



(RESEARCH ARTICLE)



Directions for organizing internal audit and measures of state financial control in the public sector

Zarifa Khamidova *

Department of Budget accounting and treasury, Tashkent State University of Economics, Tashkent, Uzbekistan.

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Abstract

This article discusses the need and importance of internal audit in the public sector, its current activities, interaction with government financial control, as well as the main tasks in the control process. At the same time, the organization of internal audit activities in the public sector, mutual cooperation of state control bodies and specific methodological aspects of the activities of the internal audit service operating in our republic were studied. As a result of these studies, general conclusions were drawn and proposals were formulated.

Keywords: Budget Execution Process; Internal Audit Service; International Standards Of Internal Audit; Internal Audit Methodology; State Financial Control; Internal Control; Audit Report; Internal Audit Methods

1. Introduction

As part of the reform of the country's economic sectors, consistent efforts are being made to expand access to economic and financial statistics, introduce new mechanisms to increase the openness and transparency of the budget process.

Interaction and regulation of internal audit services in budget organizations is carried out through an authorized body. These competent bodies are the Ministry of Economy and Finance of the Republic of Uzbekistan, the Accounts Chamber of the Republic of Uzbekistan, the State Financial Control Inspectorate under the Ministry of Economy and Finance. In addition, the Accounts Chamber of the Republic of Uzbekistan publishes its conclusions on the results of external audit and assessment of the budgets of the State budget and state special funds, drafts of the main directions of tax and budget policy, as well as the annual report on the implementation of the budgets of the State budget and state special funds.

However, despite the fact that a transparent system is being created, we are witnessing an increase in cases of illegal spending of budget funds, use of them for no purpose, and their looting instead of decreasing.

Several organizations operate to control the legal spending of budget funds. The Accounts Chamber of the Republic of Uzbekistan, the State Financial Control Inspectorate under the Ministry of Economy and Finance, in addition, there are internal audit and financial control services in ministries and agencies.

Several changes and updates have also been made in the field of industry legislation. Among them, the most important step for internal audit was the decision of the President of the Republic of Uzbekistan "On further improvement of the financing mechanism of educational and medical institutions and the system of state financial control". It is safe to say that this decision became the basis for the establishment of the internal audit and financial control service in budget organizations and was the main impetus for the creation of this system.

* Corresponding author: Zarifa Khamidova

The regulation on the Accounts Chamber of the Republic of Uzbekistan was adopted as an appendix to the Decree of the President of the Republic of Uzbekistan "On measures to radically improve the activities of the Accounts Chamber of the Republic of Uzbekistan". This Regulation defines the main tasks, functions, rights and obligations of the Accounts Chamber of the Republic of Uzbekistan, as well as the basis for organizing its activities.

All the work carried out in this field today serves for the effective use of budget funds, targeted use of state property, rational use of available resources, and proper organization of work through effective control.

2. Literature Review

Many scientific researches have been conducted in this field by local and foreign scientists and have been interpreted differently. In world practice, we can see that the ideas expressed and practical skills have improved over the years. In particular, according to Jan Van Tynen and P.P.Andreev: "internal audit in budget organizations is defined as an activity that helps the manager to achieve the organization's goal by using a consistent and systematic approach aimed at evaluating the internal control system and improving its effectiveness. Internal audit helps the manager in management, but cannot replace the manager and internal control.

We can say that the definitions given by the above scientists have gained wider importance and are perfectly structured in terms of content. In this definition, we can see that his professional services are emphasized along with his main duties. We will not be mistaken if we say that we have revealed the main content of the internal audit service.

According to the Russian economist N.I. Danilenko, internal audit is the verification of the reliability of the budget accounting and estimate execution report using the funds obtained from income-generating activities.

In this regard, N.I. Danilenko focuses on the main task of internal audit. It can be seen that in order to fully reveal the content of the internal audit activity, special importance should be paid to its additional tasks in budget organizations.

According to the Russian scientist A.L. Kolesnik, the main task of internal audit is to study the processes of public finance management and management of non-financial assets, to identify factors and conditions that have a negative impact on decision-making, to identify decisions that ensure the illegal, incorrect, inefficient use of financial and non-financial assets. , guides the process of studying control and risk management systems with recommendations aimed at eliminating or minimizing negative factors.

