

DIRECTIONS FOR IMPROVING OF INTERNAL AUDIT SERVICE IN THE PUBLIC SECTOR

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ABSTRACT

As is well known, the organization and engaging in the activity of internal audit service in the public sector has its own features and it is fundamentally different from the internal audit service, which is organized in enterprises. This article studies the legal framework for the organization of the internal audit service in the ministries and authorities of the Republic of Uzbekistan, the activities and objectives of the internal audit services. The current state and possibilities of internal audit services in ministries and authorities was analyzed in this article. The need and advantages of creating the possibility of independent using by internal auditors all sources of information, software complexes in the system, databases, which are necessary for internal audit are justified. Scientific proposals and practical recommendations have been developed to improve the internal audit service in the public sector, taking into account the principles of international internal audit in the public sector and the International Professional Practices Framework (IPPF).

KEYWORDS: *Internal Audit, Internal Audit Service, Internal Audit Measures, Qualification Certificate, Financial Audit, Financial Control, Compliance Audit, Efficiency Audit, UzASBO Software Complex*

INTRODUCTION

Raising the system of public finance management of the Republic of Uzbekistan to a new level and further strengthening budgetary discipline, maintaining budgetary accounting and preparing financial statements in the public sector in accordance with international requirements are one of the priority objectives. In order to improve the efficiency and effectiveness of the using of budgetary resources and available financial resources, it is necessary to implement an internal control and internal audit service in accordance with international standards. To implement these reforms, the Strategy - Action Plan for Improving the Public Finance Management System of the Republic of Uzbekistan for 2020-2024 has been approved [4].

In this strategy, special attention is paid to strengthening financial discipline by improving the system of internal control and internal audit, strengthening parliamentary and public control over the budget process, as well as increasing the responsibility of budget distributors (recipients), including their managers.

It also provides for the implementation an internal audit service in all ministries and authorities - distributors (recipients) of budget funds. This, in turn, along with the study of international experience, requires scientific research aimed at introducing and improving the activities of the internal audit service in all ministries and departments of Uzbekistan - distributors (recipients) of budget funds. This confirms the need for research on this topic.

LITERATURE REVIEW

A number of foreign economists conducted scientific research to create and improve the theoretical and methodological basis of internal audit service. For example, Andreyev P.P. conducted research to study the European experience of internal control and auditing in the public sector and the effectiveness of internal audit in budget organizations [7].

A.L. Kolesnik conducted a scientific research on the methodology of organizing and conducting internal audit of federal budget funds recipients [8]. At the same time, special attention is paid to the formation of internal audit in the public sector of Russia, the improvement of the methodology for conducting internal audit procedures.

V.E. Anferova and V.A. Grekova conducted research on the implementation of internal audit in budget organizations [9], and N.I. Danilenko in his scientific research focused his attention on the methodology of external audit in budget organizations [10].

One of the scientists of our country, S.U. Mehmonov conducted research on improving the methodology of accounting and internal audit in budget organizations [11], A. Ostonokulov research improving the methodology of accounting for extra budgetary funds of educational and medical institutions [12], also improving accounting of settlements with suppliers and buyers in public sector institutions [13], B.J. Zhumamuratov studied improvement of internal audit of budget organizations [14], Z.U. Khamidova research the issues of improvement of activities of internal audit service in budget organizations [15].

However, today complex studies to strengthen financial discipline through the improvement of the internal control and internal audit service, as well as on the introduction and improvement of the internal audit service in all ministries and departments of the Republic of Uzbekistan - distributors (recipients) of budget resources have not been carried out.

RESEARCH METHODS

Taking into account the specifics of the organization and conduct the activity of the internal audit service in the public sector, the requirements of regulatory and the International Professional Practices Framework (IPPF) of internal audit, such methods as analysis and synthesis, induction and deduction, a systematic approach, abstract logical thinking, monographic observation, comparative analysis were used during this research.

