

Improvement Of The Internal Audit Methodology Of Off-Budget Funds In Public Education System Institutions.



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ABSTRACT

This article discusses current issues, key principles, methods, and specific features of improving the internal audit service as one of the methods of state financial control over the receipt and use of extrabudgetary funds in public education system institutions. In addition, the article identifies existing problems related to budget accounting and control in public education institutions and develops recommendations for their elimination and further improvement.

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Introduction. It is well known that reforms in the education sector constitute one of the integral and decisive directions of the socio-economic reforms being implemented in our country. In the Development Strategy of the New Uzbekistan for 2022–2026, the following objectives have been identified: “to introduce the National Program for School Development through the creation of an additional 1.2 million student places in the public education system; to construct new schools; to increase the number of private schools; to develop and implement a national program aimed at improving the quality of education; to increase the total number of student places to 6.4 million by the end of 2026; and to implement a program for the development of ‘Barkamol Avlod’ children’s schools.” Achieving these objectives will contribute not only through the allocation of budgetary funds, but also through the attraction of extra-budgetary resources, which, in turn, will lead to savings in public expenditures and a reduction in the tax burden.

The state budget is not unlimited; therefore, it is essential to ensure the strict economization of financial resources and their purposeful and rational utilization. This is one of the universally recognized and indisputable realities. Taking these aspects into consideration, it is possible to ensure the targeted and efficient use of extra-budgetary funds in public education institutions, as well as compliance with regulatory and legal documents, through the improvement of the internal audit service, which is one of the key instruments of state financial control.

As a result of current geopolitical developments, uncertainties related to the allocation of vital economic resources are increasing. Under such circumstances, expanding the allocation of state budget funds

to the social sector, ensuring the efficient use of budgetary resources, and organizing effective control over expenditure execution have become particularly important. At present, many countries, including Uzbekistan, are implementing internal audit systems within public sector budgetary organizations.

The introduction of an internal audit system makes it possible not only to ensure the targeted use of state budget funds by ministries and departments acting as the principal administrators of the budget, but also to enhance the efficiency of public education institutions, promote the rational utilization of specialists, and ensure the reliability and transparency of information flows. Furthermore, it facilitates the provision of comprehensive reporting to authorized institutions, thereby creating opportunities for the further improvement of the public administration system.

In order to ensure budget sustainability and improve the internal control and internal audit services within the public sector, the following priorities have been identified as the main directions of budget policy for 2025–2027:

- to develop the “Concept for the Development of Internal Control and Internal Audit in Uzbekistan” through the assessment of the internal control systems of ministries and agencies;
- to draft the Law “On State Internal Audit” with the aim of strengthening, consolidating, and systematizing the legislative framework of the internal audit system.[1]

Internal audit in public education institutions is aimed at ensuring compliance with legislative and regulatory documents through inspections and monitoring, overseeing adherence to budget estimates, ensuring the targeted and efficient use of budgetary and extra-budgetary funds, and guaranteeing the reliability of financial reporting information.

As a result of the reforms being implemented within the budget system, sufficient legislative foundations have been established through the improvement of procedures for organizing and maintaining budget accounting in accordance with international standards.

An important legal basis in this area is the Resolution of the President of the Republic of Uzbekistan No. PQ-128 dated February 14, 2022, “On Further Improving the Efficiency of Expenditures of the State Budget of the Republic of Uzbekistan and Enhancing the Activities of State Financial Control Bodies” [1], as well as the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 416 dated August 1, 2022, “On Approval of the Standard Regulation on the Internal Audit Service of Ministries and Agencies” [2]. These resolutions define the main directions for organizing internal audit services within ministries and agencies. In particular, they envisage the development of internal audit services in ministries and agencies and increasing the effectiveness of internal audit activities through the wide-scale implementation of remote auditing practices [3].