A.L. Kolesnik's opinions show that along with the control function of the internal audit service, the main attention is paid to its management, analysis, consulting, and efficiency indicators.

In the international standards of professional practice of internal audit, the perfect definition accepted on a large scale is stated as "Internal audit is an independent, impartial, guaranteed and consulting activity designed to increase the effectiveness of the organization's activities."

As can be seen from this brief definition, the fact that it covers almost all the features of internal auditing is an indication of its excellence. Most notably, the definition, despite its brevity, is comprehensive in content and covers all key aspects.

Also, along with internal audit, public financial control has been widely studied and several studies have been conducted by economists. Including the Russian scientist Yu.V. According to Prokhorov, "financial control is defined as control of legality and expediency of actions in the process of collection, distribution and use of state and municipal funds in order to implement an effective financial policy in society" [10].

Another famous scientist T. P. According to Khrebtova, "state financial control (in the field of budget legal relations) is the process of determining the legality of the use of state resources by executive authorities" [11].

According to the above definitions, the state financial control makes its special features invisible, unlike the internal audit service. This makes the two types of control invisible, in addition to having aspects that repeat each other. Based on the above points, we can say that if the state financial control determines the financial losses incurred in budget organizations and checks the legality of the use of state resources, the internal audit service of budget organizations, in addition to controlling the organization's activities, conducts its work within the framework of the law, prepares income and expenditure estimates. , is also engaged in providing advice and recommendations in order to increase the effectiveness of the organization's activities. For this reason, when describing the internal audit, we found it permissible

to highlight its professional services. Because the control of budget organizations is carried out by the state financial control service. The main aspect of the internal audit service is that it appears as a consultant for the budget organization, in contrast to the state financial control.

3. Methodology

Internal audit and financial control services are directly subordinated to the first heads of the ministries and agencies and conduct their activities on the basis of the above-mentioned decision, as well as the decisions on the organization of activities of the ministries and agencies, as well as local documents.

At the same time, it is taken into account that in the advanced international experience, the main focus of state financial control is on the internal audit, which evaluates the internal control system of ministries and agencies and the effectiveness of the system (including internal control). Therefore, within the framework of the "Institutional Capacity Building" project with the support of the World Bank, a project is planned for the further development of internal control and internal audit in the ministries and agencies of the Republic of Uzbekistan by attracting international experts.

The following can be mentioned as reasons for reforming the state financial control system of our country:

First of all, the increasing number of financial errors and shortcomings, as well as deficits and embezzlements, which are being identified in budget organizations, are worrying about the negative impact on the efficiency of using budget funds;

In the experience of developed countries, the development of the internal control and internal audit system in the ministries and agencies, as well as the determination of the personal responsibility and accountability of the heads of the identified financial errors and shortcomings, deficits and embezzlements;

In advanced international experience, the first task of state financial control is to assess the effectiveness and efficiency of the funds spent, and the function of identifying financial errors and deficiencies, as well as deficits and misappropriations, is not the main one in most cases.

It can be mentioned that the repetition of activities of state financial control system organizations and lack of clear demarcation of tasks and functions, only activities aimed at identifying and punishing mistakes, do not allow solving the new tasks set before these bodies. This, in turn, requires the reform of the budget system budget execution control system in accordance with advanced foreign experience and international standards.

In addition, establishing audit activities aimed at preventing violations in the financial and economic sphere, and implementing a number of targeted tasks for digitalization of the sphere remain one of the requirements of the time.

The goal of reforming the state financial control system is, first of all, to have a financial control structure that meets international requirements and is aimed at preventing financial errors and shortcomings and evaluating the effectiveness of budget funds, using modern methods in its operation.

In this regard, the main goal is to move from the practice of inspection and punitive and ineffective checks in the financial control system to a compliance control system aimed at preventing financial errors and shortcomings and aimed at eliminating them by quickly identifying risks built on the basis of artificial intelligence, which is deeply digitized, that is, with the maximum limitation of the human factor. .

Another goal is to have independent structures aimed at determining and evaluating the efficiency and effectiveness of funds allocated from the budget in the financial control system.