ANALYSIS AND RESULTS

Presidential Decision No.3231 "On Further Improvement of the Financing Mechanism for Educational and Medical Institutions and the State Financial Control System" was adopted on August 21, 2017[1]. It established the creating of internal audit services in the Ministry of Public Education, Ministry of Health, Ministry of Higher and Secondary Specialized Education, Centre for Secondary Special Education education under the Ministry of Higher and Secondary Specialized Education and in the extra budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan (hereinafter - internal audit services at the republican level) with 3 staff units, as well as internal audit services in the Ministry of Public Education, the Ministry of Health and the Department of Secondary Special and Vocational Education of the Republic of Karakalpakstan, the departments of public education, health, secondary special and vocational education of Tashkent (hereinafter - the internal audit services at the territorial level) with a number of 1-4 staff units.

The main objectives of the organized internal audit and financial control services are as follows:

- Centralized financial and accounting services -to provide the preparation and execution of cost estimates in a centralized manner, accrual and payment of wages, purchase of goods, works and services, keeping records of budget and extra budgetary funds of subordinate institutions, as well as monitoring the income from the sale of goods (works, services) according to the profile of their activities;
- Internal audit services at the republican and territorial level - prevention and detection of cases of illegal consumption and theft of budget funds by:

Monitoring the planning and execution of cost estimates, maintaining budget records, conducting tender (competitive) tenders and concluding contracts in subordinate institutions;

Providing guidance to heads of subordinate institutions and central financial and accounting services on improving budget accounting and reporting, avoiding unreasonable accounts receivable and payable, strengthening budgetary discipline, improving the efficiency of budget appropriations, including the purchasing of goods, works and services, and strengthening the staff of central financial and accounting services;

To make mandatory orders to the subordinate institutions to eliminate the revealed violations of the law, as well as the reasons and conditions which contribute to them.

Also, Presidential Decision No.4938 dated 30 December 2020 "On measures to ensure the implementation of the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2021"[2] established the implementation of an internal audit service in the structure of central offices of ministries and authorities within the established staff units in order to analyze the results of the effectiveness of development programs.

In the first current modalities for the internal audit and financial control services in ministries and authorities have been established at the republican and territorial levels. In turn, the internal audit and financial control service, which is organized at the territorial level, on the basis of the organizational structure and staffing table, is part of the Regional main office and management structure (Figure 1).

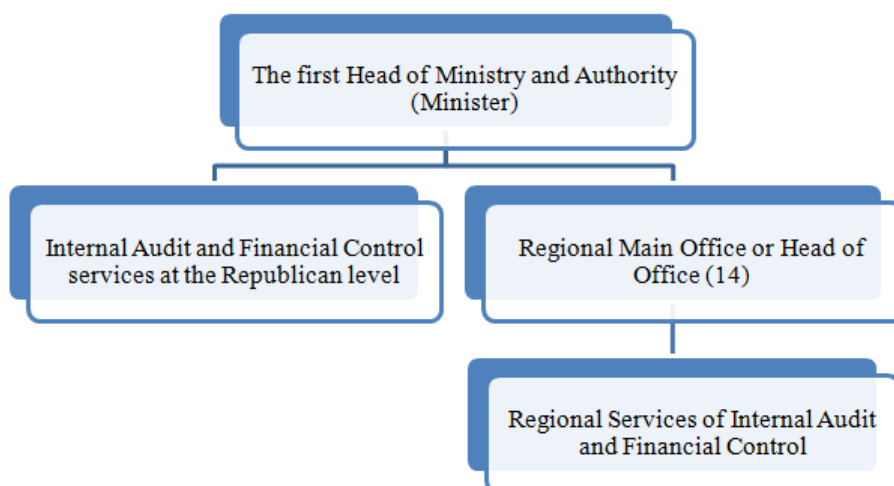


Figure 1: Organizational Structure of Internal Audit and Financial Control Services, which are Organized at the Republican and Territorial Levels.

Employees of the internal audit and financial control service at the territorial level are subordinate and accountable to the regional main offices and heads of offices according to their organizational structure and staffing table. In this case, the principles of independence, objectivity, accountability and impartiality of the internal audit service are doubtful. Because internal audit services during performance of their duties should be subordinate only to the first head of the ministry and authority and do not dependent on other factors affecting its activity.

