑: Sector strategies are prepared for all sectors. None of the strategies are fully costed for recurrent and capital expenditures for the duration of the strategy, although detailed costing of recurrent expenditures are prepared in some sectors, notably education, health and social protection.

iv) Links between the investment budget and future expenditure estimates

Every year MoF provides MEI with information on expenditure ceilings for investment in the budget year (n+1) and for years n+2, n+3 and n+4. This has been a legal obligation since 2010.[53] Based on these figures, MEI prepares the preliminary draft investment program for the budget year (n+1) and for years n+2, n+3 and n+4.[54] The MoF approves the program and calculates recurrent costs which are included in the rolling medium-term budget plans.

[51] MoF, Social Expenditures for 2012-2015, data provided to the PEFA assessment team.
[52] MoF, Allocations under the public investment program, 2014-2017, data provided to the PEFA assessment team
[53] *Regulations for the Development, Execution, Monitoring and Assessment of the State Investment Program of the Republic of Azerbaijan*, article 3.11 approved by Decree # 239 of the President of the Republic of Azerbaijan dated 17 March 2010.
[54]Costs are calculated also if the project lasts for more than 4 years.

The investment program prepared by MEI reflects MoF ceilings and input from ministries. The ministry input elaborates the costing of investments/projects based on the strategy for their relevant sectors and implementation of the strategy for the budget year and three subsequent years.

Score B: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications. In accordance with sector allocations they are included in forward budget estimates for the sector.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-12	**D+**	**C+**	**Scoring method M2**	**Improvement in performance, particularly in macroeconomic forecasting and agency interaction on recurrent and investment aspects of the budget.**
i)	C	C↑	Forecasts of fiscal aggregates, on the basis of the main categories of economic and functional classification, are prepared for 4 years on a rolling annual basis. There is no clear link between multi-year estimates and subsequent settings of annual budget ceilings.	There is improvement in performance due to more accurate macroeconomic forecasts.
ii)	NA	B	Debt sustainability analysis for external and domestic debt was undertaken twice in the period 2011-2013.	The dimension was not scored in 2008 because public debt was not material in the three-year period 2005-2007
iii)	D	D↑	Sector strategies are prepared for all sectors. None of the strategies are fully costed for recurrent and capital expenditures for the duration of the strategy, although detailed costing of recurrent expenditures are prepared in some sectors, notably education, health and social protection.	There is an improvement in performance due to more widespread costing of capital and recurrent expenditures.
iv)	D	B	The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications. In accordance with sector allocations they are included in forward budget estimates for the sector.	There is a clear improvement in performance (refer new Presidential Degree 329, 17 March 2010). The latter requires both institutions, MoF and MEI, to interact during the budget process.

3.3.2 Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

Rationale for this indicator:
PI-13 considers the overall taxation framework and examines whether: tax laws and regulations explain taxpayer obligations clearly; taxpayers have adequate information to meet their obligations, and; there are sufficient mechanisms to question and appeal where decisions are considered to be wrong or unfair.

(i) Clarity and comprehensiveness of tax liabilities

The main types of revenue collected and paid into the budget of RoA and NAR are taxes, customs duties and mandatory state social insurance contributions to SSPF.

Direct and indirect taxes are collected by MoT. Customs duties and import VAT, excises and road taxes (related to trucks) are collected by SCC while mandatory state social insurance contributions are the responsibility of SSPF, as summarised in Table 14.

Table 14: Responsibility for tax and contribution collections

	MoT	SCC	SSPF
Income tax	X		
Profit tax	X		
VAT	X	X (import)	
Excise	X	X (import)	
Property tax	X		
Tax on land	X		
Mining tax	X		
Simplified tax	X		
Road tax	X	X (trucks)	
Customs duties		X	
Social Insurance Contributions			X

Source: Tax, Customs and Contributions legislation

The VAT, income and profit tax and contributions are collected directly from the source on the basis of declaration. Taxes on land, mining and property are collected on the basis of notification and declaration.

Tax liabilities are defined and legislated in the *Tax Code of the Republic of Azerbaijan (Tax Code)*[55], while Customs duties are regulated by the *Customs Code of the Republic of Azerbaijan (Customs Code)*[56], and mandatory state social

[55] Approved by the Law No.905-IG of RoA, 11 July 2000.
[56] A new Customs Code approved Law of the of the Republic of Azerbaijan number 164-IVQ on June 24 2011 came into effect as of 1 January 2012.

insurance liabilities are regulated by the *Law of the Republic of Azerbaijan "On Social Insurance"*[57].

The *Tax Code* has been subject to 35 amendments since its approval in 2000. The *Customs Code* has been amended 26 times since 1997, most recently in 2010. The *Law of the Republic of Azerbaijan "On Social Insurance"* has been amended 24 times since adoption. Tax exemptions are legislated in the different codes but they are clear and do not undermine the integrity of the laws or provide a vehicle for evasion or erosion of collection.

Some taxes allow for differential treatment of various classes of taxpayer in respect of the same economic operations. For example, businesses whose operations are below a threshold of AZN 120,000 may opt to pay a single turnover or gross margin tax in place of income and profits taxes and VAT.

Despite the numerous amendments, the legislation and procedures are predominantly clear and comprehensive. The MoT is supported by a reference group consisting of representatives from government, private sector, non-government organizations and major accounting and audit firms to discuss current and prospective tax arrangements. The legislative provisions relating to penalties for contravention of the tax laws allow for discretion which is not always clear to the public.

Score B: The legislation and procedures for all major taxes are comprehensive and clear. There are limited discretionary powers but they are not always clear to the public.

(ii) Taxpayer access to information on tax responsibilities and administrative procedures

All legislation is available to taxpayers on agency websites[58] and tax brochures with detailed explanation of obligations are also available. Information campaigns in the media are organized when needed.

Seminars are held by MoT and authorized private companies, representatives and consultants in each region to provide advice at no charge to the taxpayers. The MoT reaches out actively to potential future taxpayers, for example through campaigns in schools and at trade fairs.

MoT established 54 service and call centers to provide taxpayers with information on the application of tax legislation to help them comply with their obligations. Telephone calls and/or visits to the service centers are free of charge for all citizens.

[57] Approved by the decree of the President of RoA, 18 February 1997 and by the rules approved to regulate Fund contributions.
[58] MoT website can be accessed at http://www.taxes.gov.az/?lang=_eng and SCC website is available at http://customs.gov.az/en/

The services provided by the centers include:

- answering verbal questions
- compiling reports, applications, references and other documents.
- sending e-declarations
- providing information on personal account profile and tax debts.

Well-trained civil servants staff service centers and user satisfaction with the service provided is measured at 95 percent, based on survey data collected by MoT.

It is expected that by the end of 2014 other public administrations (7 ministries) will join the call center to provide a single contact point for taxation matters across the country.

Score A: The public has easy access to comprehensive, user friendly and current information on liabilities and administrative procedures for all major taxes, customs duties and contributions through various sources. There are active education campaigns and personal advice options through service centers across the country.

(iii) Existence and functioning of a tax appeals mechanism

Procedures for appealing against decisions of MoT, SCC and SSPF are described in the respective legislation.[59] Appeals are directed to the hierarchical superior of the official who issued the decision and submitting an appeal to the authority does not preclude the right of simultaneous or subsequent submission of a similar appeal to the court.

Appeals do not suspend any action or obligation to pay the assessed amount but it is not necessary to pay the penalty while the decision is reviewed. Written responses to appeals are required within 30 days of receipt.

The Tax Appeal Board in MoT provides centralised collection and coordination of complaints handling, in accordance with legislative requirements. Although there is a coordinated appeal framework administered by MoT, there is no independent body to review complaints other than the courts. There is very little evidence of matters going to court and it was not possible to determine the extent to which the associated costs are a deterrent, or whether taxpayers are satisfied with the administrative appeal arrangements. No similar appeal board exists for SCC.

[59] *The Tax Code of the Republic of Azerbaijan (Tax Code),* Law No.905-IG, chapter VI. 'Appealing of decisions (acts) of tax authorities and actions or lack of action of their officials', article 62 'Procedure for appealing', article 63 ''Revision of appeal by the tax authority', article 64 'The revision of court appeals'. Similar procedures exist in the SCC Customs Code. Clause X of "The Rules on Collection of mandatory state social insurance fees" registered at the Ministry of Justice of the Rep. of Azerbaijan on August 17, 2006.

Score B: There is a centralised appeals framework, founded in legislation, which is fully functional. However, the effectiveness and fairness of this arrangement could not be assessed and there is no independent body other than the court system to process appeals.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-13	**B**	**B+**	**Scoring method M2**	**There has been a strong emphasis on providing readily accessible information to taxpayers since the last assessment, which has resulted in a higher score.**
i)	B	B	The legislation and procedures for all major taxes are comprehensive and clear with well-defined and limited discretionary powers that are not always clear to the public.	No substantial change.
ii)	B	A	Taxpayers have easy access to comprehensive, user friendly and current information on tax liabilities and administrative procedures for all major taxes through various sources. There are active taxpayer education campaigns and personal advice options through service centers across the country.	New service and call centers have been introduced to provide better information and access to advice for taxpayers.
iii)	B	B	There is a centralised appeals framework, founded in legislation, which is fully functional. However, the effectiveness and fairness of this arrangement could not be assessed and there is no independent body other than the court system to process appeals.	No substantial change

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Rationale for this indicator:
PI-14 examines the controls within the tax system and the effectiveness of measures to ensure the integrity of the system. It considers the arrangements for managing taxpayer registration, the effectiveness of penalties, audit and investigations.

(i) Controls in the taxpayer registration system

Since July 2011 individuals can register as taxpayers through the internet while online registration of legal entities began in February 2012. Taxpayers submit registration requests to the single registration authority and receive registration papers within 2 days and immediate registration for fast-track electronic registrations.

A Tax Identification Number (TIN) is given to taxpayers for all types of taxes and is universal for all of RoA.

Registration is carried out by the Department for Registration of Commercial Legal Entities of the Baku City Tax Department, 12 regional tax offices and the Ministry of Taxes of NAR.

The database is linked to the SCoS, the SCC, the SSPF and the banks by electronic interfaces allowing automated data transfer. The MoT and SCC databases are linked and relevant information about taxpayers can be accessed by both agencies. It is expected that the registration database will be connected to most relevant ministries by the end of 2014.

Taxpayers with transactions exceeding AZN 120,000 for twelve consecutive months must register as VAT payers. Registration of taxpayers for VAT in RoA is effective based on MoT evidence and investigations.

Score A: Taxpayer registration arrangements are effective. The registration database is comprehensive and has direct links to other relevant government databases.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

The general provisions for violation of administrative laws are set in the Code for Administrative Offences, based on the *Constitution* of RoA[60]. The Code contains provisions for dealing with administrative misconduct for payment of taxes

[60] The Code of the Azerbaijan Republic on Administrative Violations (Approved by the Law of the Azerbaijan Republic of 11th July, 2000, No. 905-IG).

(Chapter XX) and Customs rules (Chapter XXI). The *Customs Code*[61] does not include specific provisions regarding the violation of its articles, so it is understood that only the provisions of the *Code for Administrative Offences* applies, except for evasion of payment of customs charges regulated under article 209 of the Criminal Code.

The *Tax Code* provides for different sanctions for those who do not comply with their tax obligations, although sanctioning powers and tax debts are not regulated independently and separately. The *Criminal Code*, article 213, provides for sanctions on evasion of taxes.

The penalties are higher for larger payment discrepancies, on a percentage basis, but no penalties are applied based on assessment of the seriousness of the offence. For example blatant fraudulent behaviour is subject to the same scale of punishment based on the amount of the discrepancy in tax as inadvertent error. Non-compliance with requirements to provide information, resistance or obstruction are not specifically or substantially punished under the law.

Revenue authorities have the right to charge interest and impose sanctions and administrative penalties to those who do not pay on time. However, the amounts provided in the legislation are too low to discourage taxpayers from avoiding their obligations. Also the statute of limitations for imposition of sanctions is too short.

The tax law includes provisions for imposing sanctions for infringement of the tax law[62]. However there is little evidence of proceedings taken for non-payment of taxes. Prosecution for tax evasion can be considered for any amount exceeding AZN 2,000, which is low and, if enforced rigorously could overburden the courts. Discretion is exercised by the authorities in the use of legal sanctions, taking into account the size of the entity, debt and more general economic indicators to determine the cost-effectiveness and advisability of legal action.

Score C: Penalties for non-compliance exist but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.

(iii) Planning and monitoring of tax audit and fraud investigation programs

Tax controls are performed on or off-site and the rights of the taxpayers are preserved as MoT notifies the taxpayer at least fifteen days before the

[61] Customs Code Approved by the Law of the Azerbaijan Republic of 24th June, 2011, No. 164-IVQ and introduced on 1 January 2012.

[62] *The Tax Code*, Law No.905-IG, chapter V, ‘Responsibility for violation of tax legislation’. There are 8 articles relating to the effectiveness of sanctions for failure to register and declare for tax purposes.

commencement of the tax inspection. Such inspections cannot continue for more than 30 days, except in exceptional circumstances.

Inspections are based on the analysis of risk factors. Spontaneous tax inspections can occur if tax returns are not submitted on time, if evasion is suspected or incorrect information is found in a tax inspection report.

The results of off-site tax inspections have improved since 2010 in terms of the number of taxpayers with undeclared obligations, the number of off-site inspections and the additional revenue made as a result of inspections. .

On-site tax inspections have decreased in number since 2011. However the matters detected and additional funds collected have increased. Computerisation of taxpayer records is well advanced and effectively utilised by MoT to identify taxpayers for further investigation.

OECD guidelines are used in RoA for tax and customs risk assessment which are based on:

- horizontal analysis – use of media and other information
- public support – use of information from consumers, tax-consultancy organisations and other sources
- obtaining information from tax administrations of other states
- obtaining information from third persons
- use of audit information

The MoT and the Netherlands Tax and Customs Authority implemented an EU financed-twinning project on the introduction of an electronic audit system for large taxpayers in 2011-13. There is also an ongoing project in MoT on identification of tax risks.

Audits were conducted and managed in accordance with an audit plan and risk assessment criteria and the information available to the revenue administration is sufficient to assess risks effectively using manual and automated methodologies to analyse tax data and other information sources[63].

Score A: Tax audits and fraud investigations are managed and reported according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.

[63] MoT presentation on its risk assessment approach to the Azerbaijan Risk Forum, 2012.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-14	**C+**	**B+**	**Scoring method M2**	**Improvements in the access and coverage of taxpayer registration, audit planning and management are the main reasons for the improved score.**
i)	B	A	Taxpayer registration arrangements are effective. The registration database is comprehensive and has direct links to other relevant government databases.	Registration arrangements have been strengthened since the last assessment.
ii)	C	C	Penalties for non-compliance exist but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.	It is not clear if there has been a significant change in performance. However evidence is stronger in the current assessment on the existence and application of penalties, allowing a more definite basis for the score.
iii)	C	A	Tax audits and fraud investigations are managed and reported according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.	Improvements in audit planning and risk assessment methodology have been made since the last assessment.

PI-15 Effectiveness in collection of tax payments

Rationale for this indicator:
PI-15 assesses the extent to which tax policies and administration are effective in collecting the revenue as authorised by legislation and regulations. Handling of tax arrears is an important guide to the effectiveness of legal and administrative arrangements. The funds that are collected need to be transferred to government accounts and reconciled quickly to allow funds to be used promptly and to ensure that records across government are fully aligned. Dimension (i) examines the last two completed FYs (2012 and 2013). Dimensions (ii) and (iii) focus on circumstances at the time of the assessment (2014).

i) The collection ratio for gross tax arrears

The collection ratio for gross tax arrears is measured by the percentage of tax arrears at the beginning of the fiscal year that is collected during that fiscal year. This dimension considers the average collection ratio for the last two fiscal years (2012 and 2013).

Table 15: Tax debt collections, 2012-2013 (AZN million)

Year	Debt outstanding		Remaining debt	Percentage clearance
	Tax debts	Cancelled		
2012	2942.5	2674.7	267.8	90.9
2013	2901.2	2627.0	274.2	90.6

Source: MoT

The average debt collection ratio was 90.9 percent in 2012 and 90.6 percent in 2013 as presented in Table 15.

Score A: Average tax debt collection ratio for the most recent two years exceeded 90 percent.

(ii) Effectiveness of transfer of tax payments to Treasury

All tax revenue is paid directly into accounts controlled by Treasury. There are no funds deposited in accounts of tax authorities and no suspense accounts. All funds are immediately accessible to Treasury.

Score A: All tax revenue is paid directly into accounts controlled by the Treasury.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by Treasury

Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs on a monthly, quarterly and annual basis between Treasury and revenue authorities within one month of the end of the period.

Score A: Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs at least monthly, within one month of the end of the period.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-15	**C+**	**A**	**Scoring method M1.** .	**There has been improvement in debt collection and reconciliation of accounts.**
i)	C	A	Average tax debt collection ratio for the most recent two years exceeded 90 percent.	Collection of arrears improved significantly between the two assessments.
ii)	A	A	All tax revenue is paid directly into accounts controlled by Treasury.	No change.
iii)	C	A	Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs at least monthly, within one month of the end of the period	Improved information systems in tax authorities and Treasury have resulted in faster and more frequent reconciliation of accounts.