As mentioned above, in the reforms of the state financial control system, the main focus is on determining the effectiveness and efficiency of the allocated funds and identifying cases of financial errors and deficiencies, and not on punishing the guilty, but on preventing them, eliminating the reasons and conditions that enable them to be committed, by conducting a constant risk analysis. creation of a completely new system of financial control, focused on the use of permanent preventive measures to prevent corruption.

The current structure, tasks and functions of the State Financial Control Inspectorate under the Ministry of Economy and Finance are analyzed based on advanced international experience. Based on foreign experience, the main focus is

on risk analysis and remote analytical control using digital technologies, which allows to reduce cases of violations of the law in the objects of state financial control.

Effective organization of internal audit and state financial control in the public sector is based on the development of a separate methodology for each of them within the framework of their tasks. Internal audit is organized in the public sector taking into account its special features and has its own tasks and functions. In turn, it has separate control methods. Since these types of controls do not repeat each other, it is appropriate for them to work together. In the public sector, both internal audit and state financial control work in mutual cooperation, which increases the efficiency of control several times.

In our opinion, as a result of the selective exchange of information in mutual cooperation:

- Reduces inefficient inspections;
- Increases the effectiveness of the audit of budget organizations;
- Saves time during the inspection process;
- Mutual general information exchange increases the level of reliability of information and reduces the level of risk

The work results of internal auditors help to assess the effectiveness of the internal control system and assess and manage existing risks.

Also, in our opinion, the interaction between the internal audit service and state financial control bodies should be implemented through the following (Figure 1).

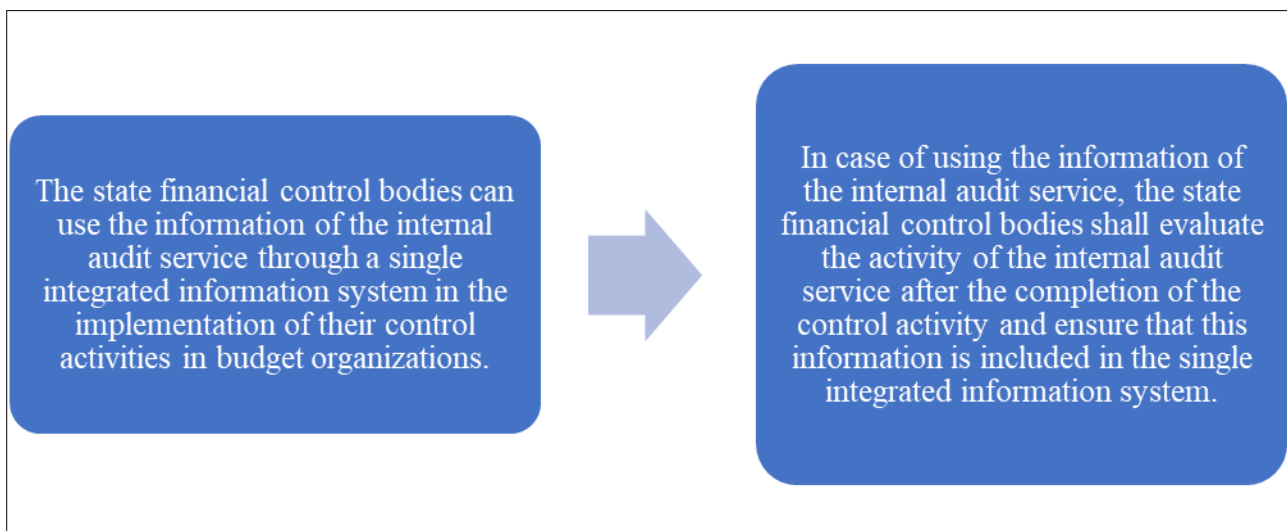


Figure 1 Interrelationship between internal audit service and state financial control bodies

Source: Developed by the author

The assessment of the internal audit service is carried out by the Accounts Chamber. In our opinion, evaluation is often used in internal audit reports and its objectives should be:

- Improvement of information about individual audit results;
- Assisting the client's governing body in planning and prioritizing remedial work;
- Evaluation of changes in results between successive examinations of the same client;
- To help compare audit results between internal departments of the organization;
- Help to summarize the results of various audits within the organization;
- Assisting with the risk assessment process, which is a key element of the annual audit planning process.