Also, in accordance with the Provision "On the Internal Audit Service at Enterprises," approved by Decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 215 dated October 16, 2006 [5], it was established that the internal audit service which is organized at enterprises is subordinate and accountable to the Supervisory Board of the enterprise.

The internal audit service of enterprises is a structural unit of the enterprise for monitoring and evaluating the work of the executive management body and structural divisions of the enterprise by checking and monitoring their compliance with acts of legislation of the Republic of Uzbekistan, constituent and internal documents, ensuring the completeness and reliability of data reflection in accounting and financial statements, established rules and procedures for carrying out business operations, the preservation of assets, as well as the implementation of corporate governance principles.

In the International Professional Practices Framework (IPPF) is also established that the internal audit service should be independent of all factors affecting on its activity.

In accordance with the principle of independence, interference of state bodies, other organizations and their officials in the activities of internal audit services is prohibited, and they required an independent approach to its functions during conducting internal audit in a budget organization. In addition, internal audit services are responsible for conducting objective internal audit procedures and for impartial reporting forming.

From the point of view of conducting objective, impartial internal audit in the regional main office and in budget organizations of the management system, the independence of the internal audit and financial control services, which are organized at the regional level, is not ensured.

In order to ensure the independence of the internal audit service and conduct objective internal audit procedures, it is necessary to create an "Internal Audit Service" at the republican level, which will subordinate to the first head by optimizing the activities of the "Internal Audit and Financial Control Service" in the structure of the regional main office and other departments.

As a result of the transfer of responsibility and accountability of the internal audit service from the regional departments of ministries and authorities to the ministry, the independence of their activities will be ensured and it lead to the objectivity of internal audit procedures and impartial reporting.

Secondly, in the objects of internal audit, it should be possible to independently use all sources of information, software complexes of the system, databases to fully cover all processes, activities types and financial and economic activities, as well as to objectively conduct internal audit procedures and collect evidence. However, nowadays internal audit and financial control services which are created at the republican and territorial levels have limited access to all sources of information of internal audit objects, software systems of the system, and the database.

It is necessary to create opportunities for the independent using by the internal audit and financial control services all sources of information, software systems, and databases for conducting internal audit procedures. Because the main objectives of the created internal audit and financial control services are monitoring the financial and economic activities of budget organizations in the ministry system, prevention cases of illegal use and theft of budget funds. These tasks require the creation of separate modules which will allow internal audit and financial control personnel in ministries and authorities to use the sources of information, which is required during the audit procedures, databases in the software complexes of the ministry system and provide special logins and passwords to internal auditors. It will also be advisable to create a special module in the UzASBO software complex and integrate it with relevant programs for internal auditors, designed for the integrated automation of budget accounting and accounting of budget organizations, which allows monitoring the financial and economic activities of budget organizations of the system.

As a result, it will be possible to generate all the data which is required for internal audit, using the database of relevant software complexes, as well as the use of all sources of information. This, in turn, will lead to the distance conduct of internal audit procedures and the development of the IT-audit sphere in Uzbekistan. There will also be some reduction in the command and organizational costs of internal auditors.

And most importantly, cases of violation of legislative acts on the budget will be prevented; the ability to formulate accurate and reliable conclusions on the activities of the budget organization and the development of proposals and recommendations to eliminate shortcomings will be expanded.

In addition, it is advisable for the internal audit and financial control services of the public sector to conduct internal audit procedures for financial audit, performance audit and compliance audit [3].

Financial audit conducting involves assessing the maintenance of budget accounting, the reliability of accounting statements, the targeted and legitimate use of financial resources and the completeness of income from extra budgetary funds, the correctness of actual expenses incurred, the legality of financial transactions, as well as eliminating errors and shortcomings.

The compliance audit includes study and evaluation of compliance with the requirements of regulatory documents on the activities of a budget organization, as well as their compliance with state programs during the using raised budget funds, and carrying out public procurement.