PI-16 Predictability in the availability of funds for commitment of expenditure

Rationale for this indicator:
PI-16 assesses the extent to which MDAs receive reliable and timely information on the funds available for them to commit expenditure for recurrent and capital purchases. The reference period for this indicator is the last completed FY (2013).

i) Extent to which cash-flows are forecast and monitored

An annual allocation plan is prepared by the Budget Department in December for the next fiscal year (*n+1*) in accordance with the Budget System Law.[64] The allocation plan is divided into 12 monthly periods based on the quarterly breakdowns in budget appropriation. The MoF's TIMS includes a module on cash management that supports Treasury appropriation planning and management. This module has the capability for defining and monitoring daily cash limits. The TIMS also includes controls that permit payments only within the prescribed cash limits. Requests outside the limit are rejected by the system. The allocation plans and TIMS ensure realistic allocation and commitment levels.

Treasury also undertakes cash flow forecasting for the budget year (n+1). Historical and forecast data on revenue and expenditure are used. The forecast is

[64] The Budget System Law, article 17.1.

updated weekly and monthly on the basis of actual cash inflows (revenues) and outflows (expenditure). This is in accordance with the surplus cash position of the State.

Score A: A cash flow forecast is prepared for the fiscal year and is updated at least monthly on the basis of actual cash inflows and outflows.

ii) Reliability and time horizon of periodic in-year information to MDAs on maximum limits for expenditure commitments

During the fiscal year MDAs are able to plan and commit expenditure for at least six months in advance, and a maximum number of 12 months, in accordance with budgeted appropriations.

Score A: The MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budget appropriations.

iii) Frequency and transparency of adjustments to budgetary allocations, which are decided at a level higher of management than MDAs

According to the law, MDAs can make administrative changes to budget allocation limits within sections of the functional classification, among the sections, sub-sections, paragraphs, items and sub-totals of the economic classification.[65] These changes in allocation do not affect the aggregate levels of the budget. There was no revised or supplementary budget during 2013 and there were no significant changes to the actual composition at aggregate levels.

Score A: There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable manner.

[65] The Budget System Law, article 18.4.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-16	**A**	**A**	**Scoring method M1**	**No change in performance between 2008 and 2014 assessments.**
i)	A	A	A cash flow forecast is prepared for the fiscal year, and is updated at least monthly on the basis of actual cash inflows and outflows.	No change in performance.
ii)	A	A	The MDA's are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	No change in performance.
iii)	A	A	There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable way.	No change in performance.

PI-17 Recording and management of cash balances, debt and guarantees

Rationale for this indicator:
PI-17 assesses the degree to which:
- *public debt administration is undertaken expeditiously, based on accrued and updated information to contribute to an adequate plan of budget commitments,*
- *cash needs are supported by updated information on the availability of cash in the Treasury accounts to minimize further public debt and optimize the use of cash, and*
- *the issuing of government guarantees is registered in a transparent and timely manner to ensure information on the implicit fiscal risk.*

The assessment of the first and second dimensions is based on the time of the assessment (2014), while the third dimension measures performance over the last completed FY (2013).

i) Quality of debt data recording and reporting

The main debt management regulation is the Public Debt Law enacted in 2007. In 2009 the Government established a debt management office, the Public Debt Management Agency (PDMA) by presidential decree, which improved governance of government debt management by consolidating the borrowing functions previously handled by different offices.

There is no specialized software for debt data maintenance, recording, updating and other operations, although the debt data is currently managed in excel sheets to record transactions and balances. Even so, the records are of fairly high quality, complete and maintained for domestic and foreign debt and also for explicit government guarantees. New transactions are immediately updated and registries are reconciled quarterly with borrowing institutions, the Central Bank and line ministries.

The PDMA registry also includes all official guarantees issued by the Government. Comprehensive reports on public debt are regularly prepared with information on debt stock, debt service, maturity, currency of debt for both external and internal debt and guarantees, and debt operations are sent to the Milli Majlis and State bodies twice per year.

The PDMA has plans for procuring a debt management IT system and there is also a draft Law, *Lending on behalf of the Republic of Azerbaijan*. The PDMA is working with WB support to develop a Debt Management Strategy.

Table 56: Total public sector debt data at January 2014 (AZN million)

Component	Value/ Percentage
Foreign debt amount	**4752**
Foreign debt /GDP	8.2 %
Debt maturity	
1-10 years	8.1 %
10-20 years	43.6 %
20 or more years	48.3 %
Currency composition	
SDR	11.7 %
US dollars	47.1 %
Euros	28.8 %
Yen	9.5 %
Other currencies	2.9 %

Source: The RoA MoF website (www.maliyye.gov.az)

The PEFA Secretariat issued a clarification[66] in 2012 regarding reconciliation between government's records and the records of the creditor institutions, irrespective of whether the Central Bank or MoF maintains the government's debt records. The reconciliation remains quarterly but the criteria applied for reconciliation between organizations in RoA have changed. The previous score would have been B following the PEFA Secretariat's clarification.

Score B: Information on debt was complete, current and reconciled quarterly. Reports on public debt are provided twice per year to Milli Majlis and state bodies.

[66] *PEFA Fieldguide*, 3 May 2012, p.101.

ii) Extent of consolidation of the government's cash balance

The RoA has a TSA in place with one account at the Central Bank of Azerbaijan (CBA) for each type of currency managed by Treasury. The Treasury manages a system of regional Treasury offices that use TSA sub-accounts for transactions.

The implementation of TIMS began in 2007and was almost complete at the time of this assessment with 90 percent of State budget execution coverage. Full coverage is expected by the end of 2014. The TIMS is used for budget execution and incorporates approved budget ceilings and detailed information after the budget is approved.

The TIMS ensures that detailed data on budget execution is readily available with information on budget execution by each budgetary institution. The system also provides automated daily reconciliation and consolidation of information in the TSA.

Extra-budgetary funds such as SOFAZ and SSPF also operate through TSA. Project funds by international financial and credit organizations are channelled through commercial bank accounts outside of TSA but the aggregate amount was less than six percent of the total State budget value at the time of this assessment and is reconciled at project level.[67]

All cash other than by international financial and credit organizations is consolidated and monitored centrally. All government accounts are identified and consolidated, with the exception of international financial institutions financing, and include cash in extra-budgetary funds such as SOFAZ and SSPF.

Score B: Cash balances within TSA are calculated daily and consolidated but financing by international financial institutions is not included in the daily calculations.

iii) Systems for contracting loans and issuing guarantees

The Budget System Law establishes limits on internal and external debt limits for the subsequent year.[68] The limit on public debt can only be changed by changes to the budget law of the relevant year.[69]

Other relevant legal regulations regarding debt management include:

- Law on Public Debt issued in 2007 which describes the relevant executive bodies
- PDMA Statute issued in 2009
- Guarantee regulations under Order 368 and contingency fund for guarantees (Decision 84).

[67] Multilateral project budget for 2012 and 2013 were AZN 1,000 million and AZN 754 million respectively, which was 5.7 % and 3.9 % of the total State budget for those years.
[68] The Budget System Law, article 16.1.13,
[69] Ibid, article 25.2

The CoM approves loans and issues guarantees. The PDMA reviews proposals and makes recommendations that are submitted to CoM by MoF. Sometimes ministries or public enterprises submit debt or guarantee proposals directly to CoM. The new law, in draft stage, will make it mandatory for all submissions to go through PDMA.

The RoA's investment risk rating on sovereign debt is Baa3 for Moody's, BBB for Standard and Poor's (S&P) and BBB for Fitch, due primarily to the RoA's strong net general government and external asset positions.[70] The S&P rating did not change during the period under review. The RoA legislation is clear and emphatic that central government does not issue guarantees or approve loans to any entity without first analysing the economic and financial aspects of the request. The MoF assesses the levels of debt and reserves the right to recommend or reject the guarantee or loans and CoM is the single responsible entity for approval of loans and guarantees.

Score A: Central government contracting, loans and guarantee issuance are made in accordance with fiscal targets and have a clear single approving authority (CoM).

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-17	**(A)**	**B+**	**Scoring method M2**	**It is not clear whether there has been any change in performance between 2008 and 2014.**
i)	(A)	B	Information on debt was complete, current and reconciled quarterly. Reports on public debt are provided twice per year to Milli Majlis and state bodies.	The methodology for this dimension was clarified by the PEFA Secretariat in 2012, which altered the interpretation of reconciliation used in 2014 compared with 2008, and data on the MoF website has not been updated since 2011.
ii)	B	B	Cash balances within TSA are calculated daily and consolidated but multilateral financing is not included in the daily calculations.	No change.
iii)	A	A	Central government contracting, loans and guarantee issuance are made in accordance with fiscal targets and have a clear single approving authority (CoM).	No change.

[70] S&P, 31 January 2014, (www.standardandpoors.com)

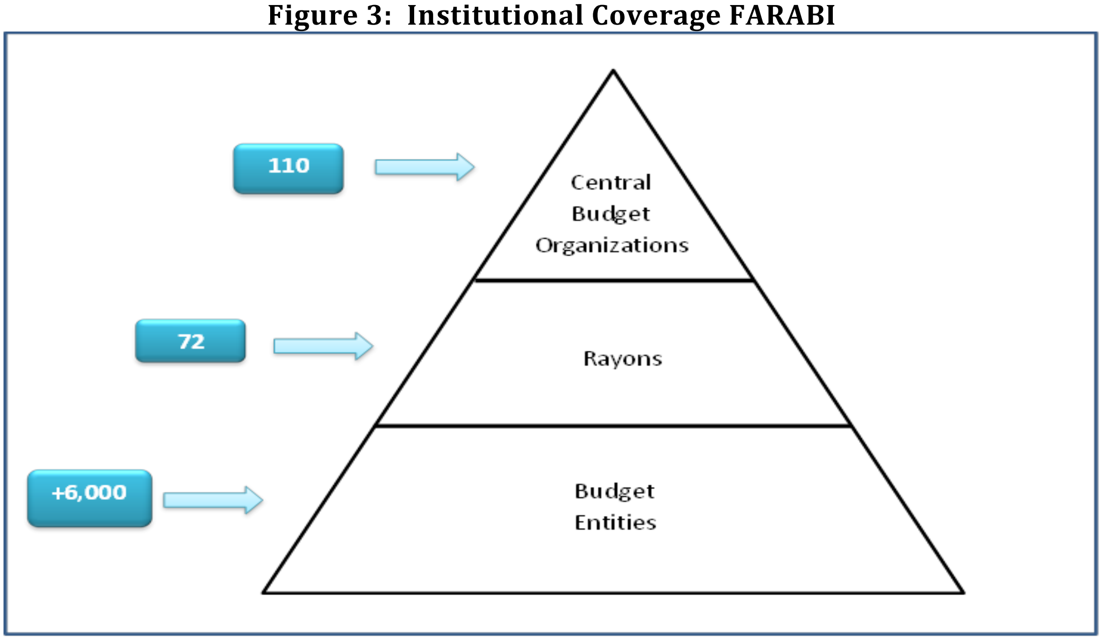
PI-18 Effectiveness of payroll controls

Rationale for this indicator:
PI-18 evaluates the integrity of central government personnel registration and the efficiency of administrative processes for human resources and the government payroll. The indicator assesses all payrolls of the central government, even if they cover different segments of the public service, including all MDAs and AGAs. The assessment of all dimensions is undertaken at the time of assessment (2014), except the fourth dimension, which is assessed for the last completed three FYs (2011-2013).

Each budget institution is responsible for maintaining updated personnel records and keeps information on personnel and payroll calculation according to a respective tariff scheme submitted to the relevant sectoral authority (ministry, local sectoral office or rayon financial department). Such calculations are reviewed, consolidated and incorporated in the budget proposals and budget execution. The Civil Service Management Board manages all civil service employment processes.[71] The Treasury makes electronic payments to individual employee bank accounts according to information provided by the relevant sectoral authority.

The RoA is implementing the FARABI system with support from a WB project. The institutional coverage of FARABI is summarised in Figure 3. This system is intended to automatically link personnel and payroll databases.

Figure 3: Institutional Coverage FARABI



Source: RoA Corporate and Public Sector Accountability Project (CAPSAP)

[71] Civil Service Law, article 5.1.

The FARABI system incorporates an HR and payroll module that includes a unified database for personnel data, timesheet control, payroll, HR performance and HR reports. Under FARABI, when it is fully implemented, payments are expected to be directly linked to personnel databases and changes will be updated immediately after their approval. The project has been piloted in a group of central government ministries and autonomous institutions.[72] The project is in its first phase of implementation in 39 institutions. The second phase is expected to include 60 additional entities. The FARABI system is intended to generate automatically the payment order for TIMS.

i) Degree of integration and reconciliation between personnel records and payroll data

Each budget institution is responsible for maintaining and updating personnel data and produces information on payroll through tables that, with the application of the relevant tariff matrix, allows calculation of the amount payable. The ceilings established for payroll expenditure are enforced rigorously. The payroll registries are used monthly for payments and any change is updated in the payroll system within three days. The payroll tables are generated by MDAs based on their own personnel management systems and submitted to the Treasury for payments. Although there was no automated personnel database for the payroll system at the time of this assessment, the existing manual system ensured data consistency and quarterly reconciliation.

Salaries consist of four components used for calculations:

- basic position salary
- length of service adjustment
- individual qualification
- additional allowances (remote areas service).

In some sectors such as health and education, specific personnel systems keep electronic records on professional staff submitted by budget institutions.

Score B: There is no fully automated link between personnel data and payroll. But the payroll is fully supported by documentation for all changes to personnel records and every change is updated promptly to be applied within each month.

(ii) Timeliness of changes to personnel records and payroll

Updates on personnel records are submitted as required and payment tables are updated accordingly. In the case of any update on the personnel database the responsible budget entity has 3 days to submit the change information to the relevant authority. This time limit was respected during the assessment period, according to information provided to the PEFA team.

[72] Organizations included in the pilot were the Ministry of Education, Ministry of Health, Ministry of Culture and Tourism, Ministry of Youth and Sport, MoF, Baku State University, Azerbaijan Technical University, Kazhar University and State Management Academy (under the Presidency of RoA).

Every month the payroll tables are submitted to the Treasury for payment through TIMS. Changes are submitted by the budget entity, reviewed and approved by the relevant authority (minister or regional sectoral office) and reviewed by the financial department if the change is at rayon level. In the health sector this process is managed electronically through the information system. No retroactive adjustments were made during the period of this assessment.

Score A: Payroll updates for personnel changes are performed within 3 days of occurrence and at least monthly. No retroactive adjustments were made.

(iii) Internal control over changes to personnel records and payroll

Each MDA is responsible for updating its personnel records. Changes are supported by documents signed by the MDA and reviewed and approved by the regional or sectoral authority and the relevant MDA financial control department at ministry or rayon level. The change process is adequately documented and reviewed and leaves an identifiable audit trail. Institutions must confirm that the information they process is accurate, including that all employees recorded on the payroll are actually working. The CoA and SFCS undertake periodic reviews of these records during their work. Control over payroll is performed not only by CoA and SFCS but also by Treasury and other units within the ministries.

The levels of control support the avoidance of errors and ensure integrity of data and reconciliation between personnel records and payroll payments. Comprehensiveness of internal controls have improved significantly since the 2008 assessment, which has increased the score for this dimension.

Score A: Authority to change records and payroll is restricted and results in an audit trail.

(iv) Existence of payroll audits to identify control weaknesses and/ or ghost workers

The scope of payroll audit and verification includes administrative controls on personnel and payroll and oversight by CoA and SFCS. The CoA conducts external audit of personnel databases and payroll calculations as part of its standard methodology. The SFCS control methodology and instructions also include procedures for review and audit of personnel databases and payroll calculations.

Both CoA and SFCS cover central government institutions in their work plans but they do not review the entire central government each year. Moreover, the scope of audits during the period covered by this assessment do not constitute a comprehensive payroll audit for central government, either within one year or for the three years collectively.

Score C: Payroll audit is conducted in central government agencies in stages, which involves both CoA and SFCS. However the scope of these audits did not constitute a comprehensive payroll audit of all central government entities during the period of assessment.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-18	**C+**	**C+**	**Scoring method M1**	**Performance improved since the 2008 assessment because of better internal controls. This is not reflected in the aggregate score due to the use of M1 methodology for this indicator.**
i)	B	B	There is no fully automated link between personnel data and payroll, but the payroll is fully supported by documentation for all changes to personnel records and every change is updated promptly to be applied within each month.	No change.
ii)	A	A	Payroll updates for personnel changes are performed within 3 days of occurrence and at least monthly. No retroactive adjustments were made.	No change.
iii)	C	A	Authority to change records and payroll is restricted and results in an audit trail.	The nature and extent of internal control has increased significantly since the 2008 assessment.
iv)	C	C	Payroll audit is conducted in central government agencies in stages, which involves both CoA and SFCS. However the scope of these audits did not constitute a comprehensive payroll audit of all central government entities during the period of assessment.	Audit coverage improved significantly since the last assessment but did not achieve a complete payroll audit for central government entities, even in stages, during the last three years.

PI-19 Transparency, competition and complaint mechanisms in procurement

Rationale for this indicator:
PI-19 examines the operations and integrity of public procurement arrangements. The assessment covers all procurement for central government and focuses on the time of the assessment for all dimensions except dimension (i), which relates to the last completed FY (2013).

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

The Law on Public Procurements (PPL) contains all provisions relating to public procurement.[73] It is based on the 1994 UNCITRAL Model Law on Procurement of Goods, Construction and Services. The PPL includes provisions on the means of procurement, implementation procedures including selection, rejection and assessment of suppliers, contract requirements, system of planning and procedure for handling complaints. The PPL covers State enterprises and organizations, enterprises and organizations procuring goods (works and services), and enterprises and organizations that are 30 or more percent State-owned.

Table 17 sets out the features of legal and regulatory arrangements that PEFA guidelines identify as essential. The table summarises the situation in RoA in terms of the features identified.