A strong and effective internal control system and internal audit services are established in all ministries and agencies, which carry out its continuous and independent evaluation.

First, the internal audit system of the new form will be more coordinated and developed through the clear separation of tasks and functions.

Secondly, determining the effectiveness and efficiency of funds allocated from the budget becomes the first task of the public sector and internal audit.

Thirdly, in the system of internal audit and state financial control, the form of compliance control in the form of remote control with limited human factor will be widely used using modern digital technologies. As a result, the internal audit service and the new system of state financial control will dramatically increase the possibility of reducing financial errors and shortcomings by preventing them.

Fourth, through the development of internal audit, which is a structure of internal control and independent financial control in ministries and agencies, the responsibility and accountability of their leaders will be further increased.

Further development of the system of internal audit and state financial control in our country is to achieve high efficiency in the use of budget funds by applying the international experience in this regard, preventing financial errors and deficiencies identified in budget organizations, and preventing deficits and misappropriations.

4. Analysis and Results

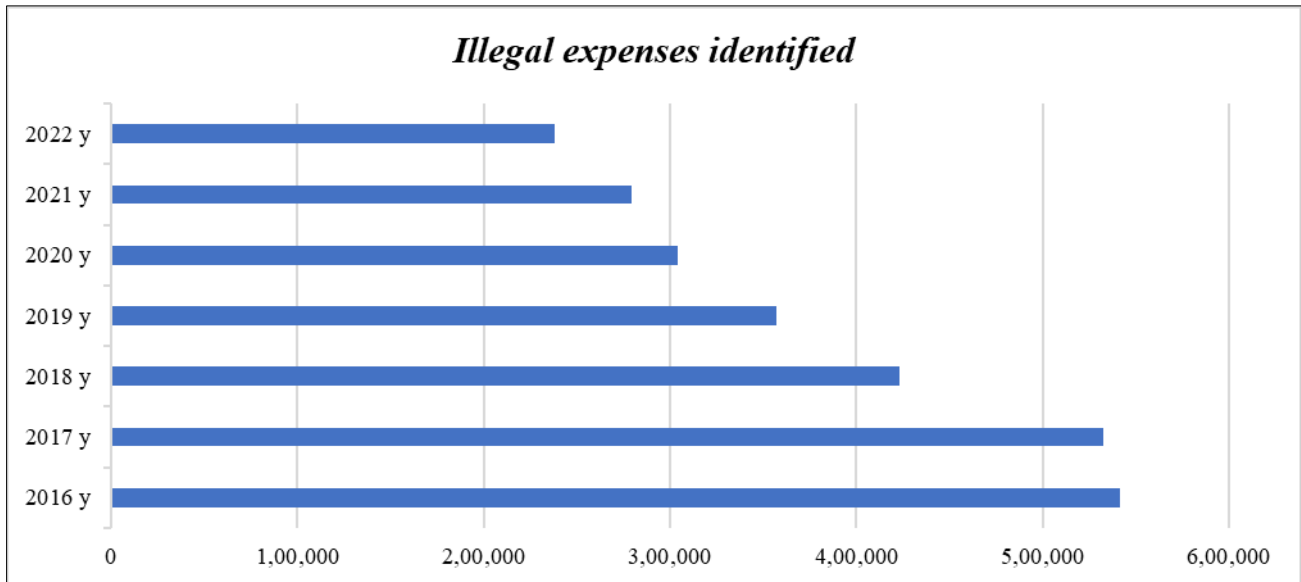
State financial control, its principles, forms, types and methods, as well as state financial control bodies, as well as state financial control organization and cases of violations of legislation on the budget, are fully explained in Section IX of the Budget Code of the Republic of Uzbekistan "Control of the execution of budgets of the budget system".

In the Budget Code, the Chamber of Accounts, the Ministry of Economy and Finance, the Ministry of Finance of the Republic of Karakalpakstan, the finance departments of regions and the city of Tashkent, the finance departments of district and city governments, the treasury departments, the State Financial Control Inspection of the Ministry of Economy and Finance and its regional offices, the State Tax Service bodies tasks related to state financial control to be implemented are mentioned.

If we pay attention to the state of internal audit organized in the public sector today, it can be concluded that it should be improved.