In public education institutions, it is considered essential to organize the planning stage of internal audit inspections in accordance with international auditing standards, taking into account the regulatory and legal framework governing the receipt and expenditure of extra-budgetary funds. Particular importance is attached to the planning of internal audit service activities, the assessment and minimization of risks within internal audit operations, the efficient and targeted utilization of budgetary and extra-budgetary funds, and the prevention of corruption-related cases. In this regard, there is an increasing need to study and conduct scientific research focused on these issues.

Literature Review. Numerous definitions and approaches regarding the role, significance, and implementation directions of internal audit in the financial control of budgetary organizations have been proposed by both domestic and foreign scholars. Below are some views of economists concerning the essence and functions of internal audit in the public sector.

According to Kazakova, the primary functions of audit in the public sector include the development of management strategies aimed at ensuring the targeted use of funds, the assessment of the objectivity of budget fund allocation, the evaluation of the effectiveness of budget expenditure utilization, the conduct of audit inspections to verify the proper and purposeful use of budgetary resources, and the preparation of information and reports on audit findings for the relevant authorities[4].

According to Rogulenko, Ponomareva, and Bodyako, audit in the public sector is an activity aimed at providing all interested parties with independent and objective information regarding economic events. In

their view, audit serves as a universal instrument for economic development, capable of exerting an effective influence on processes of economic growth and development [5]. According to Sonin, internal audit is an independent and objective assurance and consulting activity directed toward improving the operations and performance of an organization [6].

According to the local economist scholar Ahmadjonov, internal audit is an independent activity aimed at helping business entities achieve their objectives through a systematic approach to risk management, control, and corporate governance. It provides objective assurance and consulting services focused on improving the efficiency of financial and economic activities, ensuring the accuracy of accounting information, and establishing an effective internal control system within the enterprise.

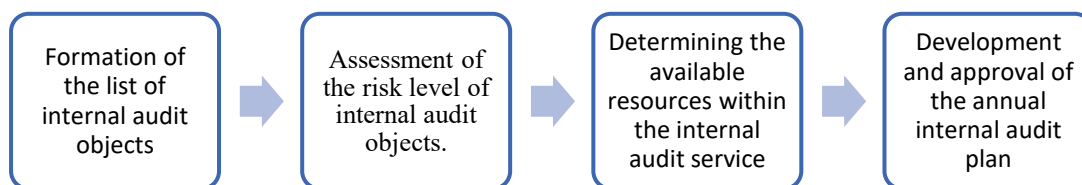
According to Sh. I. Ilxamov [8], “Internal audit is a mechanism that supervises an organization’s activities from various perspectives and monitors the regulation of the internal documents governing the activities of the management division. Furthermore, it provides limited assistance to representatives of specialized control bodies in the implementation of organizational management.”

S. U. Mehmonov defines internal audit in budgetary organizations as follows: “Internal audit is an activity aimed at ensuring compliance with legislative documents in the process of budget preparation and execution through inspection and monitoring, guaranteeing the reliability of financial reporting data, ensuring adherence to budgetary discipline, and promoting the targeted and rational use of funds” [9].

According to A. Ostonoqulov, issues such as further improving financial control in budget organizations regarding the targeted management and effective use of public funds, monitoring the expenditure of budget funds, and organizing internal audit services have been discussed.

In the above-mentioned scientific research works, as well as in the adopted codes, regulations, and orders, only certain aspects of organizing internal audit services for budgetary and extra-budgetary funds in budget organizations have mainly been covered. However, these studies do not sufficiently address ensuring the proper accounting of extra-budgetary funds, preventing the illegal spending and embezzlement of budget funds, monitoring the execution of contracts, avoiding unjustified accounts receivable and payable, and strengthening budget discipline, which also serve as important aspects of this topic.

Analysis and Discussion of Results. Planning in audit inspections is the initial stage of conducting an audit and is carried out in accordance with International Standards on Auditing. The Ministry of Preschool and School Education of the Republic of Uzbekistan and its regional departments develop a general audit plan for conducting internal audits in public education institutions, indicating the expected scope, schedules, and timelines of the audits. The annual internal audit plan is prepared by the internal audit service for one calendar year based on risk analysis, while taking into account available time and human resources. The annual internal audit plan specifies the list of internal audit objects where internal audit activities will be conducted, the timeframe of the audit activities, the period to be covered, and the responsible personnel [4]. The development of the annual internal audit plan is carried out in several stages (Figure 1).