Table 67: Legal and regulatory framework for procurement

Documentary requirement	Fulfilled	RoA arrangements
1. Procurement legal framework is organized hierarchically and precedence is clearly established.	Yes	The legislation defines all procurement requirements. However the regulations need improvement to bring procurement arrangements fully into line with good international practice.
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	Yes	The PPL is accessible to the public and available in Azeri and English on SPA website (tender.gov.az), available to local and international procurement suppliers.
3. The legal framework applies to all procurement undertaken using government funds.	Yes	The legislation applies to all public procurement implemented for ministries, legal entities of public law, State enterprises and others.
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified.	Yes	The legislation does not mandate competitive methods as the default method for all procurement but there is defacto requirement for use of competitive methods for larger procurement as a result of financial thresholds defined in PPL. Depending on the nature, complexity, circumstances and justifications, procurement agencies (PAs) can follow other methods of procurement listed in PPL. The

[73] PPL, 27 December 2001, Presidential decree no. 668, 29 January 2002.

Documentary requirement	Fulfilled	RoA arrangements
		procurement of services follows a two-stage tendering procedure.
5. The legal framework provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	No	The procurement plans and contract award notices of approximately 152 PAs have been published on the SPA website. In addition the public has access to tender notices, sample bidding documents, contract manual, FAQs and contract award information via the website. However complaint and resolution data are not available to the public.
6. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No	The PPL contains a section on complaints but it does not clearly specify the role of SPA and independent review of complaints. The SPA has submitted a technical proposal for revision to government and is awaiting a response.

The public procurement arrangements in RoA meet four of the six requirements for transparency, comprehensiveness and competition in the legal and regulatory framework. There is room for improvement in the explicit identification of competitive methods as the default procedure and establishing and maintaining efficient, transparent and independent complaint and review arrangements.

Since 2008, SPA has taken several positive steps towards streamlining public procurement and increasing transparency including website development with Azerbaijani and English versions of the PPL, sample quotations and bidding forms, FAQs, procedures manual, procurement notices, contract award information, and annual procurement plans. In addition SPA has submitted recommendations to amend the law to increase transparency by introducing e-procurement and several other enhancements. The e-procurement implementation proposal has been prepared and is under review by government. The reference to 'Improving public procurement and transparency' as part of the National Anti-Corruption Plan 2012-2015, issued under the Presidential Decree No. 2421 on 5 September, 2012, is recognized as a positive step to enhancing transparency in public procurement.

Score B: The RoA delivers four of the six features considered essential for a public procurement system.

(ii) Use of competitive procurement methods

The PPL does not explicitly mandate the competitive method as a default but it is a defacto requirement for larger procurements because the use of procurement methods is linked to financial thresholds in PPL. Single source selection is the only procurement method used in RoA that does not require competition. The percentage of procurements by single source selection (by value) has trended downwards during the assessment period, with the notable exception of 2012, as shown in Table 18. There was a substantial increase in the value of all public procurement in 2012, including almost double the value of non-competitive procurement compared with 2011.

All public procurement during the assessment period, including non-competitive selection, was undertaken in accordance with legal and procedural obligations. Treasury monitors compliance with requirements as part of its ex-ante control of budget execution.

Table 18: Contract awards by procurement method 2010-2013 (AZN million)

Year	Total value of awards by all procurement methods	Awards following single source procurement	Percentage
2010	2757.0	771.8	28
2011	4378.7	963.1	22
2012	7193.9	1725.5	24
2013	5414.8	1135.1	21

Source: SPA

Score A: All non-competitive public procurement contract awards comply with legal and procedural requirements.

(iii) Public access to complete, reliable and timely procurement information

Article 5 of PPL requires the publication of tender notification. The SPA website publishes procurement plans, tender notices and contract award data. In addition the public can access the list of ineligible bidders, sample bidding documents for goods, manual for contracting authorities, FAQs and other procurement information. The SPA website contains a heading relating to complaints but no further detail is provided to the public on the resolution of procurement complaints. However information on more than 75 percent of public procurement operations by value is available to the public in a timely manner through appropriate means on the SPA website[74].

Score B: Information is available to the public on government procurement plans, bidding opportunities and contract awards for more than 75 percent of procurement operations but no information is accessible on the resolution of procurement complaints.

(vi) Existence of an independent administrative procurement complaints system

The procedure for handling complaints is outlined in PPL.[75] Complaints can be addressed to PA, SPA or the court. According to SPA only 8 complaints were received and resolved in the assessment period and they related to the tender

[74] SPA website can be accessed at http://tender.gov.az/new/?lan=en
[75] PPL, chapter 8, articles 55-60.

process. There was evidence of some aspects of an effective complaints system, as shown in Table 19, but the fundamental PEFA methodology requirement for an independent complaints body is not met. Strengthening the complaints handling mechanism has been identified as an action item in the National Anti-Corruption Action Plan (NACAP).

Table 79: The RoA procurement complaint arrangements

Documentary requirement	Fulfilled	Explanation
i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No	The PA handles most complaints. The SPA can provide observations and recommendations but has no binding obligation over PA. There is no independent board.
ii) Does not charge fees that prohibit access by concerned parties	Yes	No fees charged.
iii) Has the authority to suspend the procurement process	Yes	The PA can suspend procurement procedure for 7 to 15 banking days.
iv) Issues decisions within the time frame specified in the rules/regulations	Yes	Decisions are made within the term of 15 banking days in accordance with Article 59 of PPL.
v) Issues decisions that are binding on both parties	Yes	
vi) Issues decisions within the timeframe specified in the rules/regulations	Yes	
vii) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	Yes	Article 60 of PPL provides for court appeals against the decision.

Score D: There is no independent procurement complaints body. All other characteristics of complaint mechanisms identified in the checklist are met.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-19	**B**	**B***	**Scoring method M2**	The methodology for scoring this indicator changed between the 2008 and 2014 assessments so it is not possible to directly compare the scores.
i)	B	B*	The RoA delivers four of the six features considered essential for a public procurement system	Not comparable.
ii)	B	A*	All non-competitive public procurement contract awards comply with legal and procedural requirements.	Not comparable.
iii)	C	B*	Information is available to the public on government procurement plans, bidding opportunities and contract awards for more than 75 percent of procurement operations but no information is accessible on the resolution of procurement complaints.	Not comparable.
iv)	-	D*	There is no independent procurement complaints body. All other characteristics of complaint mechanisms identified in the checklist are met.	Not comparable.

***** *Note: all dimensions for this indicator are different in 2008 and 2014 so it is not possible to compare the scores in any dimension or the indicator as a whole.*

PI-20 Effectiveness of internal controls for non-salary expenditure

Rationale for this indicator:
PI- 20 examines the effectiveness and comprehensiveness of internal controls, and compliance with rules for processing and recording non-salary expenditure transactions at the time of assessment (2014). The indicator covers the control of expenditure commitments and payments for goods and services, casual labour wages and discretionary staff allowances. The effectiveness of expenditure commitment controls is examined as a specific dimension because of its importance to ensuring that the government's payment obligations remain within the limits of projected cash availability, avoiding expenditure arrears (as examined in PI-4).

The State budget is executed by the 'relevant executive power bodies and their subordinates'.[76] Officials of organizations financed from the State budget are liable if their subordinate organizations do not follow the rules applying to

[76] The Budget System Law, article 18.

financial transactions, expenditure norms and other relevant financial requirements. The head of each MDA is responsible for budget execution and for establishing, developing, reviewing, and updating internal controls. The application of methods and procedures as well as the quality, efficiency, and efficacy of internal controls is also the responsibility of each civil servant, in accordance with their function according to the Budget System Law.

The Treasury is in charge of commitment and cash controls during budget execution. Treasury agencies at the rayon level act as subordinates of the Treasury and process commitments and payment in TIMS.

i) Effectiveness of expenditure commitment controls

With the consolidation of TSA, and the centralization of cash management functions, MoF is able to produce reliable and timely information on the government's fiscal operations. After the budget is approved by Milli Majlis, the budget allocation is uploaded in TIMS. Expenditure cannot be processed unless there is sufficient budget allocation, which is strictly monitored by the Treasury. Payments are centralised in the Treasury and are made only when cash is available. Cash limits below commitment limits have not been applied during the assessment period because the Government maintains sufficient cash to meet all commitments as they fall due.

The existing set of controls on commitments ensures compliance with expenditure rules and procedures. Controls are executed at various levels in practice because MDAs are responsible for their own budget execution. The MDAs must submit documentation to relevant sectoral or regional authorities such as financial department, regional sectoral agency or rayon finance department. This documentation is also sent to the Central Treasury or Local Treasuries, applying further review for each commitment.

Score A: The commitment controls in place are comprehensive and effectively limit commitments to approved budget allocations.

(ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures

Internal controls include a wide range of actions executed across the public administration in RoA, including financial management. The basic foundations of the internal control standard are consistent with the international standard issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)[77], which was adopted by INTOSAI and recommended for Higher Oversight Entities (EFS).[78]

[77] The COSO is a joint initiative of private sector organizations dedicated to developing framework and guidance to enterprise risk management, internal control and fraud deterrence.

[78] *INTOSAI, GOV 9100, Guidelines for Internal Control Standards for the Public Sector*, (http://www.intosai.org/issai-executive-summaries/view/article/intosai-gov-9100-guidelines-for-internal-control-standards-for-the-public-sector.html).

In RoA the control procedures in central government are understood clearly by MDAs and function consistently with procedural requirements such as:

- authorization and approval procedures
- segregation of duties
- controls over access to resources and records
- verifications
- reconciliations
- reviews of operating performance

The effectiveness of internal controls is also reviewed by SFCS as part of its internal audit function (PI-21). These internal controls are effective due to the level of oversight, however the PEFA methodology does not assess the cost-effectiveness of such arrangements.

Score B: There is a set of effective internal control rules and procedures that are clearly understood, although some controls across many levels may not add value.

iii) Degree of compliance with rules for processing and recording transactions

There are clear and effective rules for processing and recording transactions. Treasury captures all payment-related transactions through TIMS within STA. Commitment control and cash management interact effectively and the improvements in internal financial control engender high compliance with rules and regulations.

The internal control system involves a multiplicity of control layers, some of which may not be necessary[79]. Controls are exercised within service delivery units, at rayon and ministerial levels and within MoF. Many of the same controls are applied at different levels. While this makes Treasury's task simpler because the necessary checks have often been applied before the transaction reaches them, it seems unduly repetitive to have the same controls applied at multiple levels. There has been no evidence of misuse of simplified and emergency procedures during the assessment period.

Score A: There is high compliance with rules. No instances of errors or rejections have been identified and there has been no evidence of misuse of simplified and emergency procedures during the assessment period.

[79] SFCS ex-ante control and ex-post control functions, Treasury and other internal unit controls could overlap in some areas.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-20	**D+**	**B+**	**Scoring method M1**	**Stronger evidence of a comprehensive system of internal controls is the main reason for improvement since the 2008 assessment.**
i)	A	A	The commitment controls in place are comprehensive and effectively limit commitments to approved budget allocations.	Commitment controls remain strong.
ii)	D	B	There is a set of effective internal control rules and procedures that are clearly understood, although some controls across many levels may not add value	The improvement since the 2008 assessment relates to the evidence of a comprehensive framework of internal controls.
iii)	B	A	There is high compliance with rules. No instances of errors or rejections have been identified and there has been no evidence of misuse of simplified and emergency procedures during this assessment.	Improvement in internal controls since 2008.

PI-21 Effectiveness of Internal audit

Rationale for this indicator:
PI-21 assesses how well the internal audit function performs, based on the last available financial and operational information (2014). This indicator complements PI-18 and PI-20 because one of the functions of internal audit is to monitor and assess the effectiveness of internal controls.

The internal audit function should meet internationally recognized standards in terms of professional independence, sufficient mandate, power to report and use of professional audit methods, including risk assessment techniques.

Legal and regulatory framework

The internal audit function in RoA is performed by SFCS of MoF.[80] The SFCS was established in 2009 to improve MoF's financial management as an ex-post inspectorate for reviewing financial compliance.

The SFCS provides the financial review function for the use of funds allocated from the State budget. Independent from the organizational structure, the SFCS mandate covers the State budget and extra budgetary funds, provision of

[80] Decree 48, 9 February 2009.

guidance on financial control and measures to improve such oversight. The SFCS responsibilities include performing financial control over state funds, extra-budgetary transactions and publicly guaranteed credits, and provide methodological oversight on the organisation of state financial control in RoA[81].

(i) Coverage and quality of internal audit function

The SFCS prepares a risk-based work plan for the audit of defined budget institutions under methodology based on a decision of the Collegial Body of MoF. Specific rules on planning, conducting and executing state financial control were developed in the framework of an EU twinning project under the European Neighbourhood action plan for Azerbaijan. The SFCS uses analytical methods and carries out investigations, inspection, analysis and monitoring methods in implementing control measures.

The SFCS work plan is prepared annually in consultation with MoF and is approved by the head of SFCS. The reviews include systemic and specific compliance matters and are conducted at the institutional level with the period under review determined at the time of each assignment. Systemic reviews occupy more than 20 percent of staff time as demonstrated by its work program.

The rules established for SFCS used international standards for internal audit, for example in relation to the purpose of control measures, critical cases in conducting control measures, inspection evidences, application of random selection method, and use of previous information from internal audits. However, the operations are not yet fully compliant with international standards for internal audit.

The head of SFCS appoints all SFCS employees, other than senior management. The SFCS had 124 staff members and 10 regional offices at the time of this assessment. From 2011-13 it was working on a strengthening program through a twinning arrangement with the German Federal Ministry of Finance. This included designing a new public financial control framework, strengthening the legal framework and providing training on modern audit practice. The MoF has provided draft legislation to other ministers for comments.

Following the twinning project, SFCS created a sector for internal audit consisting of four staff members who directly report to the head of SFCS. The objective of the new sector is to strengthen SFCS's ex-ante controls. The ex-post controls will be assumed by the new internal audit function being established under the SFCS redevelopment program. The MoF is also financing internal audit advisors for a number of government institutions, such as SCC and MEI.[82]

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[81] Regulations on SFCS of the MoF of RoA, approved by Presidential Decree 48, 9 February 2009, Article 8.
[82] The RoA has made reform commitments on public financial control in the framework of the Open Government Partnership Initiative.

Score C: Audit work is based on specific review methodology that is not yet fully compliant with recognized international standards for internal auditing. Reviews cover systemic and specific compliance matters, with systemic reviews occupying more than 20 percent of staff time.

(ii) Frequency and distribution of reports

Following approval of the SFCS work plan, reviews are conducted on selected entities. Reports are prepared following each review and sent to the heads of audited organizations. The organizations are expected to take necessary measures in response to the findings and recommendations. SFCS reports are also provided to MoF and CoA.

Score B: Reports are issued regularly for audited entities, shared with MoF and CoA.

(iii) Extent of management response to internal audit findings

The SFCS auditors prepare a recommendation letter to the entity and it takes between 1 to 2 months for them to receive a response. The entity usually responds that they have implemented the recommendations. The SFCS findings could result in fines and recovery of losses. The funds paid in response to the sanctions are deposited in a specific MoF account. The MoF has the right to suspend disbursements to any entity that does not address SFCS findings. If necessary, SFCS could take legal action against the entity through the Attorney General.

Score B: Prompt action is taken on SFCS findings in most cases.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-21	**D**	**C+**	**Scoring method M1**	**Improvements have been made in all dimensions of this indicator since the 2008 assessment following the enactment of legislation and issuance of the Presidential Decree relating to SFCS.**
i)	D	C	Audit work is based on review methodology that is not substantially aligned with international standards. Reviews cover systemic and specific compliance matters, with systemic reviews occupying more than 20 percent of staff time.	Improvement has been achieved in the planning and implementation of a program for reviews at the institutional level and establishment of an internal audit unit within SFCS.
ii)	D	B	Reports are issued regularly for audited entities, shared with MoF and CoA.	Since the 2008 assessment, SFCS reports have been issued regularly for audited entities and shared with MoF and available to CoA.
iii)	D	B	Report findings and recommendations are generally implemented promptly.	Improvement in reporting and implementation of findings and recommendations since 2008.

3.3.3 Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Rationale for this indicator:
PI-22 assesses the extent to which suspense accounts and advances are regularly reconciled, adjusted, or cleared to ensure that financial and government institution statements adequately reflect a true fiscal picture. The reference period for the analysis of this indicator is the time of assessment (2014).

(i) **Regularity of bank account reconciliations**

As described in PI-17 there is a TSA system in place. Accounts are consolidated into TSA that is administered by CBA under a cooperation agreement. Treasury manages TIMS, which is connected to CBA and uses an automatic reconciliation function within the system. Reconciliations are performed daily at aggregate and detailed level.

Score A: Reconciliation for all central government accounts takes place daily at aggregate and detailed levels.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

According to rule I-193 on the Treasury System Application, MDAs and local treasury bodies are required to reconcile and clear advances at least monthly. The operations of STA and TIMS also facilitate controls on, and reconciliation of, advance and suspense accounts. Evidence of quarterly reconciliations was provided by the Ministries of Education and Health with reference to their in-house records during meetings with the project team.

Advance accounts used for financial advances for international contracts are required to be reconciled in a period no longer than three months by each MDA.

Score A: Reconciliation and clearance of suspense and advance accounts takes place at least quarterly.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-22	**A**	**A**	**Scoring method M2**	**There has been no substantive change in the performance for this indicator since the 2008 assessment. The arrangements continue to be at a high standard although the introduction of TIMS has improved the processes.**
i)	A	A	Reconciliation for all central government accounts takes place daily at aggregate and detailed levels.	No change in score but TIMS has facilitated improved processes.
ii)	A	A	Reconciliation and clearance of suspense and advance accounts takes place at least quarterly.	No change in score but TIMs has also improved these procedures.