Due to the reduction of state units of the State Financial Control Inspectorate, internal audit and financial control services were established in ministries and agencies.

On the other hand, the reduction of state units had a negative impact on the quality of control activities over the targeted spending of budget funds. We can see this in the diagram below.



Source: Developed by the author

Figure 2 Financial errors and deficiencies identified by the State Financial Control

Analyzes and figures show that, despite the decrease in control measures, the number of cases of violation of the law detected in one control object on average, as well as the deficit of funds, material resources and embezzlements have increased year by year.

Identified cases of violations of the law, shortage of funds and material assets, and the amount of embezzlement per organization increased by 1.4 times compared to 2015.

In 2018, it increased by 2.6 times compared to 2015, and in 2019, it increased by 1.6 times compared to 2015.

If we consider these indicators in the cross-section of industries. In particular, in the system of the Ministries of Public Education and Preschool Education, it increased by 1.4 times in 2017, by 3 times in 2018 compared to 2015, and by 9 times in 2019 compared to 2015.

These indicators have the above indicators when considered at the level of an organization, and when viewed in general, we can see that the amount of the identified deficit has decreased. This process can be expressed as the effect of internal audit services established in the public sector.

Such indicators are found in the system of the Ministries of Health, Higher and Secondary Special Education, and even in self-governing bodies.

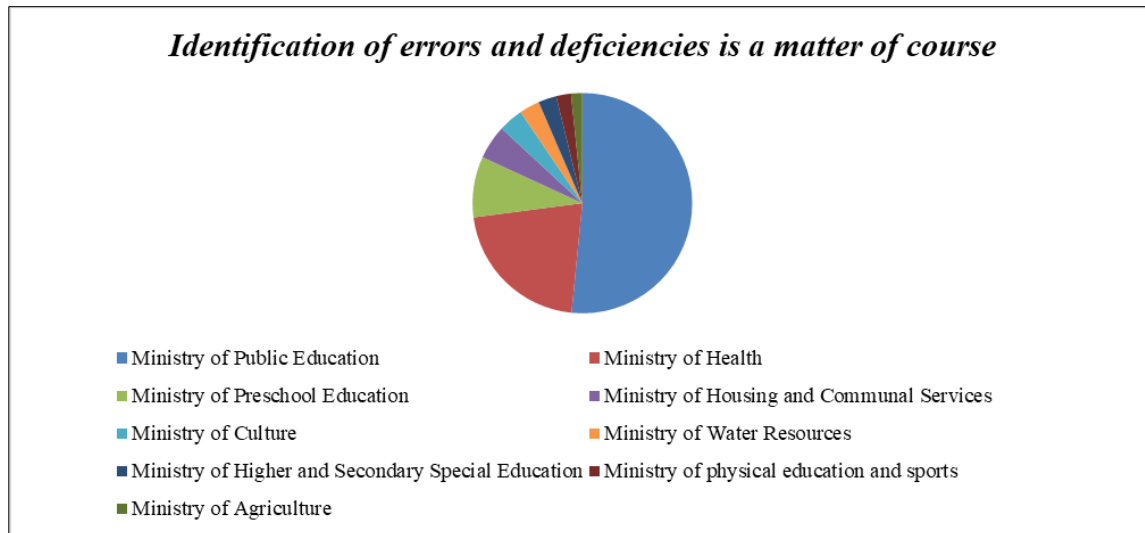
During the reporting period, cases of law violations and other errors and deficiencies in ministries and agencies were as follows:

It is known from the above indicators that effective reduction of errors and shortcomings, financial losses in the public sector is carried out as a result of mutual cooperation of internal audit and external audit.

In order to establish mutual cooperation between the State Financial Control Inspectorate and the Internal Audit and Financial Control Service, it is necessary to select a certain part of the large amount of information reflecting the results of the work. This information is considered to be the most basic and should be sufficient to make a plan and make a preliminary assessment before the inspection is carried out. We justified the need to divide them into the following groups.

Evaluation of the internal control system. As a result of the inspection of the internal control system, mutual opinions are exchanged regarding the organization of the internal control of the organization, the reliability of the information provided by the internal control, and general conclusions are drawn up.

Control over the implementation of the cost estimate. Accounting operations in budget organizations are carried out on the basis of cost estimates. The information obtained as a result of the control of the execution of the estimate constitutes important information about the organization.