Source. Developed by the author.

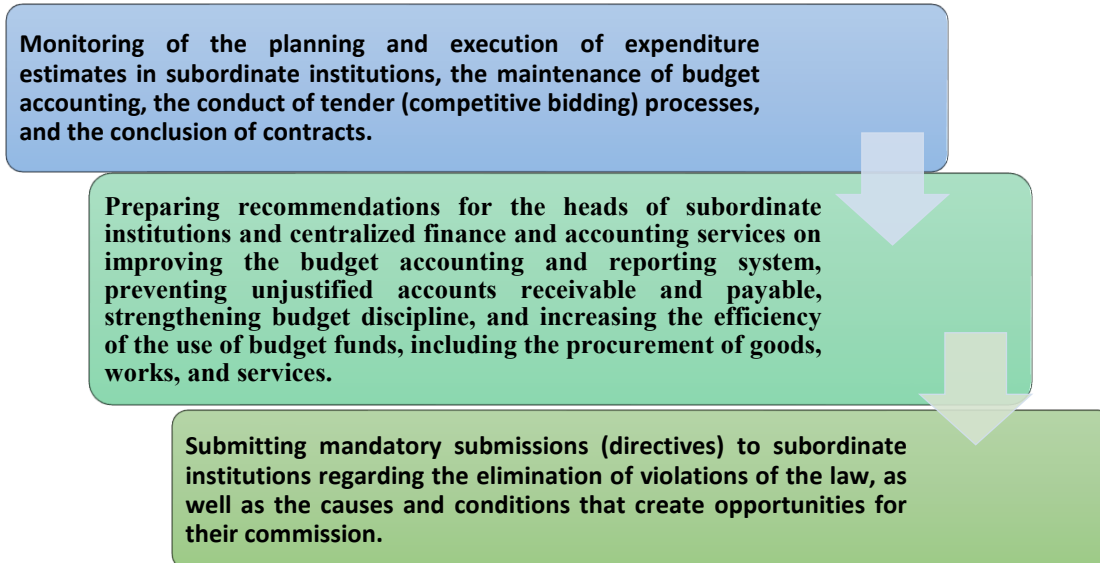
Figure 1. Stages of Developing the Annual Internal Audit Plan.

For effective planning of internal audit, higher-level organizations agree on organizational issues related to conducting audits with the management of educational institutions within the public education system. The quality and practical significance of internal audit activities primarily depend on how audit procedures are organized, how they are documented, and what decisions are made based on their results. The Laws of the Republic of Uzbekistan “On State Financial Control” and “On Accounting”, as well as presidential decrees and methodological documents of the Ministry of Economy and Finance, regulate this process.

However, in practice, these legal frameworks are not fully implemented: in some organizations, internal audit reports are prepared in a general and non-analytical form, identified shortcomings are not supported with evidence, and recommendations are often formulated in a general manner. Such an approach reduces the reliability of internal audit. The internal audit process mainly consists of the following stages: planning, conducting the audit, collecting evidence, preparing reports, and providing recommendations. At each stage, accuracy, objectivity, and a methodological approach are of great importance. In particular, the stage of formalizing audit results is the most responsible one, as it serves as the basis for evaluating the performance of the internal audit service. If the reports are accurate, well-grounded, and supported by reliable evidence, management can make effective and informed decisions based on these conclusions.

Based on the experience of developed countries, it can be stated that the rational and planned spending of budget funds, which constitute an important part of the national economy, shows that establishing internal audit services in budget organizations, including the internal audit of extra-budgetary funds, helps to reduce inconsistencies and non-targeted expenditures. In international practice, many studies are being conducted on improving and developing methodologies for conducting internal audit procedures and International Standards of Internal Auditing.