PI-23 Availability of information on resources received by delivery units

Rationale for this indicator:
PI-23 assesses whether there is consolidated and reliable information available on all resources received by service delivery units, such as schools and primary healthcare centers, and whether such information is available to monitor allocation and actual use of the resources. The fiscal years 2011, 2012, and 2013 are assessed.

Detailed information on allocation and provision of resources to front-line delivery units and its availability are crucial to determine if PFM systems effectively support front-line service delivery.

i) Information demonstrating the resources that were received by the most common front-line service delivery units

This dimension focuses on resources available to sector service delivery units, particularly in relation to primary schools and primary health clinics, irrespective of which level of government is responsible for the operation and funding of those units. In RoA all sector services are provided from central government and its agencies.

The RoA Budget System Law chapter on cash execution of the State budget establishes that the State Treasury shall execute all financial transactions including all revenues and payments of the State budget, extra-budgetary payments, extra budgetary state funds (excluding income and transaction expenditures of SOFAZ, expenditures on allocation funds in international banks and other financial institutions), transactions on debt received with government guarantee, to cover the State budget and other financial deficit .[83]

Heads of budget organizations are responsible for keeping records of revenue and expenditure in accordance with legal requirements, including records in subordinate organizations.[84] Therefore as part of the State budget system all MDAs are responsible for maintaining records and executing funds through the Treasury system including all centers of primary (front-line) service delivery such as schools and health clinics.

The MDAs are required to report non-cash resources of significant value received from all sources. No such resources were received by service delivery agencies in Health or Education ministries for the duration of the period assessed. Most of the front-line service delivery units are managed at regional level. The municipal level has no responsibility for front-line service delivery.

Since 2007 the Treasury has been implementing TIMS, which allows processing and compiling of budget execution information of State budget entities including the front-line delivery units. The TIMS retains accessible resource information by each unit in a reliable and timely manner. The reports from TIMS compile and aggregate the information on resource for front-line units into budget execution reports during the year.

Score A: The TIMS provides reliable information on all types of resources received by schools and health clinics across the country in cash and kind. Information is compiled into reports for budget execution annually or more frequently.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-23	D	A	The TIMS provides reliable information on all types of resources received by schools and health clinics across the country in cash and kind. Information is compiled into reports for budget execution at least annually.	The quality and availability of information for front-line services has improved considerably since the previous PEFA assessment.

[83] The Budget System Law, article 19.2.
[84] Ibid, article 21.3.

PI-24 Quality and timeliness of in-year budget reports

Rationale for this indicator:
PI-24 assesses the quality and availability of information on progress with budget implementation when required by government and MDAs. The reports must be consistent with budget coverage and classifications to allow precise monitoring of performance and, if necessary, timely use of corrective measures. The reference period for this indicator is the last completed fiscal year (2013).

(i) Scope of reports in terms of coverage and compatibility with budget estimates

Chapter 20 of the Budget System Law relating to the implementation of the State budget requires that monthly budget execution reports be prepared by the 25th day of the month after the reporting month. This chapter also states that quarterly reports must be submitted to Milli Majlis by the end of the first month of the next quarter. The report must be published in the press. The quarterly reports are required to provide comparative analysis of revenue and expenditure execution along with other indicators. Differences between actual and approved figures should be explained, according to requirements for preparation of reports, including in relation to financing of expenditure and projects of national significance. The legal and regulatory requirements were complied with in practice in relation to 2013.

The budget reports include all budget entities as well as rayons and compares actual amounts with adjustments made to the budget but not compared with original budgets.

Monthly reports are prepared for internal use. Quarterly reports are formally signed by MoF, submitted to the CoM, then sent to the President and subsequently to the Parliament, and published on the MoF website.

The budget execution reports are prepared on a cash basis although they present some information on commitments. The information is presented in a classification that allows comparison with the original budget.

Score C: Expenditure information is included only at the payment stage in the execution reports. The information is comparable with the original budget.

(ii) Timeliness of report issuance

The Government prepares and issues all the reports required by the State Budget System Law. These reports are presented in a timely manner within the terms established by the Law, as summarised in Table 20.

Table 20: Presentation of financial reports – responsibilities and timing

Responsible Entity	Recipient	Report	Reporting Period	Term by Law
MoF	Internal	Monthly cumulative budget execution	Monthly	By 25th of the following month
MoF	Parliament, CoM, MoF, Public	Quarterly cumulative budget execution	Quarterly	By the end of next month
MoF	Parliament, CoM, MoF, Public	Annual budget execution	The concluded fiscal year	15 May of the next year

Source: State Budget System Law

Score A: Reports are prepared monthly and quarterly within four weeks of the end of the period.

(iii) Quality of information

The RoA in-year budget reports do not raise material concerns about the accuracy of the monthly and quarterly execution reports. The 2008 assessment identified limitations on coverage as an issue but this is not a concern in relation to central government cash-based information, which is the scope used for this assessment. The MoF and MDAs use the monthly and quarterly reports.

Score A: There are no material concerns about data accuracy for monthly and quarterly budget execution reports.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-24	**C+**	**C+**	**Scoring method M1**	**There has been an improvement in the assessment of accuracy for reports on the central government budget.**
i)	C	C	Expenditure information is included only at the payment stage. The information is comparable with the original budget.	The limited information on commitments remains a reason for no increase in the score for this component.
ii)	A	A	Reports are prepared monthly and quarterly within four weeks of the end of the period.	Timeliness of reporting continues to be highly rated.
iii)	B	A	There are no material concerns about data accuracy for monthly and quarterly budget execution reports.	The issue of scope raised in the 2008 assessment is not relevant to central government reports, for which there are no material concerns about accuracy.

PI-25 Quality and timeliness of annual financial statements

<u>Rationale for this indicator</u>:
PI-25 assesses whether annual financial statements include comprehensive financial and related information in a timely way using appropriate accounting standards. The reference period for the analysis of dimensions (i) and (ii) is the last completed fiscal year (2013). Dimension (iii) refers to the accounting standards used for preparing the annual financial statements for the last three years (2011- 2013).

The annual financial report by the Azerbaijan Government, submitted to Milli Majlis with the CoA audit opinion, is not a set of financial statements consistent with international accounting standards such as IPSAS.

Article 4 of the Accounting Law relates to the 'regulation of accounting' and identifies IPSAS as the relevant standard for the preparation of central government financial statements. The NASBO, based on IPSAS, is applicable for State budget organizations. The annual financial statements report submitted to Parliament is not prepared from the accounting system at present but is compiled by MoF with information taken from the system. Changes are proposed under the CAPSAP project which is expected to facilitate preparation of financial reports from the accounting system using FARABI and could allow consolidated and integrated budget and accounting reports to be prepared.

(i) Completeness of financial statements

End-year financial reports compiled from budget execution information include revenues and expenditures on a cash basis as well as supplementary information on financial assets, commitments, debts and guarantees with statistical information. The report consolidates MDAs and rayon level execution.

The RoA annual reports cover the central government with information on revenue, expenditure and debts and guarantees. Some sources of financial assets are not reported in the annual report but are reported elsewhere. The SOFAZ and SSPF are not in the State budget but are included in the consolidated budget.

The FARABI system is expected to include an accounting module to integrate the budget execution database, a general ledger, inventory registration and fixed assets management. The FARABI system has been designed to support IPSAS compliance in financial reporting, which is not available from existing systems.

Score B: A consolidated government financial report is prepared annually, which includes information on revenue, expenditure, financial assets, commitments, debts and guarantees. Most sources of financial assets are reported in the annual report but a few are reported elsewhere.

(ii) Timeliness in submission of financial statements for audit

The Budget System Law requires that the President of RoA must submit the annual report on implementation of the State budget no later than 15 May of the following year[85]. The Milli Majlis submits the annual reports received from the President to CoA. The deadline for submission of reports to Milli Majlis has been met over the last three years.

Table 21: Timeliness of financial statements submission to CoA

FINANCIAL REPORT	2011	2012	2013
Date submitted to CoA by Milli Majlis	10 May 2012	16 May 2013	2 May 2014
Timeliness of submission (before the end of the EFY)	within 6 months	within 6 months	within 6 months

Source: CoA

Score A: The consolidated government report was submitted to CoA within six months of the end of the financial year in each of the years covered by the assessment.

(iii) Accounting standards used

The annual financial reports are prepared from a budgetary perspective using a format consistent with the budgetary classification. They have been presented in a consistent format over time. The 2004 Accounting Law requires compliance with NASBO, which is based on IPSAS 2009. However the annual financial statements are not prepared in full compliance with NASBO. Accounting procedures and systems are being updated under the FARABI project with the aim of achieving full implementation of the NASBO requirements.

Score C: Annual financial statements are presented in a consistent format over time but are not fully consistent with NASBO.

[85] Budget System Law, article 20.3.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-25	**C+**	**C+**	**Scoring method M1**	**The rating associated with dimension (i) has improved in terms of the quality of consolidated financial information included in the financial reports.**
i)	C	B	A consolidated government financial report is prepared annually, which includes information on revenue, expenditure, debts and guarantees. Most sources of financial assets are reported in the annual report but a few are reported elsewhere.	The quality and coverage of information included in the annual financial report has improved.
ii)	A	A	The consolidated government report was submitted to CoA within six months of the end of the financial year in each of the years covered by the assessment.	Timeliness of submission to CoA is consistently within the 6-month limit required for the highest score in this dimension.
iii)	C	C	Annual Financial Statements are presented in a consistent format over time but do not fully comply with national or international standards.	No change in performance.

3.3.4 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit

Rationale for this indicator:
PI-26 measures the coverage, quality, and timeliness of external audit arrangements for central government. It also considers follow up on audit recommendations. The period of analysis is the last audited year (2013).

Legal framework

In 1994 the Parliament approved the Law on Chamber of Accounts, creating CoA with responsibility to report to the Milli Majlis. The CoA requirement is constituted under Article 92[86] of the RoA Constitution.

The CoA has organizational and functional independence and its main functions include:

- Render opinion on draft budgets of the State and extra budgetary State funds (institutions).
- Render opinion on the Annual State budget execution report and certain draft laws.
- Supervise the volume, structure, and execution of timely and targeted revenue and expenditure items of the State and extra-budgetary State funds (institutions) budgets.
- Analyse and inform the Parliament on whether the State budget is carried out as approved, and prepare and submit proposals to the Parliament regarding elimination of identified deviations and potential improvements of the budget process in general.
- Supervise the management of State property, issuance of orders in respect of such property, and the inflow of funds generated from the privatization of State property to the State budget.
- Analyse and inform the Parliament on whether the State budget funds are entered into TSA and utilized to conform to targets established in the approved State budget.

The CoA powers include supervision of the approval of the State budget, State property management, inflow of funds from privatization of State property, and the purposeful use of funds allocated in the State budget for legal entities and municipalities.

[86] Article 92, 'The Milli Majlis of the Republic of Azerbaijan shall determine its regulations of work and establish its bodies including election of chairperson and deputies, organization of committees and commissions, establishment of a Chamber of Accounts'.

The CoA is headed by the Chairman of CoA, supported by a Deputy Chairman and seven auditors that are elected by Milli Majlis for a period of seven years.

(i) Scope/nature of audit performed (including adherence to auditing standards)

The CoA provides its opinion on both the draft annual Budget Law and the State Budget execution report. It reviews whether budget execution is consistent with authorised expenditure.

The CoA audit powers cover all public sector institutions. Its reports are submitted to Parliament. The CoA mandate covers AGAs such as SOFAZ and SSPF.

Table 22: CoA's activity related to financial-budget control

Audit Work	2011	2012	2013
Audits	46	68	75
Expert analyses and opinions	7	7	2

Source: The CoA activity reports

The CoA is required, under its legislation, to prepare methodology, audit standards, reporting forms and other documents in accordance with International Standards of Audit (ISA) established by INTOSAI. In its 2013 annual report, CoA stated its adherence to INTOSAI standards including the Lima and Mexico declarations. It also outlined its work on the implementation of ISAs for Supreme Audit Institutions (SAIs) that have been translated together with the preparation of guidance for standards compliance, risk-based guidelines for the preparation of financial and performance audits, and the initiative to adopt electronic audit working papers and computer-assisted auditing tools.

The CoA implemented audit quality assurance arrangements 5 years ago as part of its improvement plan. Audit work conforms to audit standards established by CoA. CoA annual reports include instances of wrongdoing found during its audit work and the number of public offences subject to sanctions during the year.

Current audit work is primarily focussed on control issues and compliance with applicable legislation, which are also functions of SFCS. The activities of CoA during the assessment period are summarised in Table 22. The number of audit reports increased from 46 in 2011 to 75 in 2013. In 2013 two expert analyses and opinions were provided, whereas there were seven such reports in both 2011 and 2012. The information is not comparable with 2008 because no financial audits were performed by CoA at that time.

The World Bank and SECO are supporting the adoption of ISSAIs and associated capacity building through the CAPSAP project. CoA is piloting 2 financial audits based on ISSAIs, which is an indication of progress in the adoption and application of international standards for auditing since the last assessment.

The CoA work plan is approved by Milli Majlis before the beginning of the fiscal year. The CoA work plan cannot be amended and if there is a request for additional work, for example from the legislature, CoA adds the requested activity without modifying the approved work plan. The CoA reports to Milli Majlis on the fulfilment of the work plan. The CoA also reports to the executive agencies on any gaps in internal control that have not been adequately addressed. Individual CoA audit reports are shared with each institution and submitted to Parliament. The CoA audit reports are made available to the public in condensed form.

The CoA provided information that its work covers up to 30 percent of State budget expenditure. The audits performed in the 2013 work program mainly focussed on compliance and the identification of significant issues. The coverage of CoA audits for 2011 to 2013, inclusive, is summarised in Table 23.

Table 23: Sectors covered by CoA audits for period 2011-2013*

Sectors	2011	2012	2013
Profits	**5**	**10**	**20**
Expenditures			
1. General public services	7	8	11
2. Defense	1	1	
3. Courts, law enforcement and prosecutor office	2		
4. Education	24	18	5
5. Health		3	8
6. Social protection and social provision	1	1	1
7. Activities not related to culture, art, information, physical education and the sectors under other categories	7	3	10
8. Housing and utilities	6	12	13
9. Agriculture, forestry, fishing, hunting and environment protection	2	4	6
10. Industry, construction and fossil minerals	10	15	17
11. Transport and communication	1	1	1
12. Economic activity			
13. Services not related to main sections		2	9
State Social Protection Fund	**3**	**5**	**4**
Local expenditures	**2**	**2**	**5**
Centralized expenditures	**60**	**75**	**95**
Loans received with the state guarantee	**2**	**1**	

*Totals differ from Table 22 because some audits covered expenditures of more than one functional section. The sector totals recorded each audit that related to that sector, even where the audit covered more than one sector. That means audits which had a scope incorporating more than one sector were counted for each sector that they covered, so the numbers in this table are higher than the actual number of audits. The same approach was applied for the centralized and local expenditures where audits covered more than one tier of government.

Score D↑: Audit work by CoA covers less than 50 percent of State budget expenditure per year. The piloting of financial audits based on ISSAIs indicates an improvement since the last assessment.

(ii) Timeliness of submission of audit reports to the legislature

The CoA complied with deadlines set by Milli Majlis for consideration and feedback on the annual reports of State budget execution. The budget execution reports are submitted by the Government to Milli Majlis, which send the budget reports to the CoA for their opinion and setting the period for submission of the opinion to the Milli Majlis.

Table 24 shows that CoA provided its reports on the execution of the State budget to the Milli Majlis within one week from formal receipt of the State budget report in each of the years covered by the assessment. The CoA provides an opinion on the budget execution report based on the preliminary work performed during the year. Although it is not a comprehensive financial audit, it presents findings on the weaknesses found during the year and gives recommendations for improvement.

Table 24: Preparation of audit reports on annual budget execution by CoA

Action on annual budget execution report	FY 2011	FY 2012	FY 2013
Received by CoA	10 May 2012	16 May 2013	2 May 2014
Report by CoA on the annual reports of State budget execution submitted to legislature	16 May 2012	21 May 2013	7 May 2014

Source: CoA

Score A: Audit reports were provided within one week of formal receipt of the reports by CoA during the assessment period.

(iii) Evidence of follow up on audit recommendations

Each audit is shared with the audited institution. While there is no legal requirement for the audited entities to reply formally to CoA audit recommendations, audited entities can respond in writing and highlight any disagreement with the conclusions. There are guidelines on follow up audit recommendations and entities have a month to respond regarding plans or remedial action to be taken. The CoA audit plan includes information on follow up of past recommendations.

CoA has the power to freeze entity funds in situations of inadequate remedial action or excessive delay in implementation. No case of such action being taken was reported in the assessment period. The CoA board appoints an auditor to monitor any remedial action required and to prepare the summary report to the CoA Chairman. This system provides timely and adequate review of action taken on audit recommendations and there is evidence of effective follow up by CoA.

The evidence of follow up is presented in reports each year providing details of action taken on findings and recommendations to the Milli Majlis, which are reported in parliamentary proceedings[87].

