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Article



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IMPROVEMENT OF THE STATE INTERNAL AUDIT SYSTEM

Abstract: This paper describes the organizational and functional changes taking place in the system as a result of the reforms implemented in the state internal audit system. In this, the main attention is focused on the nature of internal audit and the content of its main tasks, the organization of internal audit in ministries and agencies, and the specific features of legal and methodological support of internal audit.

Key words: state financial control, internal audit, internal control, audit, methodology, independence, impartiality.

Language: English

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Introduction

1. Enter.

Today, reforms are being implemented in Uzbekistan to further improve the system of effective use of budget funds, and to further strengthen control over targeted and rational spending of budget funds.

At the same time, by the decrees and decisions of the President of the Republic of Uzbekistan, ministries and agencies were given independence in spending budget funds and an accountability system was introduced. Also, internal audit services were established in order to prevent cases of illegal spending and looting of budget funds in the ministries and agencies, and to assess the implementation of efficiency indicators.

A number of legislative documents were adopted in order to strengthen the legal basis of internal audit services. However, there are a number of problems regarding the practical application of the adopted legal documents, as well as aspects that should be covered by the legislation, and appropriate scientific research will be conducted to eliminate them.

2. Literature review.

To date, in many developed countries, the development of internal audit is seen as one of the factors of economic development, and its implementation in the public sector has been observed in practice to give positive results in the effective and targeted spending of state budget funds.

Over the years, the internal audit function has improved and become more complex: instead of auditors of accounting deficiencies, a class of employees has emerged who assist the managers in making decisions. Also, cooperative relations with higher external audit bodies and other state bodies were established.

Along with the development of the internal audit function, the views given to it have also changed. Based on these views, internal audit was defined.

When looking at the rates given by foreign and domestic scientists to the concept of internal audit, they can be directly divided into two groups. The first group defines internal audit as a part of "auditing" and internal control, while the second group defines internal audit as an independent assessment of the effectiveness of the organization and management bodies.

According to L.A. Bekbotova, internal audit performs the function of assessing the reliability and guarantee of the effectiveness of the internal control system in the process of managing risks determined as a result of corporate management.

Also, according to the scientist, internal audit is an independent department that evaluates the organization's activities, helps to achieve the set goals through systematic and orderly directions.

The purpose of internal audit is to provide advice on improving operations in the organization,

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identifying evidence of violations, analyzing and optimizing the quality of control.

N.V. Gamulinskaya, I.O. According to Sanovich's definition, internal audit is an independent and unbiased activity that provides an organization with confidence in how well it controls its operations, makes suggestions for their improvement, and creates added value.

According to these scientists, the increase in demand for internal audit activities in budget organizations is the increase in paid services in them, which can include paid education in higher educational institutions, transportation costs, scientific research, etc.

Of course, the opinion of these scientists is correct on the one hand, the emergence of additional extra-budgetary income creates a task for the management of the budget organization to use them effectively. In this respect, reliable internal auditors play a positive role in ensuring the efficient use of extra-budgetary funds.

Among the scientists of our country Mehmanov S.U. according to his definition, internal audit is an activity aimed at verifying compliance with legal documents and monitoring the preparation and execution of estimates by the organization, ensuring the reliability of financial reporting data, observing budget-estimate discipline, purposeful and rational spending of funds.

Another scientist B. J. According to Jumamuratov's research, internal audit is the study of the correct structure of budget organizations' income and expenditure estimates, staff tables based on the requirements of legislation, and ensuring the reliability and validity of financial reports prepared on their execution, the purposeful and targeted spending of budget funds in compliance with payment discipline, using information technologies remotely. It is an activity directed to monitoring (control) when standing up and going to the place when necessary.

The definition given by these scientists to the internal audit shows that it covers the financial and economic activities of the budget organization, and this definition is one of the most correct definitions for the first periods of the internal audit established in Uzbekistan. At the same time, as we mentioned above, the main task of the internal audit in the budget organization is to control the effective and targeted use of budget funds. For this, it is necessary to study the correctness of income and expenditure estimates, structure of staff tables, and financial reports.

Based on the international experience and the experience of scientists, it can be said that internal audit is an independent and impartial way of providing the head of the organization with reliable information about the internal control system and suggestions and recommendations for its improvement. Internal audit should be aimed at improving the organization's activities.