In these studies, the features of using international internal audit standards in the activities of internal audit services of economic entities, compliance with the established requirements, and the advantages of implementing them in practice in our republic have been examined. An analysis of the experience of economically developed countries and scientific achievements in this field shows that harmonizing regulatory documents governing internal audit activities in budget organizations with international requirements, improving the efficiency of the internal audit institution, forming an effective management system, and increasing the role of internal audit aimed at reducing business risks in attracting investors are important factors. Internal audit services ensure the prevention of unlawful spending and embezzlement of budget funds and their prevention through the following tasks (Figure 2).



Source. Prepared by the author.

Figure 2. Tasks of the Internal Audit Service in Budget Organizations.

Large-scale reforms being implemented in Uzbekistan require the improvement of the theoretical and legal foundations of internal audit, the development of mechanisms for organizing internal audit services in accordance with international standards, and the establishment of methodological bases for assessing internal audit effectiveness. In the activities of the internal audit service, the main focus is being directed toward preventive measures aimed at avoiding financial errors and shortcomings. Based on the tasks defined in Paragraph 4 of the Presidential Decree of the Republic of Uzbekistan No. PF-6013 dated June 29, 2020, “On Additional Measures to Improve the Anti-Corruption System in the Republic of Uzbekistan,” studies have been assigned regarding the implementation of internal audit activities in the preschool and school education sectors.

Accordingly, the effectiveness of internal audit activities carried out by the Ministries of Public Education and Preschool Education during 2021–2023 was studied, and the conducted activities were analyzed. Unfortunately, although measures are being implemented to prevent financial errors and shortcomings, the Internal Audit Service of the Ministry identified financial errors and deficiencies amounting to 80.3 billion soums in 2021, 87.4 billion soums in 2022 within educational institutions of the system, and 91.1 billion soums in 2023 (where approximately 30 percent of the total financial errors and shortcomings were related to misappropriation of funds).

Table1 Financial deficiencies identified as a result of internal audit activities in public education system institutions (in billion soums).

Indicators	2021 year	2022 year	2023 year
1.1. Financial errors and shortcomings identified (in billion soums)	80,3	87,4	91,1
a) Shortage (in billion soums)	732	894	912
b) Misappropriated funds (in billion soums)	11,6	12,3	12,7
v) Illegal expenditures (in billion soums)	48,6	53,2	56,7
g) Excessively planned payments (in billion soums)	4,8	5,7	6,2
d) Violations in the field of public procurement (in billion soums)	7,2	7,7	8,4

Source. Prepared by the author based on data from info@xtv.uz.

Based on the results of the internal audit activities conducted, disciplinary measures were imposed on 683 employees regarding the identified cases. Of these, 615 employees received reprimands, 36 employees were subjected to fines, and 32 employees were dismissed from their positions. According to the above analysis, although a number of positive measures have been implemented by the internal audit services within the former Ministry of Public Education system, it is evident that the prevention of financial violations has not been sufficiently effective. This is due to several factors, including the insufficient qualification of internal audit staff, the lack of clear mechanisms for monitoring their activities, as well as the limited public disclosure of their work on the websites of the ministry and regional departments, and inadequate oversight, which collectively reduce the effectiveness of preventing financial misconduct in the sector.

Based on the identified shortcomings and in order to prevent their recurrence in the future, the following measures are being implemented:

in accordance with the instructions of the Accounts Chamber, in cooperation with the Ministry of Finance, changes have been introduced to the “UzASBO” software system, including the addition of new modules and automatic control restrictions aimed at reducing the human factor and preventing deficiencies in planning.

in addition, a unified electronic management system for institutions within the public education system – the information system “erp.maktab.uz” – has been developed. This system is designed to include all indicators related to schools, their teachers, and students, and to integrate relevant data with other databases in order to minimize the human factor. Currently, work is underway to implement this software system.

the prevention of cases of illegal expenditure of budget funds in the organization of the Ministry's internal audit service activities is being strengthened. In particular, a separate "red list" of regions with a high risk of incurring unlawful expenditures is being formed, and measures are being taken to place the processes of allocating additional funds under continuous monitoring and supervision.

In addition, an electronic system has been developed to monitor public procurement carried out within the system.