Score A: There is timely and adequate response to CoA audit recommendations and there is evidence of effective follow up by CoA.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-26	**D**	**D+**	**Scoring method M1**	**There have been improvements in the evidence of audit follow up since the last PEFA assessment. Dimension (ii) was not rated in 2008 but has been rated in 2014.**
i)	D	D↑	Current audit work does not cover at least 50 percent of central government expenditure and the audit performed mainly focuses on compliance and significant issues.	Improvement in performance evident through adoption and implementation of pilot financial audits using ISSAIs, but not enough to change the rating.
ii)	NR	A	The CoA provided audit reports within one week of formal receipt of the reports during the assessment period.	More information was available on the report provided by CoA to Milli Majlis than in 2008.
iii)	D	A	There is timely and adequate response to CoA audit recommendations and there is evidence of effective follow up by CoA.	Improved information on follow up from audit findings since 2008.

[87] Azerbaijan Parliament, *The report of the Chamber of Accounts of the Republic of Azerbaijan on the activities carried out in 2013*, Chapter 2 Findings, legal actions and follow up on recommendations, Baku, Publishing House of the National Assembly, April 9, 2014 (sent to Milli Majlis by CoA on April 7, 2014).

PI-27 Legislative scrutiny of the annual budget law

Rationale for this indicator:
PI-27 assesses the nature and extent of legislative scrutiny of budget legislation. It considers the extent to which the legislature scrutinizes, debates, approves, and monitors the budget, including the existence of clear rules and procedures for scrutiny. The relevant period for assessment is the most recent fiscal year (2013).

The legal provisions for parliamentary scrutiny of the annual budget are set out in Article 95, point 5, and Article 109, point 9, of the Constitution and in Article 13 of Budget System Law.

i) Scope of the legislature's scrutiny

The procedures for reviewing matters related to revenue, expenditure and budget formulation are approved by the Chairman of the Parliamentary Committee for Economic Policy (EPC). The most recent procedures were approved in 2010 and apply for the following 5 years. The responsibility for such matters is primarily assigned to EPC. However the draft budget law is also distributed to other commissions for additional review. All findings and recommendations are discussed in a plenary hearing involving MoF and the Chairman of CoA.

The parliamentary hearings on the review and approval of the annual budget law are broadcast on national television and the approved budget law is published in national newspapers.

The parliamentary review covers macroeconomic indicators, budget structure, indebtedness, income, transfers from taxes and customs, level of income, deficit, and specific budget allocations. The main emphasis is on the budget for the next year but procedures also provide for review of expenditure for the subsequent three years.

Score B: The legislature's review covers fiscal policies, aggregates for the coming year and estimates of revenue and expenditure, but not all medium-term issues are presented in detail.

ii) Extent to which legislative procedures are well-established and respected

The role of EPC in review of Government's budget law proposal is well established and is reflected in the minutes of Milli Majlis plenary meetings. The procedures for budget review are approved by the EPC Chairman and the process is well organized and respected and complies with the Internal Charter of the Milli Majlis although there may be some variation from standard procedures, for example to allow longer time for speakers on budget matters of importance.

Score B: The procedures for budget review are approved by the Chairman of EPC and comply with the Internal Charter of the Milli Majlis. Arrangements are orderly and respected.

(iii) Adequacy of time for the legislature to provide a response to budget proposals and macro-fiscal aggregates, where applicable

In accordance with legal requirements (Article 13 and 15.3 of the Budget System Law), the Milli Majlis should receive the annual budget submission by 15 October each year and should approve the annual budget law by 20 December, which provides more than two months to review, comment and approve the Government's budget proposal[88]. Table 25 provides details of the actual receipt and approval dates for the assessment period. It is clear from the table that the timeframes have been respected in practice.

Table 25: Annual budget submission and approval dates

Annual budget	2011	2012	2013
Submission to Milli Majlis	13 October 2011 Letter no. 1/613	15 October 2012 Letter no. 1/551	7 October 2013 Letter no. 1/531
Approval by Milli Majlis	6 December 2011 Protocol no. 28	30 November 2012 Protocol no. 52	22 November 2013 Protocol no. 77

Sources: MoF and Milli Majlis

Score A: The Milli Majlis has two months to review budget proposals.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

The Budget System Law incorporates specific provisions for amendment of the budget, including provisions relating to executive discretion on transfers within sections of the functional classification and between sections of the economic classification[89]. Increases in budget allocation require Milli Majlis approval and this process was respected in practice during the assessment period with no virement outside the approved range. There are also provisions in the law for reductions in expenditure when revenue results are below approved estimates. Increases in expenditure approved by Milli Majlis are established as new budget amendment laws.

Score A: Clear rules exist for in-year budget amendments and strict limits are set on the extent of amendments and are consistently respected.

[88] Budget System Law, articles 13 and 15.3.
[89] Ibid, article 18.4.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-27	**C+**	**B+**	**Scoring method M1**	**The improvement in score since 2008 reflects evidence of wider scrutiny by the Parliament than observed in the previous assessment.**
i)	C	B	The legislature's review covers fiscal policies and aggregates for the coming year and detailed estimates of expenditure and revenue but not all medium-term details are presented.	**Clearer evidence of review of fiscal policies and aggregates than 2008.**
ii)	B	B	The procedures for budget review are approved by the Chairman of EPC and comply with the Internal Charter of the Milli Majlis. Arrangements are orderly and respected.	No change.
iii)	A	A	The Parliament has at least two months to review the budget proposal.	No change.
iv)	A	A	There are clear rules limiting in-year amendments to the budget without prior approval from Milli Majlis.	No change.

PI-28 Legislative scrutiny of external audit reports

Rationale for this indicator:
PI-28 assesses the extent to which the legislature scrutinises and acts on audit reports. The focus is on central government entities and the extent to which they are required to submit audit reports and respond to questions and recommendations.

(i) Timeliness of examination of audit reports by the legislature

The formal process of submission of annual audit reports is well respected. During the assessment period CoA submitted individual audit reports to Milli Majlis when they were completed. The CoA also provided consolidated reports on its activities twice per year: before 15 April and 1 October of each year. Table 26 summarises the dates of CoA submission to Milli Majlis and the dates the reports are discussed in the Parliament. In each year the CoA reports were discussed with two months of submission.

Score A: The Milli Majlis considers audit reports within two months of receiving them.

Table 26: CoA audit report submission to Milli Majlis, 2011-2014

AUDIT REPORTS		Submission to Milli Majlis by CoA	Discussion in Milli Majlis	Time between submission and discussion
2011	First report	01 April 2011	15 April 2011 (Protocol No.13)	14 days
	Second report	1 October 2011	22-24 November 2011 (Protocol No.25-27)	52 days
2012	First report	28 March 2012	6 April 2012 (Protocol No.38)	9 days
	Second report	1 October 2011	13-15 November 2012 (Protocol No.	43 days
2013	First report	29 March 2013	5 April 2013 (Protocol No.61)	7 days
	Second report	1 October 2011	12-14 November 2013 (Protocol No.74-76)	42 days
2014	First report	01 April 2014	18 April 2014 (Protocol No.87)	17 days

Source: CoA and Milli Majlis calendar of proceedings

(ii) Extent of the hearings on main findings undertaken by the legislature

CoA submits all audit reports to Milli Majlis and hearings were held on consolidated CoA reports, which contained details of the individual audits during the period, within one month of their submission. When preparing for hearings on the CoA reports, the EPC calls representatives from CoA and MoF and invites representatives from audited entities and other organizations.

Score A: Hearings on the audit findings are held on all reports and representatives of audited entities, CoA and MoF are invited to attend.

(iii) Issue of recommended actions by the legislature and implementation by the executive

The EPC makes recommendations to the executive government that are usually addressed or followed. If discrepancies are identified during the review and discussion of reports, the EPC highlights them during the Committee session. The EPC issues recommendations that are usually discussed during the review hearings with some of them acted on by the Executive.

Score B: The EPC makes recommendations to the Executive, which acts on some of them.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
PI-28	**C+**	**B+**	**Scoring method M1**	**The information available for the assessment is more extensive than the previous assessment. While the scores have improved, it is not clear that there has been any change in actual performance.**
i)	A	A	The Milli Majlis considers audit reports within two months of receiving them.	No change.
ii)	C	A	Hearings on the audit findings are held on all reports and representatives of audited entities, CoA and MoF are invited to attend.	Information available since the previous assessment indicates that review hearings are extensive and include all relevant organizations.
iii)	C	B	EPC makes recommendations to the Executive, which acts on some of them.	Information available since the 2008 indicates that recommendations are made and there is evidence of some being implemented.

3.4 Donor practices

D-1 Predictability of direct budget support

Rationale for this indicator:
D-1 assesses the predictability of inflows of budget support and its implications for governments' ability to plan and implement its budget, including amounts offered by donors. This indicator is assessed using the last three financial years (2011, 2012 and 2013).

(i) Annual deviation of actual budget support from the forecast provided by donor agencies

This dimension considers information provided by donors at least six weeks prior to the Government submitting its budget proposals to the legislature. During the period 2011-1013, ROA received direct budget support only from the EU. Overall, ROA direct budget support was insignificant, for example in 2011 and 2012 it amounted to less than 0.01 percent of total budget revenue.

Table 87: Direct budget support 2011 – 2013 (AZN million)

	2011			2012			2013		
Budget support EU grant	**Plan**	**Actual**	***Actual as % of Plan***	**Plan**	**Actual**	***Actual as % of Plan***	**Plan**	**Actual**	***Actual as % of Plan***
2007 Energy	3	3	*100*	5.75	5.75	*100*	0	0	*100*
2008 Justice	3.5	3.5	*100*	2.94	2.94	*100*	0	0	***100***
2009 Agriculture and rural development	0	0	*100*	3	3	*100*	0	0	*100*
2011 Program on support of regional development	0	0	*100*	0	0	*100*	0	0	*100*
Total	**6.5**	**6.5**	***100***	***11.69***	***11.69***	***100***	**0**	**0**	***100***

Source: EU Delegation to Azerbaijan, MEI, International Relations Department of MoF

Table 27 shows the planned and actual disbursement of direct budget support in 2011, 2012 and 2013. Following delays in achieving conditions outlined in the Financing Agreements, the disbursement plan was revised by an exchange of letters between the EU Delegation and the Government. The correspondence occurred more than six weeks before the Government's budget was submitted to Milli Majlis so the revised disbursement plans were used to measure this dimension, in accordance with PEFA methodology.

There were no disbursements in 2013 because the conditions relating to PFM reform progress were not met by the Government. Planned disbursements in 2013 were adjusted accordingly well before the draft budget was finalised. In all years subject to this assessment the revised disbursement plans are identical to the actual budget support contributions during the period of the assessment.

Score A: There was no deviation between revised donor budget support plans and actual disbursements.

(ii) Timeliness of disbursements by donors during the year

A quarterly disbursement schedule was agreed within the Financing Agreements for all budget support grants. There were delays in achieving the conditions established in the Financing Agreements so the initial disbursement plan was revised. Quarterly disbursements under the revised schedule were used in assessing the dimension for the same reason as dimension (i). The revised disbursement schedule is the same as the actual disbursements for the years covered by this assessment so the average deviation is zero.

In 2008, this indicator was not rated, as there was insufficient information available on the in-year timeliness of disbursements.

Score A: There was no deviation between the revised donor budget support plans and actual disbursements on a quarterly basis.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
D-1 Predictability of direct budget support.	**NR**	**A**	**Scoring method M1**	**Comparison not possible because this indicator was not rated in 2008.**
i) Annual deviation of actual budget support from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature.	NR	A	Disbursement information that was received by the Government more than six weeks before submission of the budget to Milli Majlis was the same as actual disbursements in the 2014 assessment.	This dimension was not rated in 2008.
ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	NR	A	There was no deviation between the quarterly disbursement estimates agreed with donors before submission of the budget to Milli Majlis and actual disbursements in the 2014 assessment.	This dimension was not rated in 2008.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

Rationale for this indicator:
D-2 assesses the predictability of inflows of donor support for programs and projects in respect of the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and reporting on actual donor flows.

The assessment is based on quantitative data for the donors providing project and program support and focuses on the last completed fiscal year (FY2013).

i) Completeness and timeliness of budget estimates by donors for project support

Donors are not required to provide estimates to the government on aid projects. The Government obtains its information from agreement disbursement schedules and the implementing entities. Consequently, the Government does not need the information from donors and does not request it. The assessment team was assured by the Government representatives and donors interviewed that if the information was requested by the Government, it would be provided by the donors in a timely manner.

Score D: Donors do not provide information on budget estimates because it is not requested by Government. The Government obtains all necessary information from the implementing entities.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

As for dimension (i), the Government obtains its information on donor flows from the implementing entities and does not require reports from donors. The assessment team was assured by the Government representatives and donors interviewed that if the information was requested by the Government, it would be provided by donors in a timely manner.

Score D: The Government does not require reports from donors and consequently they are not provided for more than 50% of externally funded project estimates in the budget.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
D-2 Financial information provided by donors for budgeting and reporting on project and program aid.	**D+**	**D**	**Information was not provided by donors because the necessary information was obtained by Government from implementing entities.**	**Score has declined but this is not a fair reflection of information on donor flows available to the Government.**
i) Completeness and timeliness of budget estimates by donors for project support.	D	D	Donors do not provide information on budget estimates because it is not requested by Government. The Government obtains all necessary information from the implementing entities.	No change in performance.
ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	C	D	The Government does not require reports from donors and consequently they are not provided for more than 50% of externally funded project estimates in the budget.	Although the score has declined since the last assessment, this is not a fair reflection of the information available to the Government, since it obtains the data needed from implementing entities and does not request it from donors.

D-3 Proportion of aid that is managed by use of national procedures

Rationale for this indicator:
D-3 assesses the use of national procedures including procurement, payment/accounting, audit, disbursement and reporting, using donor funds. The assessment focuses on the last completed fiscal year (FY2013).

(i) Overall proportion of aid funds to central government that are managed through national procedures

Arrangements for use of national procedures vary depending on individual donor preferences and the terms of agreements. Project expenditures are processed through private banks or the Treasury depending on the donor's preferences.

Transactions outside the TSA are reconciled regularly by MoF to allow for accurate and complete financial reporting.

Procurement procedures vary considerably and some donors have very restricted arrangements that limit service providers to companies from the donor's country. Government reporting on donor projects is provided by implementing entities and additional reports are provided to donors in accordance with their individual requirements. The CoA does not specifically audit donor projects. Donors apply their own audit requirements. Overall, the majority of donor activities do not use national procedures.

Score D: The majority of donor activities do not use national procedures.

Indicator	Score 2008	Score 2014	Commentary	
			Basis for 2014 score	Performance change
D-3	D	D	The majority of donor activities do not use national procedures.	No change.

3.5 Country-specific issues

The RoA obtains a large share of its revenue from natural resources. This revenue is managed through a special extra-budgetary fund, SOFAZ, which is responsible for receiving revenue from oil and gas agreements and other sources and managing them for the benefit of current and future generations. The RoA objectives are achieved through transfers of natural resources revenue to the annual budget, as approved by Milli Majlis, and investment of the remainder in accordance with the applicable legislation and regulations. SOFAZ is managed separately from the production and sales of natural resources, which is the province of SOCAR.

SOFAZ complies with the Extractive Industries Transparency Initiative (EITI) standards[90] and provides information on its website regarding its finances and how its resources are managed. SOFAZ is included in the consolidated budget.

SOFAZ and SOCAR prepare accounts and reports in accordance with international standards and their financial statements are independently audited. The SOFAZ publishes its annual report and financial statements on its website.

[90] http://eiti.org/document/standard

4. Government reform process

4.1 Description of recent and ongoing reforms

It is evident from the improvement in PEFA scores since the last assessment that RoA has made considerable effort, and achieved broad success, in PFM reform. Improvements have occurred in all elements of the PEFA, as discussed in the Summary Assessment.

An important driver for the reform process has been the RoA PFM reform action plan 2011-13. This has guided reform efforts towards identified priorities. The action of international organizations in support of the reform action plan and related projects has complemented RoA efforts to achieve change. This has included several initiatives by the WB, including the CAPSAP project aimed at strengthening public sector accounting, reporting and auditing, covering systems, processes and professional training. In addition, the EU Delegation, SECO and GIZ have made investments in PFM reform across a wide range of areas, including the weaker areas identified in the 2008 PEFA assessment.

Many challenges still remain for PFM in RoA across the range of PEFA indicators, as described in this report. This PEFA performance report, which was requested by RoA, and supported by the SECO, EU Delegation and WB, provides an indirect progress assessment on the reform process to date and provides a benchmark for development of a new, and broader, PFM reform action plan.

The MoF has set out a future vision and key targets for PFM reform in its 2014-17 strategic plan[91]. The targets include providing transparency in PFM through posting of the public budget and the draft law on budget execution on the MoF website, and preparing a citizens' guide to the budget and publish on the MoF website. Work on the application of IFRS and IPSAS are also identified as key targets along with improved financial monitoring arrangements.

4.2 Institutional factors supporting reform planning and implementation

There have been many changes to primary and secondary legislation relating to the budget, taxation, procurement, and anti-corruption and more refinements are under consideration by RoA. The CoA has adopted a strategic development plan to strengthen the scope and quality of its activities. Azerbaijan has joined the Open Government Partnership and adopted a national action plan by Presidential

[91] MoF, Strategic plans of the Ministry of Finance of the Republic of Azerbaijan 2014-17, approved by Ministry of Finance order number I-49, 31 March 2014.

Decree in 2012.[92] The RoA has also accepted a decree on the establishment of electronic services for the public sector. The establishment of service centers for business and taxation for citizens containing multiple services in one location, or through call centers and websites, has expanded significantly during the period of this assessment.

There have been improvements in the scope and effectiveness of PFM oversight and appeal bodies since the 2008 PEFA assessment. The nature and scope of those mechanisms remain an area for requiring further improvement. Support from the EU, SECO and the World Bank in relation to audit, financial management systems and financial reporting, in addition to actions by the Government, are expected to continue progress in these areas.