Performance audit includes evaluation and analysis of the efficiency and effectiveness of expenditures, subsidies, benefits and preferences for the object of internal audit, cost-effectiveness in using allocated funds, meeting targets, feasibility and effectiveness of projects implemented at the expense of raised funds, as well as providing state and regional programs with sources of financing.

Thirdly, in the objects of internal audit, it is necessary to conduct internal audit procedures objectively, impartially, and have sufficiently deep professional knowledge to collect evidence.

In order to effectively organize an internal control system in corporate governance and to ensure that the internal audit service is staffed by qualified specialists at enterprises, a procedure has been implemented for certifying employees of the internal audit service in accordance with the Regulation approved by Cabinet of Ministers Decision No. 280 of 5 May 2021 [6]. However, the system of qualification certificates has not been implemented for the head of the internal audit service and internal auditors of the public sector.

Also, if we consider the experience of foreign countries, we can see that there is a legislative practice of certification of internal auditors in the public sector in Kazakhstan, Croatia and South Korea.

An internal auditor certificate is a document, which confirms the professional qualification of an internal auditor to work in the internal audit service. To ensure the staffing of qualified specialists of the internal audit service in the public sector, it is necessary to establish qualification requirements and adopt relevant regulatory documents for the implementation of the system for obtaining an internal auditor certificate.

The certificate confirms the professional qualifications of the internal auditor and gives the right to its holder to work in the internal audit service in the public sector. As a result, it is possible to recruit highly qualified, certified internal auditors with practical knowledge and skills and to generate information on the composition of internal audit staff.

The composition of employees with skills to conduct internal audit procedures for budget and extra budgetary funds will be formed.

Internal audit staff will be able to take responsibility for their functions and responsibilities. Regular access to the regulatory documents of the system and changes in them will be required, as well as the targeted use of budget and extra budgetary funds of budget organizations will be achieved.

Conclusions and proposals

In conclusion, the internal audit service of the public sector should be a structural unit which independently carries out internal audit activities in ministries and authorities and it is directly subordinate to the first head of the ministry and authority.

Also, improving the system of internal control and effective using of allocated funds through financial audit, performance audit, compliance audit, audit of information technology in ministries and authorities and organizations of the system should become an independent activity which provides proposals and recommendations to prevent inefficient and illegal use of funds through risk analysis and contribute to the qualitative fulfillment of established objectives.

The following systematic work should be undertaken to improve the internal audit service in the public sector.

Firstly, it is necessary to make amendments to Decision of the President of the Republic of Uzbekistan No.3231 of dated August 21, 2017 "On Further Improvement of the Financing Mechanism for Educational and Medical Institutions and the State Financial Control System" in the appropriate order and create an "Internal Audit Service" at the republican level, subordinate to the first head by optimizing the activities of the "Internal Audit and Financial Control Service" in the structure of the regional main office and other offices. As a result of the subordination and accountability of the Internal Audit Service from the territorial offices of ministries and authorities to the ministry, their independence will be ensured, and it will lead to an objective conduct of internal audit procedures and impartial reporting.

Secondly, the creation for employees of internal audit services in the public sector the possibility of independent using of all sources of information, software complexes of the system, the database, which are necessary for conducting internal audit procedures will create the basis for remote implementation of internal audit procedures, develop the IT-audit sphere in Uzbekistan.

It is also advisable to create a special module for internal auditors in the UzASBO program complex, which will allow monitoring the financial and economic activities of budget organizations in the system of ministries and authorities, as well as integrating with relevant programs in the system of ministries and authorities.

Thirdly, internal audit services of public sector need to implement a system of financial audit, performance and compliance audits. It will create in turn opportunities to organize of internal audit activities by the International Professional Practices Framework (IPPF) of internal audit.

Fourthly, in order to ensure internal audit services in the public sector by staff with qualified specialists, it is necessary to establish qualification requirements and implement a certification system for internal auditors. As a result, it will be possible to recruit highly qualified, certified internal auditors with practical knowledge and skills and to generate information about the composition of internal audit staff.

The proposed directions will serve to improve the activities of the internal audit service in the public sector and prevent cases of violations of budget legislation, as well as to conduct accurate and reliable audit procedures for the activities of the budget organization.

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