In this case, the independence of the internal audit means that it operates independently in relation to the activities of other departments and units in the organization in which it is established. Internal auditors are directly subordinated to the first head of the organization in their activities and are accountable only to them. In addition, internal auditors in the organization are not allowed to assign tasks other than those assigned to them, these rules are determined by the relevant regulatory and legal documents of the organization.

Impartiality of internal audit means impartial approach to them in their activities, conducting inspections, formalizing results and drawing up reports, evaluating the activity of the internal audit object. The main task of internal auditors is to provide the head of the organization with unbiased information about the organization's activities.

As a result of the study of information on internal audit activities, the main goal of internal audit is to participate in the development of all available ways to achieve the goals of organizations and to provide advice aimed at timely elimination of potential risks in this process.

It follows that internal audit should first of all help the organization achieve its goals (or goals).

3. Analysis and discussion of results.

Since 2017, the implementation of reforms in the state financial control system has begun. By the decision of the President of the Republic of Uzbekistan dated August 21, 2017 "On further improvement of the financing mechanism of educational and medical institutions and the state financial control system" No. PQ-3231, the internal audit activity of the state financial control system was launched.

In this case, the internal audit activity was directed to improve the financial management in the ministries and agencies, taking the best aspects from the internal audit of the private sector, to increase the efficiency of the use of state budget funds.

Internal audit services are provided by the above decision of the President of the Republic of Uzbekistan in the off-budget Pension Fund under the Ministry of Public Education of the Republic of Uzbekistan, the Ministry of Health, the Ministry of Higher and Secondary Special Education, the Center for Secondary Special Vocational Education of the Ministry of Higher and Secondary Special Education and the Ministry of Finance of the Republic of Uzbekistan was organized in the form of internal audit and financial control services.

It can be explained that the internal audit services are primarily organized in these ministries and agencies, that a significant part of the funds allocated from the state budget goes to them, and that they include the social direction. In addition, these ministries and agencies cover about 20,000 budget

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organizations and employ more than 1.4 million employees.

We can see the information about the internal audit activities conducted by the above internal audit services during 2019-2022 from the table below.

Table 1. Information on the results of the activities conducted by the internal audit services of the Ministry of Health, the Ministry of Higher and Secondary Special Education, the Ministry of Public Education and the Ministry of Preschool Education

in billion soums

T/r.	Indicators	The number of objects where the control event was conducted (pieces)				Amount of identified financial errors and omissions				Funds restored to the state budget				Amount of costs avoided as a result of preventive measures			
		2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
1	Ministry of Health	366	395	443	320	1.2	16.9	35.1	26.4	1.7	3.2	8.5	0.8	-	22.7	38.7	23.1
2	Ministry of Higher and Secondary Special Education	465	328	524	200	0.56	2.5	16.3	16.1	1.9	1.1	6.4	6.3	8.6	4.7	5.7	9.1
3	Ministry of Public Education	5 273	1 188	256	662	16.1	228.3	91.1	87.3	11.9	16.8	8.1	23.1	-	135.1	410.1	852.9
4	Ministry of Preschool Education	-	611	450	1160	-	51.8	36.6	45.1	-	7.4	8.9	10.1	-	3.2	41.3	8.2
	TOTAL	6104	2522	1670	2342	17.9	299.6	179.3	174.9	15.5	28.7	31.9	40.3	8.6	165.8	495.9	893.3

It can be seen from Table 1 that the activities of the internal audit services of the ministries of social sphere in the period of 2019-2022 are mainly focused on prevention and prevention. This can be explained by the norms in the documents adopted in recent years on internal audit activities.

In addition, the number of internal audit services is also increasing in proportion to the expenses of the consolidated budget between the years indicated (Fig. 1).