There is scope for further improvement in relation to independent review in tax administration and procurement. These are important issues affecting investor perceptions and further strengthening would help to provide assurance that tax and procurement activities are conducted efficiently, effectively and fairly.

[92] http://www.opengovpartnership.org/country/azerbaijan

Annexes to the report

Annex 1: Summary of scores for PI and dimensions (2008-2014)

Table 98: Summary of PI and dimensions PEFA 2008 and 2014

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
A	**Budget credibility**				
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**B**	**C**	**In 2011 the expenditure out-turn was more than 15 percent higher than the approved budget. In the other two years the variance was less than 10 percent.**	**Strong growth in expenditure, associated with in-year budget increases, resulted in higher deviations during the most recent assessment period compared with the previous assessment.**
PI-2	**Composition of expenditure out-turn compared to original approved budget**	**B**	**C+**	**Scoring method: M1**	**The main reason for deterioration in the score was the higher variance in 2011 arising from a substantial in-year increase in industry and construction expenditure.**
(i)	Variance in expenditure composition, excluding contingency items	B	C	Variance in expenditure composition was 23.4 percent in 2011 but was less than 10 percent for 2012 and 2013.	The high variance for industry and construction was also evident towards the end of the previous assessment, but to a lesser extent.
(ii)	The average amount of expenditure actually charged to the contingency vote	NA*	B	The average amount charged to the contingency reserve over the three years of the assessment was less than 6 percent of the original budget.	This component was not part of the assessment criteria in the previous assessment.
PI-3	**Aggregate revenue out-turn compared to original approved budget**	**A**	**A***	**Actual revenue was more than the budgeted revenue in all three years but less than 106 percent of budgeted revenue in 2012 and 2013.**	**Aside from the large variance in 2011, the reliability of revenue estimates improved substantially during the most recent assessment period. If the same criteria had been applied in 2008, the score would have been D due to the substantially greater revenue received than estimated in the approved budget.**
PI-4	**Stock and monitoring of expenditure payment arrears**	**B+**	**A**	**Scoring method: M1**	**Improvement in performance between 2007 and 2013 due to the introduction of TIMS.**
(i)	Stock of expenditure payment arrears and a recent change in the stock	A	A	There was no stock of arrears on 31 December 2013.	No change in performance.
(ii)	Availability of data for monitoring the stock payment arrears	B	A	Reliable and complete data on the stock of arrears was generated in real time in TIMS and routinely monitored as part of daily and monthly checks on payments and commitments.	The improvement was due to the introduction of TIMS in 2010-2011, which records the age of each arrear.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
B	**Key cross-cutting Issues: comprehensiveness and transparency**				
PI-5	**Classification of the budget**	**D**	**C**	**The functional classification partially conforms to GFS standards and cannot produce consistent documentation according to those standards.**	**Performance improved in comparison with 2008 due to improvement in the classification of investments.**
PI-6	**Comprehensiveness of information included in budget documentation**	**B**	**A**	**Recent budget documentation fulfils 7 of the 9 information benchmarks.**	**Information on summarised budget data according to the main classification heads was available in 2014 but not in 2008.**
PI-7	**Extent of unreported government operations**	**A**	**A**	**Scoring method: M1**	**No change in score but the quality and extent of information available improved.**
(i)	Level of unreported extra-budgetary expenditure	**A**	**A**	All extra-budgetary expenditure (other than project funds) are included in fiscal reports.	The quality and availability of information has improved since the previous assessment.
(ii)	Income/expenditure information on donor-funded projects	**A**	**A**	Complete income/expenditure information for all donor projects is included in fiscal reports except for inputs provided in-kind.	The quality and availability of information has improved since the previous assessment.
PI-8	**Transparency of inter-governmental fiscal relations**	**B**	**NA**	**In 2014 the NA rating was given due to the extremely low level of income and expenditure by municipalities.**	**Comparison between assessments is not possible although the circumstances have not changed significantly between 2007 and 2013.**
(i)	Transparency and objectivity in the horizontal allocation among SNG	D	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.
(ii)	Timeliness of reliable information to SNG on their allocations	A	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	A	NA	The amounts transferred to municipalities are immaterial and hence this dimension is not applicable.	Comparison not possible because the dimension was considered not applicable in 2014.
PI-9	**Oversight of aggregate fiscal risk from other public sector entities.**	**B+**	**A**	**Scoring method M1**	**Improvement compared to 2008 due to preparation of a consolidated report fiscal risks in 2014.**
(i)	Extent of central government monitoring of AGAs/PEs	B	A	All major PEs submit fiscal reports to central government quarterly and audited accounts annually. Central government consolidates fiscal risk issues into a report on an annual basis.	There is improvement in the score and in performance. A consolidated fiscal risk report is prepared, which appears not to have been the case for the 2008 PEFA assessment.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Extent of central government monitoring of SNG's fiscal position	A	NA	As for PI-8, this dimension does not apply because SNG entities do not provide any services and they represent an extremely low amount of public spending.	The absence of a score in 2014 means that the change is not assessed.
PI-10	**Public access to key fiscal information**	**B**	**A**	**The public has access to 5 of the 6 elements of essential fiscal information.**	**Two additional elements of essential information were made available to the public since the 2008 assessment.**
C.	**Budget cycle**				
C(i)	**Policy-based budgeting**				
PI-11	**Orderliness and participation in the annual budget process**	**B+**	**A**	**Scoring method M2**	**Improved performance due to revised legislation on preparation of budget submissions.**
(i)	Existence of and adherence to a fixed budget calendar	A	A	A comprehensive and clear annual budget calendar exists and is followed. It allows MDAs at least eight weeks from receipt of the budget circular to complete their detailed estimates.	No change in performance.
(ii)	Guidance on the preparation of budget submissions	C	A	A comprehensive and clear budget circular was issued to MDAs, which reflected ceilings approved by CoM prior to the circular's distribution.	Improvement in performance due essentially to the adoption and enforcement of new legislation (Presidential Decree 239, 17 March 2010.
(iii)	Timely budget approval by the legislature	A	A	The legislature approved the budget before the start of the fiscal year for all years covered by the assessment.	No change in performance.
PI-12	**Multi-year perspective in fiscal planning, spending policy and budgeting**	**D+**	**C+**	**Scoring method M2**	**Improvement in performance, particularly in macroeconomic forecasting and agency interaction on recurrent and investment aspects of the budget.**
(i)	Multi-year fiscal forecast and functional allocations	C	C↑	Forecasts of fiscal aggregates, on the basis of the main categories of economic and functional classification, are prepared for 4 years on a rolling annual basis. There is no clear link between multi-year estimates and subsequent settings of annual budget ceilings.	There is improvement in performance due to more accurate macroeconomic forecasts.
(ii)	Scope and frequency of debt sustainability analysis	NA	B	Debt sustainability analysis for external and domestic debt was undertaken twice in the period 2011-2013.	The dimension was not scored in 2008 because public debt was not material in the three-year period 2005-2007

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(iii)	Existence of costed sector strategies	D	D↑	Sector strategies are prepared for all sectors. None of the strategies are fully costed for recurrent and capital expenditures for the duration of the strategy, although detailed costing of recurrent expenditures are prepared in some sectors, notably education, health and social protection.	There is an improvement in performance due to more widespread costing of capital and recurrent expenditures.
(iv)	Linkages between investment budgets	D	B	The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications. In accordance with sector allocations they are included in forward budget estimates for the sector.	There is a clear improvement in performance (refer new Presidential Degree 329, 17 March 2010). The latter requires both institutions, MoF and MEI, to interact during the budget process.
C(ii)	**Predictability and control in budget execution**				
PI-13	**Transparency of taxpayer obligations and liabilities**	**B**	**B+**	**Scoring method M2**	**There has been a strong emphasis on providing readily accessible information to taxpayers since the last assessment, which has resulted in a higher score.**
(i)	Clarity and comprehensiveness of tax liabilities	B	B	The legislation and procedures for all major taxes are comprehensive and clear with well-defined and limited discretionary powers that are not always clear to the public.	No substantial change.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	A	Taxpayers have easy access to comprehensive, user friendly and current information on tax liabilities and administrative procedures for all major taxes through various sources. There are active taxpayer education campaigns and personal advice options through service centers across the country.	New service and call centers have been introduced to provide better information and access to advice for taxpayers.
(iii)	Existence and functioning of a tax appeals mechanism	B	B	There is a centralised appeals framework, founded in legislation, which is fully functional. However, the effectiveness and fairness of this arrangement could not be assessed and there is no independent body other than the court system to process appeals.	No substantial change

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**C+**	**B+**	**Scoring method M2**	**Improvements in the access and coverage of taxpayer registration, audit planning and management are the main reasons for the improved score.**
(i)	Controls in taxpayer registration system	B	A	Taxpayer registration arrangements are effective. The registration database is comprehensive and has direct links to other relevant government databases.	Registration arrangements have been strengthened since the last assessment.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	Penalties for non-compliance exist but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.	It is not clear if there has been a significant change in performance. However evidence is stronger in the current assessment on the existence and application of penalties, allowing a more definite basis for the score.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	C	A	Tax audits and fraud investigations are managed and reported according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.	Improvements in audit planning and risk assessment methodology have been made since the last assessment.
PI-15	**Effectiveness in collection of tax payments**	**C+**	**A**	**Scoring method M1.**	**There has been improvement in debt collection and reconciliation of accounts.**
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	C	A	Average tax debt collection ratio for the most recent two years exceeded 90 percent.	Collection of arrears improved significantly between the two assessments.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All tax revenue is paid directly into accounts controlled by the Treasury.	No change.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	A	Complete reconciliation of revenue collection, tax assessments, arrears and transfers to the treasury occurs at least monthly, within one month of the end of the period	Improved information systems in tax authorities and Treasury have resulted in faster and more frequent reconciliation of accounts.
PI-16	**Predictability in the availability of funds for commitment of expenditure**	**A**	**A**	**Scoring method M1**	**No change in performance between 2008 and 2014 assessments.**
(i)	Extent to which cash flows are forecast and monitored	A	A	A cash flow forecast is prepared for the fiscal year, and is updated at least monthly on the basis of actual cash inflows and outflows.	No change in performance.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	A	The MDA's are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	No change in performance.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of line ministries	A	A	There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable way.	No change in performance.
PI-17	**Recording and management of cash balances, debt and guarantees**	**(A)**	**B+**	**Scoring method M2**	**It is not clear whether there has been any change in performance between 2008 and 2014.**
(i)	Quality of debt data recording and reporting	(A)	B	Information on debt was complete, current and reconciled quarterly. Reports on public debt are provided twice per year to Milli Majlis and state bodies.	The methodology for this dimension was clarified by the PEFA Secretariat in 2012, which altered the interpretation of reconciliation used in 2014 compared with 2008, and data on the MoF website has not been updated since 2011.
(ii)	Extent of consolidation of the Government's cash balances	B	B	Cash balances within the TSA are calculated daily and consolidated but multilateral financing is not included in the daily calculations.	No change.
(iii)	Systems for contracting loans and issuance of guarantees	A	A	Central government contracting, loans and guarantee issuance are made in accordance with fiscal targets and have a clear single approving authority (CoM).	No change.
PI-18	**Effectiveness of payroll controls**	**C+**	**C+**	**Scoring method M1**	**Performance improved since the 2008 assessment because of better internal controls. This is not reflected in the aggregate score due to the use of M1 methodology for this indicator.**
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	B	There is no fully automated link between personnel data and payroll, but the payroll is fully supported by documentation for all changes to personnel records and every change is updated promptly to be applied within each month.	No change.
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Payroll updates for personnel changes are performed within 3 days of occurrence and at least monthly. No retroactive adjustments made.	No change.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(iii)	Internal controls of changes to personnel records and the payroll	C	A	Authority to change records and payroll is restricted and results in an audit trail.	The nature and extent of internal control has increased significantly since the 2008 assessment.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	C	C	Payroll audit is conducted in central government agencies in stages, which involves both CoA and SFCS. However the scope of these audits did not constitute a comprehensive payroll audit of all central government entities during the period of assessment.	Audit coverage improved significantly since the last assessment but did not achieve a complete payroll audit for central government entities, even in stages, during the last three years.
PI-19	**Competition, value for money and controls in procurement**	**B**	**B***	**Scoring method M2**	The methodology for scoring this indicator changed between the 2008 and 2014 assessments so it is not possible to directly compare the scores.
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	B*	The RoA delivers four of the six features considered essential for a public procurement system	Not comparable.
(ii)	Use of competitive procurement methods	B	A*	All non-competitive public procurement contract awards comply with legal and procedural requirements.	Not comparable.
(iii)	Public access to complete, reliable and timely procurement information	C	B*	Information is available to the public on government procurement plans, bidding opportunities and contract awards for more than 75 percent of procurement operations but no information is accessible on the resolution of procurement complaints.	Not comparable.
(iv)	Existence of an independent administrative procurement complaints system	-	D*	There is no independent procurement complaints body. All other characteristics of complaint mechanisms identified in the checklist are met.	Not comparable.
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**D+**	**B+**	**Scoring method M1**	**Stronger evidence of a comprehensive system of internal controls is the main reason for improvement since the 2008 assessment.**
(i)	Effectiveness of expenditure commitment controls	A	A	The commitment controls in place are comprehensive and effectively limit commitments to approved budget allocations.	Commitment controls remain strong.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	D	B	There is a set of effective internal control rules and procedures that are clearly understood, although some controls across many levels may not add value	The improvement since the 2008 assessment relates to the evidence of a comprehensive framework of internal controls.
(iii)	Degree of compliance with rules for processing and recording transactions	B	A	There is high compliance with rules. No instances of errors or rejections have been identified through this assessment and there has been no evidence of misuse of simplified and emergency procedures during this assessment.	Improvement in internal controls since 2008.
PI-21	**Effectiveness of internal audit**	**D**	**C+**	**Scoring method M1**	**Improvements have been made in all dimensions of this indicator since the 2008 assessment following the enactment of legislation and issuance of the Presidential Decree relating to SFCS.**
(i)	Coverage and quality of the internal audit function	D	C	Audit work is based on review methodology that is not substantially aligned with international standards. Reviews cover systemic and specific compliance matters, with systemic reviews occupying more than 20 percent of staff time.	Improvement has been achieved in the planning and implementation of a program for reviews at the institutional level and establishment of an internal audit unit within SFCS.
(ii)	Frequency and distribution of reports	D	B	Reports are issued regularly for audited entities, shared with MoF and CoA.	Since the 2008 assessment, SFCS reports have been issued regularly for audited entities and shared with MoF and available to CoA.
(iii)	Extent of management response to internal audit findings	D	B	Report findings and recommendations are generally implemented promptly.	Improvement in reporting and implementation of findings and recommendations since 2008.
C(iii)	**Accounting, recording and reporting**				
PI-22	**Timeliness and regularity of accounts reconciliation**	**A**	**A**	**Scoring method M2**	**There has been no substantive change in the performance for this indicator since the 2008 assessment. The arrangements continue to be at a high standard although the introduction of TIMS has improved the processes.**
(i)	Regularity of bank reconciliations	A	A	Reconciliation for all central government accounts takes place daily at aggregate and detailed levels.	No change in score but TIMS has facilitated improved processes.
(ii)	Regularity of reconciliation, clearance of suspense accounts and advances	A	A	Reconciliation and clearance of suspense and advance accounts takes place at least quarterly.	No change in score but TIMs has also improved these procedures.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
PI-23	**Availability of information on resources received by service delivery units**	**D**	**A**	**The TIMS provides reliable information on all types of resources received by schools and health clinics across the country in cash and kind. Information is compiled into reports for budget execution at least annually.**	**The quality and availability of information for front-line services has improved considerably since the previous PEFA assessment.**
PI-24	**Quality and timeliness of in-year budget reports**	**C+**	**C+**	**Scoring method M1**	**There has been an improvement in the assessment of accuracy for reports on the central government budget.**
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Expenditure information is included only at the payment stage. The information is comparable with the original budget.	The limited information on commitments remains a reason for no increase in the score for this component.
(ii)	Timeliness of the issue of reports	A	A	Reports are prepared monthly and quarterly within four weeks of the end of the period.	Timeliness of reporting continues to be highly rated.
(iii)	Quality of information	B	A	There are no material concerns about data accuracy for monthly and quarterly budget execution reports.	The issue of scope raised in the 2008 assessment is not relevant to central government reports, for which there are no material concerns about accuracy.
PI-25	**Quality and timeliness of annual financial statements**	**C+**	**C+**	**Scoring method M1**	**The rating associated with dimension (i) has improved in terms of the quality of consolidated financial information included in the financial reports.**
(i)	Completeness of the financial statements	C	B	A consolidated government financial report is prepared annually, which includes information on revenue, expenditure, debts and guarantees. Most sources of financial assets are reported in the annual report but a few are reported elsewhere.	The quality and coverage of information included in the annual financial report has improved.
(ii)	Timeliness of submission of the financial statements	A	A	The consolidated government report was submitted to CoA within six months of the end of the financial year in each of the years covered by the assessment.	Timeliness of submission to CoA is consistently within the 6-month limit required for the highest score in this dimension.
(iii)	Accounting standards used	C	C	Annual Financial Statements are presented in a consistent format over time but do not fully comply with national or international standards.	No change in performance.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
C(iv)	**External scrutiny and audit**				
PI-26	**Scope, nature and follow-up of external audit**	**D**	**D+**	**Scoring method M1**	**There have been improvements in the evidence of audit follow up since the last PEFA assessment. Dimension (ii) was not rated in 2008 but has been rated in 2014.**
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	D	D↑	Current audit work does not cover at least 50 percent of central government expenditure and the audit performed mainly focuses on compliance and significant issues.	Improvement in performance evident through adoption and implementation of pilot financial audits using ISSAIs, but not enough to change the rating**.**
(ii)	Timeliness of submission of audit reports to the legislature	NR	A	The CoA provided audit reports within one week of formal receipt of the reports during the assessment period.	More information was available on the report provided by CoA to Milli Majlis than in 2008.
(iii)	Evidence of follow-up on audit recommendations	D	A	There is timely and adequate response to CoA audit recommendations and there is evidence of effective follow up by CoA.	Improved information on follow up from audit findings since 2008**.**
PI-27	**Legislative scrutiny of the annual budget law**	**C+**	**B+**	**Scoring method M1**	**The improvement in score since 2008 reflects evidence of wider scrutiny by the Parliament than observed in the previous assessment.**
(i)	Scope of the legislature's scrutiny	C	B	The legislature's review covers fiscal policies and aggregates for the coming year and detailed estimates of expenditure and revenue but not all medium-term details are presented.	**Clearer evidence of review of fiscal policies and aggregates than 2008.**
(ii)	Extent to which the legislature's procedures are well-established and respected	B	B	The procedures for budget review are approved each year by the Chairman of EPC and comply with the Internal Charter of the Milli Majlis. Arrangements are orderly and respected.	No change.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	A	A	The Parliament has at least two months to review the budget proposal.	No change.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	A	There are clear rules limiting in-year amendments to the budget without prior approval from Milli Majlis.	No change.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
PI-28	**Legislative scrutiny of external audit reports**	**C+**	**B+**	**Scoring method M1**	**The information available for the assessment is more extensive than the previous assessment. While the scores have improved, it is not clear that there has been any change in actual performance.**
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	A	The Milli Majlis considers audit reports within two months of receiving them.	No change.
(ii)	Extent of hearings on key findings undertaken by legislature	C	A	Hearings on the audit findings are held on all reports and representatives of audited entities, CoA and MoF are invited to attend.	Information available since the previous assessment indicates that review hearings are extensive and include all relevant organizations.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	C	B	EPC makes recommendations to the Executive, which acts on some of them.	Information available since the 2008 indicates that recommendations are made and there is evidence of some being implemented.
D.	**Donor practices**				
D-1	**Predictability of direct budget support**	**NR**	**A**	**Scoring method M1**	**Comparison not possible because this indicator was not rated in 2008.**
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	NR	A	Disbursement information that was received by the Government more than six weeks before submission of the budget to Milli Majlis was the same as actual disbursements in the 2014 assessment.	This dimension was not rated in 2008.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NR	A	There was no deviation between the quarterly disbursement estimates agreed with donors before submission of the budget to Milli Majlis and actual disbursements in the 2014 assessment.	This dimension was not rated in 2008.
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D+**	**D**	**Donors do not provide information on estimates or reports because it is not requested by the Government.**	**Score has declined but this is not a fair reflection of information on donor flows available to the Government.**
(i)	Completeness and timeliness of budget estimates by donors for project support	D	D	Donors do not provide information on budget estimates because it is not requested by Government. The Government obtains all necessary information from the implementing entities.	No change in performance.

