WAYS TO IMPROVE INTERNAL AUDIT AND FINANCIAL CONTROL IN PUBLIC SECTOR ORGANIZATIONS

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Abstract: Financial control in public sector organizations has traditionally been viewed from the point of view of ensuring the discipline of cash flows, when overspending of budget items, or actual underperformance of AMD have been removed. However, at present, the beneficiaries of the public sector are also interested in the actual amount of spent financial resources. In this regard, there is a need to review the scope of internal audit objectives in public organizations. The article makes suggestions for improving financial internal control in public sector organizations, considering the sectorial characteristics of organizations.

Keywords: internal audit, public sector, financial control, internal audit standards, funding outcomes

JEL code: M40, M41

Research goals: identify ways to improve internal audit and financial control objectives in public sector organizations.

Research novelty: considering the process of active introduction of performance budgeting in the Republic of Armenia,
conceptual improvements of financial internal control were proposed.

**Introduction**

Organizations operating in the public sector pursue different objectives (see Figure 1). However, they operate with one common logic: to serve public interests and carry out non-commercial activities (Vershilo T.A., 2017). Therefore, the activities of these organizations are supported by public finances, which require special internal control approaches (Sattarova N.A., 2016). In particular, there is a problem not only of ensuring the discipline of the operations of the financial resources collected in public organizations, but also in terms of the purposeful spending of these resources and the evaluation of the intended end results (Gracheva Yu. A. 2000). Such functions are mainly performed within the framework of internal audit activity, which requires a special methodology of financial control in public organizations.

**Research results**

The process of financial control and internal audit in the public sector is distinguished by the fact that the operating organizations serve different public interests and segments of the population, and therefore pursue different end results when spending financial resources (Stepashin S.V., 2006). Thus, the activities of government agencies, NGOs, and mass media are generally wide-scale, as a rule, covering the general public. The activities of NGOs can be targeted to narrower objectives, and thereby serve the expectations formed in relatively narrow circles of the public. This
circumstance leads to the fact that various non-standard approaches to the organization of financial control are shown in different public organizations, based on the various end results expected from financing (Sitnik A.A, 2017).

At the same time, we consider it necessary to mention that the existing internal audit standards also do not consider the specifics of financial control of organizations operating in various public sectors (Standards of professional activity, 2011). Basically, internal audit standards come in three groups:

1) attribute standards,
2) operational standards (Performance Standards).
3) implementation standards.

The characterization standards consider the main characterizing features of parties that are not closely related to financial flows. Operational standards describe the essence of internal audit and provide qualitative standards for evaluating internal audit activity, but still do not clarify the aspects of control of financial relations formed in public sectors.

While descriptive and operational standards apply to internal auditing in general, implementation standards apply to specific types of auditing activities. The implementation standards are different for several types of auditing activities. In particular, this standard refers to the activities of providing audit assurances and consulting activities.
However, the applied standards have somewhat represented the approaches to evaluating the performance of the obligations undertaken by organizations, but still do not fully explain how to guide internal audit when performing financial control functions (Komyagin D.L. 2015).

In this regard, there is a demand to review the key functions of internal financial control in public sector organizations (Lagutin I.B., 2015), in which case, along with financial discipline, we suggest paying attention to the result created as a result of budget allocations (see Figure 2).

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Traditionally, internal auditing of public sector financial functions has sought to assess the discipline of actual realization of forecasted cash flows (Andreeva E. M., 2018).

However, when program budgeting came into operation in RA, a need was felt to define the relationship between budgetary financial expenses and the results expected from them. In this sense, the heads of public institutions become accountable for the use of budgetary resources not only for financial results, but also for non-financial results of services provided or purchased by organizations.

Naturally, when organizing an internal audit, we suggest setting key sector indicators that will characterize the end results expected from the expenditure of financial resources. The sectoral key

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indicators of internal control cannot be standardized and will refer to different directions of public activity. And by comparing the estimated and actual final results, the internal control can assess the effectiveness of spending financial resources in a specific sector organization and organize appropriate accountability (see Figure 2).

**Conclusion**

Therefore, based on the sectorial characteristics of public activity, the internal audit should first of all find out what measurable targets the organization sets for itself, whether these targets have sufficient funding to achieve strategic goals, and also interpret what results have been formed by funding.

In doing so, the financial management of the public sector should become presentable with new qualities of control accountability, providing all stakeholders with information about the actual consequences of spending financial resources, which will create an opportunity to assess the actual value of budgeted financial resources and to understand how much a specific public structure has satisfied the beneficiaries with its activities. expectations.

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Հանրային ոլորտում գործող կազմակերպությունները տարբեր նպատակաշարում են տեղիորեն: Սակայն ուրարտ գեր-դինում նույն գործիքային ոլորտային արագությամբ, որոնք հատուկ էլ պահեստական գործունեության գերակարգման սպասարկի, դասավորում միայն կազմակերպության տարածքում մակարդակ նպատակները: Միևնույնքով, այս կազմակերպությունների գործունեությունը սակայն հետևում է հանրային հիմնավորված համապատասխան պահանջներին: Սակայն տնտեսական գործունեության զարգացումը տարածված է մեկը մեկի հետ, որը կազմում է շատ տարածված տարածք տեսակների համար, որոնք սպասարկում են հանրային համագործակցությանը, ՀՀ Գանձակարգ աշխատանքի կազմակերպում, իսկ ընդամենը նպատակերպում տնտեսության զարգացման ազդեցությունները: Սակայն տեղիորեն տեղի են կատարվում նույնիսկ տնտեսական, հնարավորություն ու կարողություն մտնում է ուղին, որը կազմում է հանրային հատվածի կազմակերպությունների գործունեության զարգացման ազդեցությունները:

Submitted: 06.01.2024; Revised: 22.01.2024; Accepted: 26.01.2024