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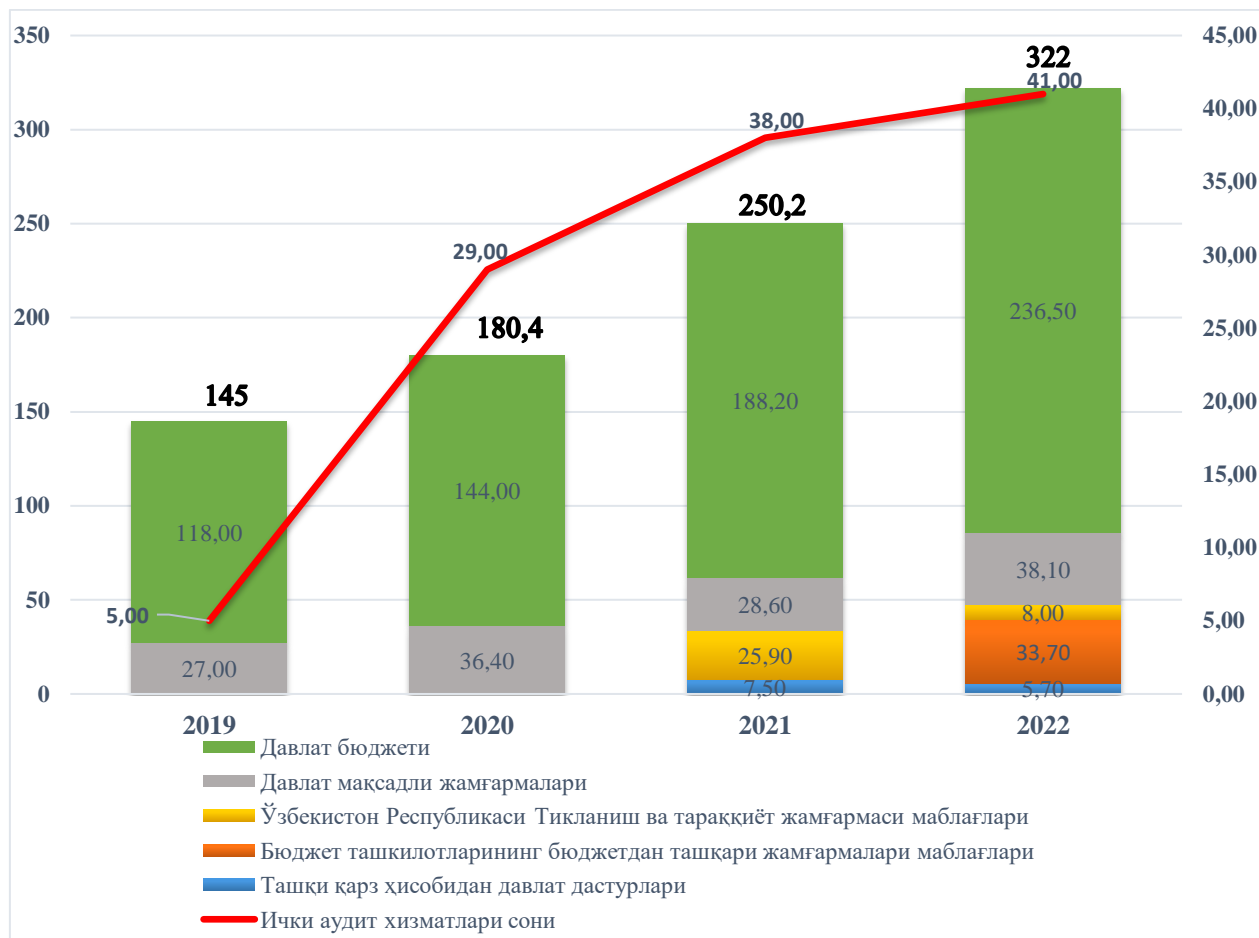


Figure 1. Proportion of the growth of Consolidated budget expenditures and the organization of internal audit services in the period 2019-2022

As can be seen from the figure above, consolidated budget expenditures increased by nearly 2.2 times from 2019 to 2022, while the increase in the number of internal audit services was more than 8 times. These indicators, first of all, create the need to organize effective control over the spending of consolidated budget funds, and secondly, to properly establish the activities of internal audit services organized in ministries and agencies, to provide them with legal and methodological support, to fill internal

audit services with potential employees, and internal audit services it will be necessary to perform tasks such as certification and training of employees.

The "Three-level protection" model developed by the International Institute of Internal Auditors (The IIA) is of great importance in establishing an effective management system in the organization. This model provides an opportunity to effectively manage the organization by clarifying (grouping) tasks and functions in the organization. (Figure 2)