Source: Developed by the author

Figure 3 Identification of errors and deficiencies in the ministries (2022)

Information about the selected data and the control result for the selected time period when conducting a selective check. What data is selected over which time period determines the importance of the data examined. It can serve as a basis for further selective verification.

Documents drawn up at the end of the investigation. At the end of the investigation and as a result of studying the documents drawn up in connection with the results of the previous year's investigation, it will be the basis for identifying the operation in which errors and violations of the law occur and taking measures to eliminate it. This is necessary to determine which error is most likely to occur and the level of risk.

The use of this information will determine the most effective ways for the internal audit service and the state financial control to work together. Each of them can receive information on a selected part of the total control evidence and perform control on the non-selected part, since they perform control on the basis of selective inspection. This makes it possible to reduce risks to an acceptable level.

The careful development of the internal audit methodology will greatly help not only the internal auditor, but also the financial control staff in the work process. Because effectively organized internal audit information is reliable. Internal audit information is widely used in state financial control. Because the internal auditor conducts continuous activities in the organization, analyzes and controls how the work is organized, the work progress of departments with errors and deficiencies (Khamidova Z, 2018).

There are also four principles of cooperation defined by the International Organization of Supreme Audit Institutions (INTOSAI), which are:

The principle of commitment (persistence in cooperation) - the strength of cooperation between internal audit, financial control and the accounting chamber depends on how persistently they approach this cooperation.

Although there are instances of overlap, each system has its own role, authority, and responsibilities, and effective cooperation cannot be achieved without appropriate compromises in these aspects. Mutual agreement relations also play an important role during the implementation of cooperation. The activity is carried out within the framework of the conditions defined in the agreement, and in the case of mutual repetition, it is necessary to implement an approach in terms of its own methodology. This type of partnership imposes obligations on each partner.

The principle of giving mutual advice - the advice given to each other by the three bodies creates a basis for facilitating their work and effective cooperation, and also plays an important role in solving questions and problems in case of disagreement.

Mutual consultation is used to consider controversial aspects that have arisen during the activities of supervisory bodies operating in cooperation. That is, when complex situations arise, when there is a conflict of interests, when conflicting monitoring results are obtained, or when solving a serious situation, the exchange of advice and recommendations increases the efficiency of work.

In addition, advice on improving the operation of control facilities is also included. It is appropriate to discuss the recommendations based on the general functions of the control bodies, when it is mainly included in the main tasks of the internal audit services.

The principle of cooperation (communication) is that communication is a two-way process, and constant open communication is important to ensure cooperation between these bodies.

Formal communications can take the form of talks or meetings to share risk assessments or plans. Informal meetings can be held to better understand the roles of the parties.

Ideally, the parties should document their mutual agreements.

The principle of trust (mutual trust) - the parties must trust each other's actions.

When using the conclusions of the internal audit, the state financial control or the accounting chamber must make sure that these conclusions are reliable and that they are carried out in the prescribed manner.

The principles of cooperation defined by the International Organization of Supreme Audit Institutions (INTOSAI) serve to achieve high results during the activities of supervisory bodies. Applying them in place leads to improved performance of supervisory bodies, efficient use of time and sharing of experience.

5. Conclusions

In conclusion, we can say that in order to properly organize control in the public sector today, it is necessary to develop a methodology for conducting internal audit activities and state financial control inspections. Wide use of international experience and international internal audit standards in the development of the control methodology is desirable. Reasonable use of budget funds is one of the urgent issues of today.

In addition, it is necessary to develop and implement national standards based on international standards of internal audit in order to effectively organize and conduct internal audit activities in the public sector. It is necessary to envisage the formation of international internal audit standards in accordance with the provisions of the internal audit law in the public sector.

In order to effectively organize internal and external audits in the public sector and organize control based on international requirements, first of all, there is a need for qualified specialists. In order to control the quality of work, it is necessary to regularly improve the qualifications of internal auditors and financial controllers in the public sector and to organize work through certified personnel.

In order to effectively and qualitatively organize the work of internal audit and state financial control in the public sector, it is desirable for supervisors to work together. Specific features of each control are defined and their activities should not be duplicated and should be organized within the scope of complementary inspections.

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