The deep integration and globalization of the economy require the development and implementation of international standards of internal audit in global practice. As a result of the increasing role of internal audit in public administration, particularly in attracting foreign investment, its formation as a separate structure is being used as an important tool for risk reduction and comprehensive control. Large-scale reforms being implemented in Uzbekistan require the improvement of the theoretical and legal foundations of internal audit, the mechanisms for organizing internal audit services in accordance with international standards, as well as the development of methodological bases for assessing internal audit effectiveness. It is also appropriate to enhance the quality of internal auditors' work by improving their qualifications and implementing certification processes. The "Regulation on the Procedure for Certification of Internal Audit Service Employees" regulates the system of certifying internal auditors. According to this regulation, the rights and responsibilities of internal auditors are defined. In order to exercise these rights, it is first necessary to obtain an "internal auditor certificate."

Internal audit service in public education system institutions is an activity that, based on regulatory documents, monitors the completeness and legal compliance of internal documents and the reliability of prepared reports. It also uses modern information technologies to assess the effective use of budgetary and extra-budgetary funds, provides recommendations for improving these processes, and ensures greater transparency of the budget process.

Conclusion. At present, there are not sufficient scientific and practical achievements in the field of internal audit in our country. Internal audit in budgetary institutions is not given adequate attention. However, internal audit is gradually developing. Based on an analysis of legislation, it can be concluded that the regulatory and legal issues of forming internal audit and financial control have not yet been fully studied. In addition, it is necessary to identify solutions to the problems of establishing internal governance and to define a clear list of measures and practical actions to be implemented.

In order to ensure a more effective organization of the internal audit system in public education institutions and to achieve practical benefits from its outcomes, the following proposals have been developed.

First, it is necessary to adopt the Law of the Republic of Uzbekistan "On State Internal Audit," which would clearly define the functions and responsibilities of internal and external financial control within the budgetary process. Furthermore, national standards and methodologies for internal auditing should be aligned with international practices, particularly with standards such as INTOSAI and COSO. In addition, unified formats for audit reports and documentation requirements should be legally established through relevant regulatory and legal acts.

Second, internal audit services should be introduced on a mandatory basis in every institution within the public education system. It is also essential to establish internal audit units in institutions where such structures do not currently exist or are inactive, as well as to create organizational and legal frameworks that ensure the independence of internal audit services.

Third, audit processes and activities should be conducted through electronic platforms, and software solutions enabling digital documentation and rapid analysis should be introduced. In addition, systems for collecting and analyzing audit evidence in real time should be established.

Fourth, a regular monitoring system should be implemented to oversee the execution of audit recommendations, while ensuring the direct involvement of organizational management in this process.

Fifth, mandatory professional development courses should be introduced for auditors, and a national or internationally recognized certification system for internal auditors should be established.

Sixth, a system for evaluating the effectiveness of audit activities should be developed by regularly assessing performance outcomes on the basis of measurable criteria, such as the number of identified

deficiencies, the level of implementation of recommendations, financial effectiveness, and other relevant indicators.

Seventh, risk-based control measures should be developed by utilizing the results of internal audit activities.

The implementation of these proposals will contribute to transforming internal audit into a strong management instrument that ensures efficiency, transparency, and accountability in the activities of budgetary organizations. This will not only strengthen public trust in the management of state financial resources, but will also contribute to the comprehensive development and progress of the country.

In Uzbekistan, the methodology of internal auditing should be continuously reviewed and updated in order to align with international best practices, regulatory requirements, and technological advancements. This includes the application of advanced data analytics, risk assessment methods, and technological tools to enhance audit capabilities and provide timely and accurate insights into budgetary activities.

By incorporating risk-based approaches, auditors can identify high-risk areas, prioritize resources effectively, and focus on evaluating internal controls, compliance with budgetary regulations, and the accuracy of financial reporting. Such an approach enables auditors to proactively address potential irregularities, errors, and inefficiencies in budget expenditures, thereby contributing to improved financial management and more effective allocation of public funds.

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