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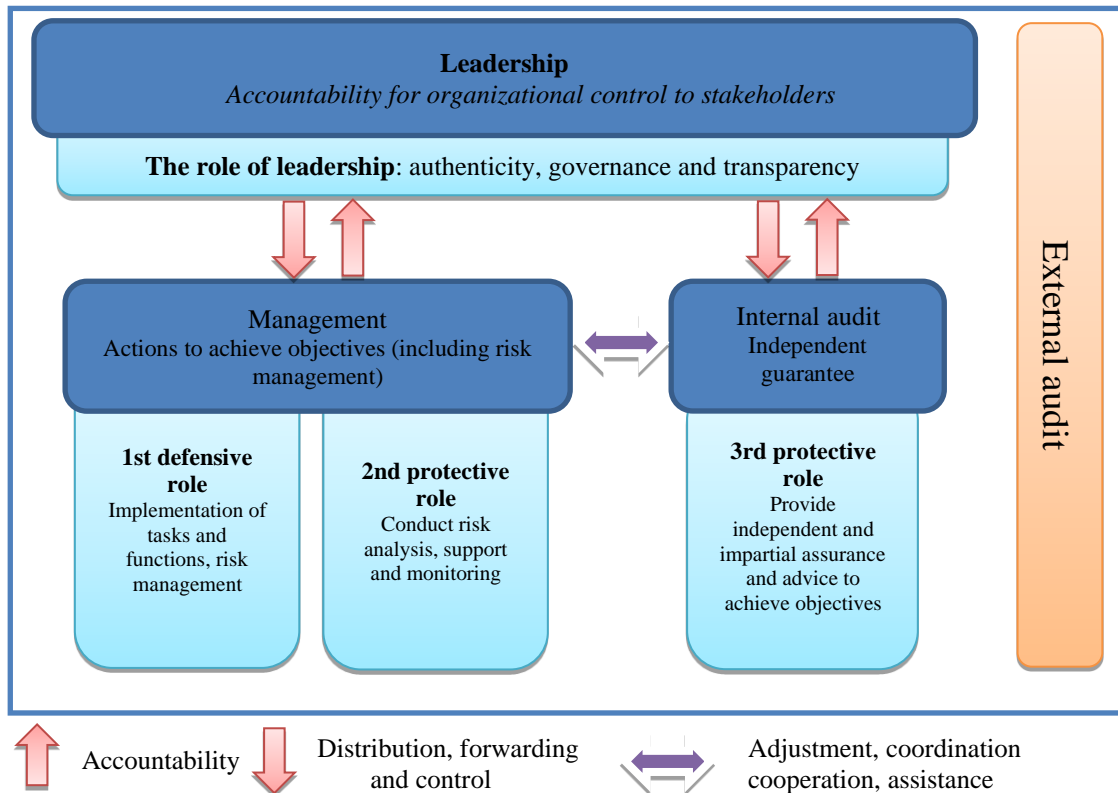


Figure 2. "Three-level protection" model in the public sector¹

According to this model, the first stage in the organization includes tasks and functions directly related to the organization's activities. As an example, we can cite the activities of the lowest structures in the organization (accounting, departments dealing directly with customers). These structures provide preliminary control by performing the tasks assigned to them and report to the head of the organization.

The second level in the organization includes compliance control, financial control, executive control, legal service, etc. The participants of this stage monitor the activities carried out in the first stage and report on their activities to the head of the organization.

The third stage is the function of internal audit, and its main task is to evaluate and analyze the activities of the participants of the first and second stages and to provide the head of the organization with reliable information about the organization's activities. At the same time, he develops proposals and recommendations for the proper implementation and improvement of activities. The head of the organization uses the information provided by the internal audit to make management decisions.

Therefore, it is important to introduce the internal audit function in the organization. It is necessary to pay attention to the independence of the

internal audit function. Because the status of the internal audit service affects the quality of information provided to the head of the organization.

The powers granted to the ministries and agencies by the relevant Presidential documents impose heavy responsibilities on them. In this regard, the financial independence given to them should be taken into account. Until now, the approval of the staff of ministries and agencies and the establishment of structures have been carried out by decisions of the President or the Government.

In addition, the cost estimates of the ministries and departments were registered separately from the financial authorities to the relevant items of the economic classification. Now, registration by financial authorities is determined only by cost groups. This imposes on the heads of the ministries and departments the obligation to spend the allocated budget funds in the directions deemed necessary, and to present a report on the efficiency of the spent funds to the Parliament.

4. Conclusions and suggestions.

In conclusion, it can be noted that it will be necessary to introduce internal audit activities in the public sector of our country based on international experiences.

¹"The Application of the 'Three Protections Model' in the Public Sector", Institute of Internal Auditors (The IIA), October 2022

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Effective management and potential employees are necessary for the head of the ministry and office to implement the above-mentioned tasks. At the same time, it would be appropriate to organize management based on the "Three-level protection" model.

For this, it will be necessary to revise this model from the point of view of the system of ministries and agencies. (Figure 3)

When the documents of the President of the Republic of Uzbekistan give many powers to the ministries and agencies, the use of this model helps in their management, including the financial

management of the ministries and agencies. To understand this, let's go through each step.