No.	Indicator	Score 2008	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	C	D	The Government does not require reports from donors and consequently they are not provided for more than 50% of externally funded project estimates in the budget.	Although the score has declined since the last assessment, this is not a fair reflection of the information available to the Government, since it obtains the data needed from implementing entities and does not request it from donors.
D-3	**Overall proportion of aid funds to central government that are managed through national procedures**	**D**	**D**	**The majority of donor activities do not use national procedures.**	**No change.**

Annex 2: Sources of information for performance indicators

Table 109: Information sources by performance indicator

	PEFA RESULTS: Credibility of budget	Information sources
PI-1	Aggregate expenditure out-turn compared with original approved budget	• Annual Budget Law approved by Milli Majlis and reports on implementation of the State budget of Azerbaijan.
PI-2	Deviations of budgetary expenditure in comparison with original approved budget	• Annual Budget Law approved by Milli Majlis and reports on implementation of the State budget of Azerbaijan.
PI-3	Deviations in aggregate revenue out-turn compared with original budget	• Budget revenue estimates approved by Milli Majlis
PI-4	Stock and monitoring of expenditure payment arrears	• Treasury financial system extracts
PI-5	Budgetary classification	• Annual Budget Law and MoF documentation on budget classification
PI-6	Comprehensiveness of information included in budgetary documentation	• Budget documents presented to Milli Majlis for 2014
PI-7	Extent of unreported government operations	• MoF, Budget Department and Treasury data on coverage of consolidated financial reports and related reports by central government entities
PI-8	Transparency of inter-governmental fiscal relations	• Budget plans and financial reports from MoF, rayons and municipalities, Constitution (2009)
PI-9	Oversight of aggregate fiscal risk caused by other public sector bodies	• Documentation on fiscal risks maintained within MoF
PI-10	Public access to key fiscal information	• Budget documents presented to Milli Majlis and records maintained by the MoF Budget and Treasury departments
PI-11	Orderliness and participation in annual budget process	• Budget, Budget documents for 2014, The Law of Budget system of the Republic of Azerbaijan, July 2002 (with all the amendments until 2009), Art.11.3, 11.5, 11.6, 11.8, 11.15, 11.16, 13, 15.3. An English version of the budget calendar is also available on the web site of MoF www.maliyye.gov.az/en
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	• Budget documentation presented to Milli Majlis, line ministry budget plans to MoF, Presidential decrees relating to State Programs, internal reports and documentation on methodology and budget submission justifications by line ministries (viewed in Education, Health, Culture and Tourism, and Labour and Social Protection Ministries).
PI-13	Transparency of taxpayers' obligations and liabilities	• MoT, SCC, CC, AmCham
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	• MoT, SCC, CC, AmCham
PI-15	Effectiveness of tax collection	• MoT, SCC, MoF
PI-16	Predictability in the availability of funds for commitment of expenditure	• Treasury

	PEFA RESULTS: Credibility of budget	Information sources
PI-17	Recording and management of cash, debt and guarantee balances	• MoF, Treasury, FMIS
PI-18	Effectiveness of payroll controls	• MoF, Treasury, MoE, MoH
PI-19	Competition, value for money and controls in procurements	• SPA, CC, AmCham
PI-20	Effectiveness of internal controls on non-salary expenditure	• MoF, Treasury, MoE, MoH
PI-21	Effectiveness of internal audit	• MoF, Treasury, MoE, MoH, CoA
PI-22	Timeliness and regularity of accounts reconciliation	• MoF, Treasury, MoE, MoH
PI-23	Availability of information on resources received by service delivery units	• MoF, Treasury, MoE, MoH, Absheron and Khachmaz rayons
PI-24	Quality and timeliness of in-year budget reports	• MoF, Treasury, MoE, MoH
PI-25	Quality and timeliness of annual financial statements	• MoF, Treasury, CoA
PI-26	Scope, nature and follow-up of external audit	• CoA, EPC, MoF
PI-27	Legislative scrutiny of the annual budget law	• CoA, EPC, MoF
PI-28	Legislative scrutiny of external audit reports	• CoA, EPC, MoF
D-1	Predictability of direct budgetary support	• Annex to FA no ENPI/2008/019-901 (Justice Reform Support Program) • Addendum no 1 to the FA for the Program 'Agriculture and Rural Development Support Program' ENPI/2009/20482; • Annex II to FA no 2011/22821; • Addendum no 2 to the FA for the Program 'Energy Reform Support Program'; • Correspondence between EU Delegation and RoA
D-2	Financial information provided by donors for budgeting and reporting on project and program	• Information provided by MEI
D-3	Proportion of aid managed through use of national procedures	• Information provided by MEI

Annex 3: Files for calculating PI-1 and PI-2

Table 30: State budgetary expenditure, 2011 (AZN million)

Category	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	1142.6	1071.7	1,380.1	-308.4	308.4	22.3
Defense	1325	1345.3	1,600.4	-255.1	255.1	15.9
Judicial, law enforcement, public prosecution	712.9	710.3	861.1	-150.8	150.8	17.5
Education	1338.5	1268.5	1,616.7	-348.2	348.2	21.5
Healthcare	546.1	493.4	659.6	-166.2	166.2	25.2
Social protection, social security	1324.1	1495.4	1,599.3	-103.9	103.9	6.5
Culture, art, media, sport	202.3	189.8	244.3	-54.5	54.5	22.3
Housing and municipal economy	227.7	312.3	275.0	37.3	37.3	13.6
Fuel and energy						
Agriculture, forestry, fishery, hunting, environment	448	444.7	541.1	-96.4	96.4	17.8
Industry and construction	3396.5	5866.3	4,102.4	1,763.9	1,763.9	43.0
Transport and communication	64.6	61.6	78.0	-16.4	16.4	21.1
Economic activities	112.9	118.3	136.4	-18.1	18.1	13.2
Other services	1906.6	2019.7	2,302.9	-283.2	283.2	12.3
Allocated expenditure	12747.8	15397.3	15,397.3	0.0	3,602.3	
Contingency	260	437.9				
Total expenditure	13007.8	15835.2				
Overall (PI-1) variance (State budget)						21.7
Composition (PI-2) variance						23.4
Contingency share of budget						3.4

Table 31: State budgetary expenditure, 2012 (AZN million)

Category	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	1202.5	1027	1,226.8	-199.8	199.8	16
Defense	1381.4	1400.7	1,409.3	-8.6	8.6	1
Judicial, law enforcement, public prosecution	945.1	929.2	964.2	-35.0	35.0	4
Education	1582.9	1453.2	1,614.9	-161.7	161.7	10
Healthcare	658.7	609.4	672.0	-62.6	62.6	9
Social protection, social security	1785.8	1769.5	1,821.9	-52.4	52.4	3
Culture, art, media, sport	254.7	240.8	259.8	-19.0	19.0	7
Housing and municipal economy	344.4	437.9	351.4	86.5	86.5	25
Fuel and energy						
Agriculture, forestry, fishery, hunting, environment	472.7	468.2	482.2	-14.0	14.0	3
Industry and construction	5794.1	5783.7	5,911.1	-127.4	127.4	2
Transport and communication	87.9	85.4	89.7	-4.3	4.3	5
Economic activities	185.8	185.5	189.6	-4.1	4.1	2
Other services	2375.7	3025.9	2,423.7	602.2	602.2	25
Allocated expenditure	17071.7	17416.4	17,416.4	0.0	1,377.6	
Contingency	800	1136				
Total expenditure	17871.7	18552.4				
Overall (PI-1) variance (State budget)						3.8
Composition (PI-2) variance						7.9
Contingency share of budget						6.4

Table 32: State budgetary expenditure, 2013 (AZN million)

Category	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	1804.6	1635.3	1,740.3	-105.0	105.0	6.0
Defence	1528.6	1484.9	1,474.2	10.7	10.7	0.7
Judicial power, law enforcement, public prosecution	1114.8	1049.3	1,075.1	-25.8	25.8	2.4
Education	1530.5	1437.8	1,476.0	-38.2	38.2	2.6
Healthcare	669.3	618.9	645.5	-26.6	26.6	4.1
Social protection, social security	1813.6	1750.3	1,749.0	1.3	1.3	0.1
Culture, art, media, sport	289.7	274.8	279.4	-4.6	4.6	1.6
Housing and municipal economy	399	398.3	384.8	13.5	13.5	3.5
Fuel and energy	2.4	2.4	2.3	0.1	0.1	3.6
Agriculture, forestry, fishery, hunting, environment	494.3	488.2	476.7	11.5	11.5	2.4
Industry and construction	6934.2	6932.6	6,687.3	245.3	245.3	3.7
Transport and communication	111.7	110.5	107.7	2.8	2.8	2.6
Economic activities	275.7	275.7	265.9	9.8	9.8	3.7
Other services	2881.6	2684.2	2,779.0	-94.8	94.8	3.4
Allocated expenditure	19850	19,143.5	19,143.5	0.0	590.0	
Contingency	690	725.9				
Total expenditure	20540	19869.4				
Overall (PI-1) variance (State budget)						3.3
Composition (PI-2) variance						3.1
Contingency share of budget						3.5

Table 33: Consolidated budget expenditure, (AZN million)

Year	Original budget	Revised	Execution	Variance
2011	15121.1	18614.8	17540.7	16.0%
2012	20203.8	20908.8	20072.7	-0.6%
2013	24500.1		22218.4	-9.3%

Annex 4: Stakeholders interviewed

Table 34: Organizations met as part of the PEFA assessment

Organization
Minister of Finance
Budget Department, MoF
STA, MoF
SFCS, MoF
Accounting Policy Department, MoF
Public Debt Management Agency, MoF
International Cooperation Department, MoF
Social Sectors' Finance Department, MoF
Infrastructure Projects Department, MoF
Social Projects Department, MoF
CAPSAP project team
Tax Policy and Revenue Department, MoF
Deputy Minister, MoT
Economic Analysis and Registration of Individual Entrepreneurship Subjects Department, MoT
Senior Tax Inspectors, MoT
Department on Cooperation with International Organizations (DCIO), MEI
Division on Cooperation with the European Union, DCIO, MEI
Division for Cooperation with International Donors at DCIO, MEI
Chairman and Secretariat of EPC, Parliament
Budget Projections and Projects Department, SOFAZ
Chief of Head Department, SCC
Head of Administration, SCS
Economic Analysis and Monitoring Department, SPA
Investment and Cooperation Department, State Property Committee
Finance-Budgeting Department, State Social Protection Foundation
EU Delegation
SECO
Country Manager, WB Country Office
Azerbaijan Chamber of Commerce
American Chamber of Commerce in Azerbaijan

Organization
MoH
MoE
Ministry of Culture and Tourism
Ministry of Labour and Social Protection
Absheron Rayon administration
Khachmaz Rayon administration

Table 115: Organizations consulted in relation to specific PEFA indicators

Indicators	Description	Organizations consulted
PI-1	Aggregate expenditure variance	Budget Department (MoF)
PI-2	Expenditure composition variance	Budget Department (MoF), Treasury (MoF)
PI-3	Revenue variance	Budget Department, Tax Policy and Revenues Department (MoF)
PI-4	Arrears	Budget Department, Treasury (MoF)
PI-5	Budget classification	Budget Department, Tax Policy and Revenues Department (MoF)
PI-6	Comprehensiveness of budget documents	Budget Department (MoF), SOFAZ, SSPF, MEI
PI-7	Unreported operations	Budget Department (MoF), SOFAZ, SSPF
PI-8	Intergovernmental fiscal relations	Budget Department (MOF)
PI-9	Fiscal risks	Budget Department (MoF), MEI
PI-10	Public access to information	Budget Department, Tax Policy and Revenues Department (MOF)
PI-11	Annual budget process	Budget Department (MoF), SOFAZ, SSPF, MEI, Parliamentary Committee on Economic Policy
PI-12	Multi-year perspective	Budget Department (MoF), MEI, SOFAZ, SSPF
PI-13	Taxpayer obligations	MoT, Tax Policy and Revenues Department (MoF), SCC, SSPF
PI-14	Taxpayer registration	MoT, Tax Policy and Revenues Department (MoF), SCC, SSPF
PI-15	Tax collection	MoT, Tax Policy and Revenues Department (MoF), SCC, SSPF
PI-16	Predictability of funds	State Treasury Agency(MoF), MoE, MoH, Absheron and Khachmaz Rayon administrations
PI-17	Cash, debt and guarantee management	State Treasury Agency, State Debt Management Agency (MoF)
PI-18	Payroll controls	SFCS (MoF), CoA, SSPF, MoE, MoH
PI-19	Procurement	SPA, Chamber of Commerce
PI-20	Internal control	SFCS (MoF), CoA, State Treasury Agency, MoE, MoH
PI-21	Internal audit	SFCS (MoF), CoA
PI-22	Accounts reconciliation	State Treasury Agency, Accounting Policy Department (MoF)
PI-23	Resources received by service delivery units	State Treasury Agency (MoF), MoE, MoH
PI-24	In-year budget reporting	Accounting Policy Department (MoF)
PI-25	Annual financial statements	Budget Department, SFCS (MoF), CoA
PI-26	External audit	CoA
PI-27	Legislative review of budget law	Parliamentary Committee on Economic Policy, MoF
PI-28	Legislative review of external audit reports	Parliamentary Committee on Economic Policy, CoA, MoF
D-1	Direct budget support	MoF, donors
D-2	Financial information by donors	MoF, MEI, finance officers or Project Implementation Unit (PIU)
D-3	Use of national procedures	MoF, MEI, finance officers or PIU

Annex 5: Disclosure of quality assurance mechanism

PEFA Assessment Management Organization

Oversight Team Chair and Members: Fazil Farajov, Budget Director, RoA MoF
Assessment Manager: Adrian Fozzard, WB
Assessment Team Leader and Team Members:
(a) World Bank
Antonio Blasco
Deepal Fernando
Eliza Gereanu
Lewis Hawke
Tural Jamalov
Shahla Mammadova
Nadir Ramazanov

(b) Independent consultants
Lourdes Borrell
Giovanni Caprio
Emin Huseynov
Fakhri Ismayilov

Review of Concept Note and/or Terms of Reference

Draft concept note dated 18 January 2014 was submitted for review by 4 February 2014 to the following reviewers:

Fazil Farajov, RoA MoF
Matthias Feldmann, SECO
Olaf Heidelbach, EU Delegation
Mona Prasad, WB
Onur Erdem, WB
Oleksii Balabushko, PEFA Secretariat

Reviewers who provided comments:
Namiq Suleymanov, RoA MoF (date of review: 3 February 2014)
Matthias Feldmann, SECO (date of review: 13 February 2014)
John Short, REPIM – under contract to SECO (date of review: 2 February 2014)
Olaf Heidelbach, EU Delegation (date of review: 5 February 2014)
Mona Prasad, WB (date of review: 10 February 2014)
Onur Erdem, WB (date of review: 7 February 2014)
Oleksii Balabushko, PEFA Secretariat (date of review: 4 February 2014)

Date of final concept note circulated to reviewers, including a table showing the response to all comments raised by the reviewers[93]: 5 March 2014

Review of the Assessment Report

Draft report dated 17 July 2014 was submitted for review by 31 August 2014 to the following reviewers:

Fazil Farajov, RoA MoF
Matthias Feldmann, SECO
Olaf Heidelbach, EU Delegation
Mona Prasad, WB
Onur Erdem, WB
Holy-Tiana Rame, PEFA Secretariat

Reviewers who provided comments:

Fazil Farajov, RoA MoF (incorporating comments collated from all organisations with responsibilities covered by PEFA indicators)
Matthias Feldmann, SECO
John Short REPIM, under contract to SECO
Olaf Heidelbach, EU Delegation
Congyan Tan, WB
Onur Erdem, WB
Holy-Tiana Rame, PEFA Secretariat

Review of the final draft report

A revised final draft assessment was forwarded to reviewers on 19 November 2014 and included a table showing the response to all comments raised by all reviewers.