The first stage includes structures that perform tasks and functions related to the activity of the ministry and office. These structures carry out the tasks and functions assigned to them in accordance with the regulations, job instructions and orders approved by the ministry and the head of the department. At the same time, they are accountable to the management for the work done. From the point of view of control, at this stage control is carried out by these structures themselves in their work.

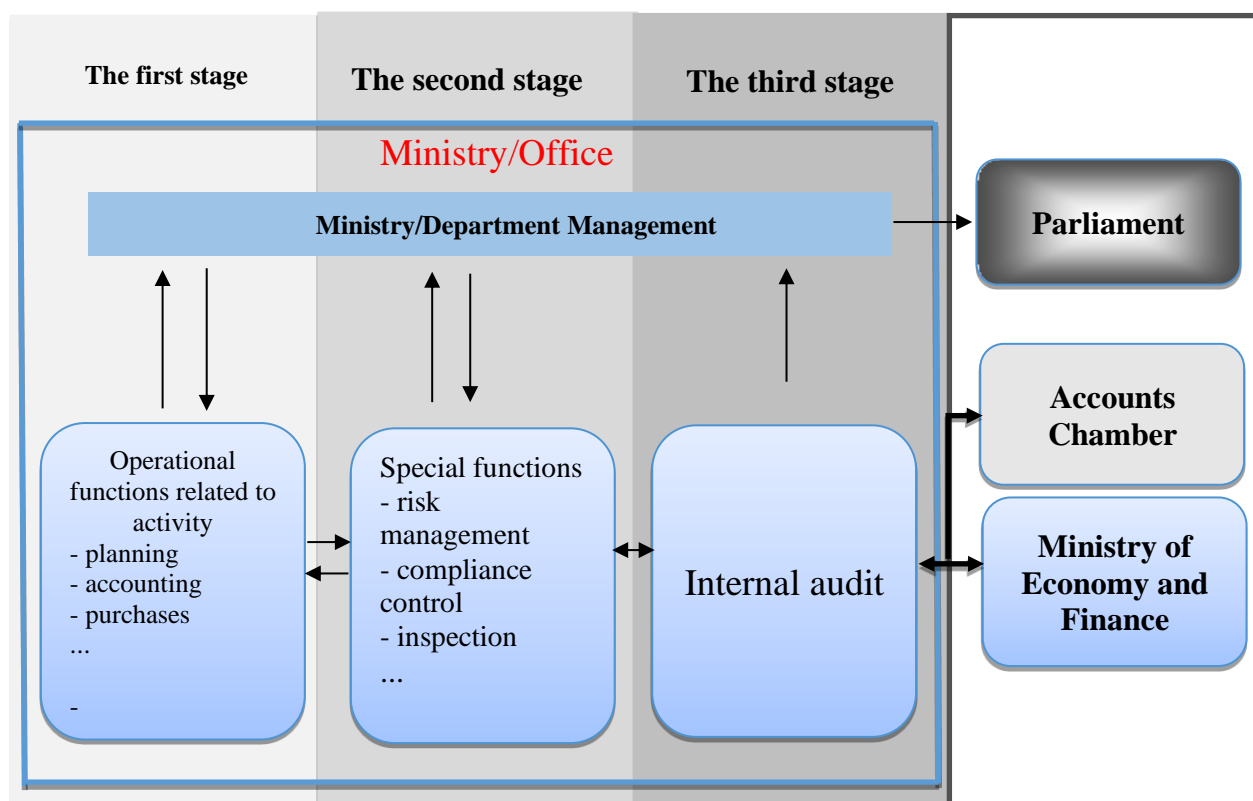


Figure 3. Application of the "three protection model" in ministries and agencies²

The second stage is special tasks and functions organized in ministries and agencies. These tasks and functions can be established by the relevant decisions of the ministry and office or by the decisions of the President or the Government of the Republic of Uzbekistan. For example, in the Decree of the President of the Republic of Uzbekistan dated January 25, 2023 "On the first organizational measures to effectively establish the activities of the executive authorities of the Republic" No. PF-14, strategic planning and methodology, public relations (information services), human resources development and management, information analysis and execution discipline, appeals, introduction and digitization of information and communication technologies, legal

provision, fight against corruption, finance and economy, international cooperation and ratings,

These structures do not directly perform tasks related to the activities of ministries and departments, but they monitor (control) the performance of tasks and functions performed at the first stage and provide reports (information) about it to the management. For example, the main task of the anti-corruption function is to prevent corruption in the ministry and office, and it carries out activities in this regard in the first-level structures.

The third stage is the internal audit function, the internal audit function is performed by the internal audit structures established in the ministry and office. The main task of the internal audit structures is to

²Image prepared by the author

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provide reliable and impartial information to the management about the activities of the ministry and the office, to develop suggestions and recommendations for improving the activities, and to prevent systemic problems. Internal audit structures directly evaluate, analyze and coordinate the activities of the first and second stages and are accountable to the first manager.

The information of the internal audit on the activity of the ministry and office helps the management to make appropriate decisions. However, it is not appropriate for the internal audit function to be used as a punitive function in the ministry and office. Internal audit is a function that helps to improve the activity of an independent ministry and office.

Currently, in the state administration of our country, great emphasis is placed on "decentralization". In this regard, ministries and agencies are given wide powers in the implementation of their activities, including the use of state budget funds. In these processes, the suggestions and recommendations of the internal audit are important in making decisions of the head of the ministry and department, especially on the effective use of the state budget funds.

For this, first of all, the internal audit structure should be directly subordinated to the first leader, independent of other structural structures, the knowledge and experience of the internal audit service employees should be high, and the legislation of internal audit activity should be strong.

In addition, a number of regulatory legal documents regulating internal audit activities have been adopted today, which include the following:

directions of development of the internal audit system and tasks of the responsible structure;

organization of internal audit activities, principles;

the purpose, tasks and functions, rights and obligations and accountability of the internal audit service;

internal audit service staff qualification requirements, their certification and training;

ensuring and improving the quality of the internal audit service;

planning, conducting and reporting of internal audit activities.

At the same time, there are a number of issues that need to be regulated in the internal audit activity, and amendments and additions should be made to relevant documents or a separate regulatory legal document should be adopted regarding these issues. Including

1. Development and adoption of a draft law regulating the internal audit system in the public sector. The law on the internal audit system in the public sector regulates relations in the field of internal audit, strengthens, unifies and systematizes the current

legal norms. The adoption of a separate law leads to the creation of a solid legal basis for the internal audit system in the public sector.

2. It is desirable to develop a procedure for ensuring and improving the quality of internal audit services, as well as for evaluation, and it should include the following:

- creation and approval of the Quality Assurance and Improvement Program, which includes work to be carried out to ensure the quality of internal audit activities by the head of the internal audit service;

- Implementation of internal assessment of internal audit service activities based on the program. In this case, internal evaluation should include continuous monitoring and periodic evaluation of internal audit activity;

- External evaluation conducted by the Ministry of Economy and Finance, its planning, implementation and formalization of the results, as well as preparation of the external evaluation report;

- Development of performance indicators of internal audit service employees.

The materials of the Institute of Internal Auditors (The IIA) and legal documents adopted by foreign countries can be used in the development of this regulatory legal document.

3. Development of the procedure for cooperation of internal audit services with state financial control bodies.

Today, internal audit services interact with state financial control bodies, share information, and use the results of their activities. However, the detailed mechanism of these processes is not regulated by any legal document. Therefore, in order to prevent various misunderstandings and possible disputes in the activity, it is appropriate to clearly define the relationship of the internal audit services with the state financial control bodies. The regulatory legal document on cooperation with state financial control bodies should include the following:

- in what form of relations between internal audit services and state financial control bodies. This includes memorandums, decisions and orders or agreements signed between the parties;

- issues of coordinating the activities of the parties;

- obligations and liability issues of the parties;

- issues of mutual use and recognition of the results of control activities;

- issues of information and information exchange between the parties;

- issues of conducting joint control measures;

- issues of joint experience sharing, training, meetings, seminars.

At the same time, it is appropriate to cover the relationship of internal audit services with law enforcement agencies and anti-corruption structures with this normative-legal document.

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Because in the model regulation on the internal audit service of the Ministries and agencies approved by the decision of the Cabinet of Ministers dated August 1, 2022 No. 416, the internal audit services should take appropriate measures in the event that signs of crime, corruption violations (including by the persons who carried out the internal audit event) are detected. (documentation, taking preventive measures) and the obligation to notify the first head of the ministry and agencies about sending materials to

law enforcement agencies, and the mechanism of implementation of this obligation should be clearly defined.

In the event that signs of crime and corruption violations are detected, what information should be provided to law enforcement agencies, in what form and for how long, and the rights and obligations of internal audit service employees before law enforcement agencies should be specified.

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