[93] The final version of the concept note is Annex 7 of the report.

Annex 6: Assessment team composition and roles

Table 126: Assessment team composition and roles

Name	Title	Role
Oleksii Balabushko	Public Finance Specialist	PEFA Secretariat adviser, review of proposed changes to PEFA indicators.
Antonio Blasco	Senior Financial Management Specialist	Principal assessor for budget execution, internal control, accounting, reporting and auditing matters, lead responsibility for assessment of PI:17-28.
Lourdes Borrell	Consultant	Principal assessor for tax administration matters, lead responsibility for assessment of PI: 13-15.
Giovanni Caprio	Consultant	Principal assessor for arrears, policy based budgeting, comprehensiveness and transparency and predictability of funds indicators, lead responsibility for assessment of PI: 4-12, 16.
Deepal Fernando	Senior Procurement Specialist	Principal assessor for procurement, lead responsibility for assessment of PI:19.
Eliza Gereanu	WB Secondee, Analyst	Principal assessor for donor practices indicators, lead responsibility for assessment of D:1-3.
Lewis Hawke	Lead Public Sector Specialist	Team leader and report coordinator. Responsible for project management, content development and quality, lead responsibility for preparing summary assessment and government reform process sections.
Emin Huseynov	Consultant	Azerbaijan PFM expert and responsibility for assessment of PI:4-12, 16 and MoF liaison.
Fakhri Ismayilov	Consultant	Azerbaijan PFM expert and responsibility for assessment of PI:13-15, 17-28, D:1-3.
Tural Jamalov	Financial Management Specialist	Azerbaijan PFM expert and responsibility for assessment of PI:17-28.
Shahla Mammadova/ Lala Dadashova	Team Assistant	Responsible for logistics, translation and administrative support.
Nadir Ramazanov	Country Economist	Principal responsibility for economic context assessment and budgetary result indicators, lead responsibility for assessment of PI:1-3.

Annex 7: Project concept note

Background and context

Azerbaijan achieved very high growth rates from 2001 to 2008, averaging more than 20 percent for the period. It was able to reduce poverty from 49 percent in 2001 to 16 percent in 2008. This was complemented by a strong rise in wages, transfers and a well-targeted social benefit system. Much of the growth stemmed from oil and gas revenues, which are now expected to level off during the next decade and then decline. A key driver of economic growth may therefore not be available. At the same time, while Azerbaijan weathered the global economic crisis relatively well, the crisis has underlined the need for a diversified economy, market-based policies, and strengthened social services and support.

The authorities have sought to strengthen the public financial management in recent years. The PFM Action Plan 2011-13 has provided the blueprint for action on PFM reform. There have been some notable achievements through the Action Plan including improvements to the Budget System Law in 2013 to include tables on medium term revenues and expenditures. There have been improvements to tax administration and accounting and financial reporting. A strategic development plan for 2012-14 for the Supreme Audit Institution was approved on 12 February 2012 and changes to the law on public procurement were submitted to the CoM in 2012. The government is currently considering a new regulation on public investment management which seeks to strengthen the project selection and appraisal process.

International organisations and donors have made a significant contribution to PFM reform initiatives. The World Bank's Corporate and Public Sector Accountability Project (CAPSAP) provides support for financial reporting systems, the associated legal and institutional framework and development of the accounting profession. The Public Investment Capacity Building Project supports the development public investment management function in line agencies and the core ministries. The EU has supported improvements to tax administration and internal audit. The Swiss Government supported the first PEFA assessment in Azerbaijan in 2008 in cooperation with the World Bank. The Swiss have also contributed to strengthening debt management and external audit through the Chamber of Accounts. USAID and EU have contributed to anti-corruption initiatives. The IMF is contributing to improvements in budget classification and debt management. Poland has become a valuable partner for Azerbaijan for developing knowledge and improving practices in several important areas of financial management.

The government, in cooperation with development partners, proposes to take stock of the impact of achievements to date through a wide-ranging assessment of the status of public financial management using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework. The PEFA methodology was applied in Azerbaijan covering the period 2004-07 but the report was not published. A new PEFA assessment is proposed which would cover the most recent triennium, depending on the availability of data. Ideally this would include 2013, but it would depend on whether reliable information can be obtained. In accordance with standard practice, the PEFA assessment provides the foundation for reinvigorating dialogue on future PFM reform and a new PFM Action Plan.

Purpose, scope and coverage

The purpose of this project is to provide the Government of Azerbaijan with an assessment of the performance of the public financial management system. The assessment process seeks to provide better understanding of the performance of the public financial management system and those areas where further attention is needed to strengthen the framework and move to a higher standard in terms of international good practice. It will also provide advice to the government on areas for action to improve public financial management for consideration in a revised medium term action plan.

The proposed assessment will discuss progress since the 2008 assessment. The PEFA will include discussion and presentation of the changes since the previous assessment and a discussion of the differences between the indicator scores of the two assessments. This assessment will cover the core financial management and planning systems for the institutions of central government that are funded from the national budget. It will not include public corporations (except in respect to fiscal risks under PI-9). Local government, Nakhchivan Autonomous Republic and AGAs will only be considered in a small number of the indicators in relation to funding transfers and information available to, and reported by, central government.

The proposed assessment will not cover the public financial management functions of the oil fund but it will address the interactions between the fund and the State budget. The State Oil Fund of Azerbaijan (SOFAZ) has been EITI compliant since 2009 based on state revenue and company payments reconciled since 2003. Azerbaijan is currently on track with the implementation of the new EITI standard in accordance with the agreed workplan.

Stakeholders and their roles

The assessment will be prepared for the Government as the final owner of the report and associated documentation. The Azerbaijan Minister of Finance will be main Government counterpart for the assessment and will appoint officials to participate in the PEFA assessment process by conducting preliminary assessments and scoring and by contributing to the explanation of results. They will coordinate communication between the team and public officials and will facilitate provision of information to the project. The Chamber of Accounts, Parliamentary committees, relevant ministries, tax and procurement bodies will participate in the project to varying degrees and will provide information on relevant indicators within the PEFA framework. They will be consulted on the PEFA findings and preliminary ratings and will clarify and correct explanation of current and proposed arrangements as

necessary. Private sector businesses and civil society groups will also be consulted during preparation and dissemination of the assessment.
The World Bank will lead and manage the PEFA team and will appoint staff, local and international experts to undertake aspects of the assessment. The project will be implemented using standard World Bank technical assistance procedures and will comply with the PEFA CHECK quality assurance guidelines. The PEFA Secretariat will provide comments on the design and content of the assessment but will not participate in the project in any other way, as is the case with all individual assessments.

The project will be supported by financial and non-financial contributions from the Swiss Government and the EU Delegation. Independent peer reviewers with knowledge of Azerbaijan and/or PEFA assessments will be invited to review and comment on the project at various stages. In accordance with the PEFA CHECK guidelines, the peer reviewers will be selected from Government and other institutions and international organisations including EU, the Swiss Government and others, as well as suitably qualified individuals with knowledge of Azerbaijan and the PEFA methodology. The PEFA Secretariat will have a central role in assuring compliance with the methodology and achievement of quality standards.

Methodology

The PEFA assessment will apply the 28 main indicators of the PFM Performance Measurement Framework and three donor indicators. The preferred reference years for the assessment are 2011-2013 inclusive. If insufficient information is available for 2013, due to the timing of data collection between March and April 2014, 2010 data will be used where necessary to assess multi-year performance.

The assessment team will follow the structure, the methodology and the guidelines of the document adopted by the PEFA Steering Committee: *Public Financial Management - Performance Measurement Framework* and will adhere to the requirements for PEFA CHECK quality endorsement. The PEFA Fieldguide, Guidance Note for Repeat Assessments and other advice from the PEFA Secretariat will also be used to guide the assessment. The draft and final reports will be prepared in English and the official Azerbaijan language with the English version being the authorized version if different interpretations occur. Both versions of the report will be published on the Government website and will be linked to the PEFA website to allow general access to the documents.

Schedule of Work

The PEFA project is expected to be completed within seven months from commencement of the fieldwork, subject to availability of data within four weeks of requests for information being submitted by the PEFA team. A further three months has been allowed for progress towards a draft PFM Action Plan. The estimated timetable and a description of the key stages are provided below. The final version of the report will be published on the official web-site of the Ministry of Finance.

a) Finalisation of the Concept Note and Project Initiation

The draft concept note will be submitted to the Azerbaijan Government, PEFA Secretariat and peer reviewers for comment before finalization. World Bank procedures will be followed in preparation and implementation of the project, requiring authorization of the project by the Country Director. Once it is approved and funds are allocated, the final team will be engaged, including appointment of consultants, and preparatory research will commence.

b) Review of Documentation

The PEFA team will submit a request for documentation to the Ministry of Finance in preparation for the mission. This will seek information necessary to understand the PFM arrangements and assist in assessment of performance against PEFA indicators. For example, the request will seek budget framework legislation, legislation establishing the mandates and structure of key institutions, the chart of accounts, budget data, financial statements and audit reports for the period 2010 to 2013, national development plans and policy documents - particularly policy documents directly impacting on the public financial management system. If the documentation is not provided in English, it will be translated as necessary.

c) Questionnaire

The PEFA team will review documentation provided and a supplementary questionnaire will be developed to seek additional information needed for the assessment that is not available from documents received. The questionnaire will <u>not</u> constitute a self-assessment. The questionnaire will be translated and sent to the Ministry of Finance for distribution with a view to having the completed questionnaires available before the first mission is arrives in Azerbaijan. The World Bank office in Baku will facilitate completion and return of the questionnaires.

d) Launch Workshop

The PEFA Team will deliver a one day PEFA training workshop for government officials responsible for supporting the PEFA and other senior officials with responsibility for policies covered by the PEFA assessment. The workshop will provide an introduction to the PEFA methodology based on the PEFA Secretariat training materials. It will explain the purpose of the assessment, the roles and responsibilities of the various entities and provide an overview of the methodology for each indicator. It will highlight important issues identified in the information provided by the Ministry of Finance that is reviewed in advance of workshop. The workshops will include exercises for participants to help them understand the methodology and its application. The workshop will also provide an opportunity to highlight areas where additional information is required to complete the assessment.

e) Data Collection and Interviews

The PEFA Team will meet with Government officials and other institutions during the initial mission to clarify information received and obtain additional information and knowledge regarding the functioning of financial management arrangements, verify information received where possible and discuss reform options. The PEFA Team will signal to the MoF if they encounter significant problems such as missing data or lack of access to key staff. At the end of the first field mission, the World Bank Team will discuss preliminary findings to the MoF Team and seek their input on the initial observations on each of the indicators.

f) Draft PEFA Assessment

The PEFA Team will draft a PEFA performance report and summary assessment based on the evidence gathered during the first mission. The draft will comply with the PEFA framework guidance as well as subsequent clarifications and guidance on evidence issued by the PEFA Secretariat. It will be submitted to the MoF for comment and resolution of any errors or differences of view on the content, and to peer reviewers, including EC and the Swiss Government, for independent comment. It will then be submitted to the PEFA Secretariat for quality assurance review.

g) Consultations on the draft PEFA Report and advice on a PFM Action Plan

The PEFA Team's second mission will discuss the draft PEFA report and comments received. It will provide an opportunity to explain and clarify the report content and discuss next steps after completion of the final report, including possible PFM reform actions for government and development partners.
The PEFA Team will also discuss a proposal for an updated three year PFM Action Plan to succeed the 2011-13 Plan. The aim would be to use the PEFA findings as a baseline and a guide for setting goals and priorities for further progress. The updated Action Plan would be prepared by the Government with input from the PEFA assessment team.

h) Final Workshop

The MoF will host a final one-day workshop with the PEFA Working Group and other relevant stakeholders identified by the authorities. The purpose of workshop is to a) disseminate and explain the findings and conclusions of the PEFA Performance Report and b) solicit views on the content of the public financial management reform program and priority actions. The PEFA team will present the conclusions of the PEFA and the MoF will present the Government's response to the report, including its plans for further reform and development of a reform action plan.

i) PEFA Report follow up and PFM Action Plan for 2014-17

The PEFA Team will provide draft input to the updated PFM Action Plan, based on discussions and direction provided by MoF, and conclusions arising from the PEFA assessment and other sources. The Government will prepare a draft PFM Action Plan and seek comments from the PEFA Team and other key stakeholders, including international donors and financial institutions. Following consideration of comments and revision of the draft, the Government will release the revised PFM Action Plan to the public.

Summary Schedule of Work

Activity	Responsibility	Timetable
Prepare and agree draft Concept Note	World Bank, SECO, EU	November 2013
Establish EFO agreement, other funding sources	World Bank, SECO	December 2013
Finalise concept note and initiate project	World Bank	January 2014
Appoint PEFA team, contract consultants	World Bank	January 2014
Review of documentation, prepare and issue questionnaire	PEFA Team	February 2014
Initiation Mission		March 2014
Launch planning meeting	PEFA Team and MoF	April 2014
Launch workshop	PEFA Team, MoF and participants	April 2014
Data collection and interviews	PEFA Team, MoF follow up, if required	April-May 2014
Draft PEFA Report	PEFA Team	June 2014
Review of PEFA Report	MoF, PEFA Secretariat, peer reviewers	July 2014
Second Mission		July 2014
Consultations on draft PEFA Report	PEFA Team and MoF	July 2014
Discussion on updating PFM Action Plan	PEFA Team and MoF	July 2014
Organization of Final Workshop	MoF Team	July 2014
Final workshop (second field mission)	WB and MoF Teams, Working Group	July2014
PEFA Report completion		August 2014
Present final performance report to the Ministry	PEFA Team	August 2014
Publication of PEFA	MoF	August 2014
Provision of input to PFM Action Plan	PEFA Team	August 2014
Report follow up and Action Plan mission		August 2014
Discussion of draft PFM Action Plan	PEFA Team, MoF and donors	October 2014
Approve of PFM Action Plan 2014-17	MoF	November 2014

Outputs

The principal output from the project will be a PEFA performance report, with PEFA CHECK quality assurance, covering the period 2011-13 (or 2010-12 if suitable 2013 date is not available). The report will include ratings and description of performance relating to 28 main indicators and three donor indicators. All documentation collected for the assessment will be provided to the Government for future reference. Secondary outputs will include two workshops and participation in the final dissemination event by the PEFA team. The project will be subject to peer review from the concept stage to the final report. Peer reviewers include: the Azerbaijan Ministry of Finance, the Swiss Government, the EU Delegation to Azerbaijan, PEFA Secretariat, Ms Mona Prasad (Lead Economist, Europe and Central Asia, World Bank) and Mr Onur Erdem (Public Sector Specialist, Latin America and Caribbean, World Bank).

The team will provide advice and draft suggested content to the government on a PFM Action Plan, drawing on PEFA findings and other sources. This will be a separate exercise from the PEFA assessment and report, but will be integrally linked because the PEFA findings will be an important input to the advice provided on areas for reform. The advice will constitute a basis for the development of an updated three year PFM reform action plan for the years 2014-17. The action plan should identify specific changes to be achieved with explicit timeframes and results indicators.

Resources

The table below provides an estimate of the resources required and costs of the Azerbaijan PEFA project. The World Bank will put together a team of experts to undertake the PEFA assessment and draft the report. The team will include:

- Lewis Hawke, Lead Public Sector Specialist to manage the project, lead the PEFA team and undertake drafting and internal quality assurance;
- World Bank staff and international consultants with expertise in fiscal policy, budget policy, tax policy and administration, budget execution, procurement, internal control and audit, accounting and reporting, external auditing, parliamentary oversight of financial management and experience in applying PEFA assessment methodology. International consultants will be contracted by the EC and will work under the direction of the World Bank team leader;
- World Bank staff to provide administrative and communication support for the team with Government and other stakeholders in the PEFA assessment;
- Local consultant(s) with knowledge of Azerbaijan public financial management and expertise in PEFA related areas and excellent English language skills (sub-contracted by the World Bank from funds contributed by SECO).

Azerbaijan PEFA: Estimated budget allocation (USD)

[table not included for commercial confidentiality reasons]

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