

# ISSUES OF ESTABLISHING INTERNAL AUDIT AND FINANCIAL CONTROL IN HEALTH CARE INSTITUTIONS

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**Annotation:** *This article highlights the economic implications of internal auditing and financial control and the organization of internal audits and financial controls in health care facilities. Conclusions and recommendations are given based on the results of the study.*

**Keywords:** *control, financial control, health care facilities, internal audit.*

## **Introduction**

Issues related to the development of production, development of science and technology, meeting social needs, and ensuring the security of the state and society are being addressed with the help of the state budget. In this way, the state will provide social protection to the poor and needy people, take measures to develop priority sectors of the economy. In all countries, medical services are included as a “social blessing”. These include services aimed at reducing the risk of illness, promoting and maintaining a healthy lifestyle, and improving the environment. One of the most important aspects of social wellbeing is the health and well-being of the population. As a well-being indicator, the contribution of health care per capita to GDP is also taken. This indicator varies considerably depending on the financial capacities of different countries.

One of the main objectives of economic and social reforms in our country is to promote human development, human capital development and civil society building. The United Nations' average Development Index (HDI) was adopted in 1990. Uzbekistan ranks high in the world on these development indices. Whereas human capital in the world consists of health and education, in the Uzbek model of development they are composed of such components as health care, sports, education, science, family, community.

One of the most important issues is the formation of human capital and the proper planning of social expenditures, control over its expenditure, and transparency and efficiency.

Therefore, it is necessary to improve transparency and public control over budgeting in educational and medical institutions, improve budgeting, accounting and reporting mechanisms, increase the responsibility of ministries and agencies to strengthen budget discipline in subordinate institutions, as well as modern information technology and internationally recognized funding. preventing and preventing violations of budget legislation by introducing control standards In order to radically revise the role of state financial control, August 21, 2017 the Decree of the President of the Republic of Uzbekistan “On further improvement of the mechanism of financing educational and medical institutions and the system of state financial control” was adopted.

The resolution will increase the transparency of budget process in educational and medical institutions, strengthen public control over budget financing, improve accounting and reporting mechanisms, increase the responsibility of ministries and agencies to strengthen budget discipline in subordinated institutions, as well as modern information technologies and internationally recognized financial control standards. prevention and prevention of budget violations The Ministry of Finance, Accounts Chamber, Ministry of Public Education,

Ministry of Health and Ministry of Higher and Secondary Special Education of the Republic of Uzbekistan approved the proposals and set up the following services on September 1, 2017: made:

simultaneously liquidation of accounting services in subordinated institutions and centralized financial and accounting services in district (city) departments of public education and medical associations;

Ministry of Public Education, Ministry of Health, Ministry of Higher and Secondary Special Education, Ministry of Higher and Secondary Special Education, Center for Secondary Specialized and Vocational Education, and Extra-Budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan - financial control services;

The Ministry of Public Education, Ministry of Health, Department of Secondary Special and Vocational Education, Regional Departments of Public Education, Healthcare, Secondary Special and Vocational Education, as well as the Main Departments of Public Education, Healthcare and Secondary Special Education of Tashkent city. Internal Audit and Financial Control, consisting of 1 to 4 staff units in the Vocational Education Administration.

To date, the methodological support of internal audit and financial control services established by the requirements of this resolution is unsatisfactory. In our opinion, it is advisable to organize the audit based on the specifics of the internal audit and the financial control, in their essence. In particular, today, this service is subject to internal audits or financial controls in health facilities. Because these concepts are clearly distinguished from each other, we can see from our studies that only practice is used as an internal audit. At the same time, no single method of internal audit and financial control in budget organizations, including health care facilities, has been developed. This raises the need for research on this issue and to make specific recommendations and recommendations.

## **Literature Review**

We conducted a study on the concepts of internal audit and financial control in order to conduct a methodological study of the organization of internal audit and financial control in health care facilities.

Article 3 of the Budget Code of the Republic of Uzbekistan defines state financial control as "the study and comparison of accounting, financial, statistical, banking and other documentation of financial control objects with the purpose of control over the execution of budget legislation".[1]

Financial control is a non-state body that has no special authority to determine the legitimacy and reliability of financial operations and, in some cases, financial transactions, to evaluate and report the economic effectiveness of financial and economic activities. Increasing new reserves, increasing revenues to the budget, and increasing government retention (Gorbunovoy, 1996). [2]

According to Melnik (2003), financial control is the examination of financial, monetary, currency operations by specially authorized agencies for compliance with legal requirements, rules and regulations set by the state and the proprietors. Accordingly, the state financial control is the financial control carried out on behalf of the state bodies or the state to ensure the single state financial policy and financial interests of the state and its citizens.[3]

According to Maloletko (2006), financial control is a set of measures and operations on the use of certain forms and methods to check financial and related issues in the activities of economic entities. [4]

According to Yalbulganova (2014), financial control is carried out exclusively in a particular area of public life, that is, only in the field of the state budget execution.[5]

According to Gracheva (2013), financial control is regulated by legal norms of state, city, state bodies and organizations, other business entities to check the observance of legality by all entities in the process of carrying out financial activities for socially significant goals.

Gracheva believes that financial control can be exercised not only by government agencies, but also by city and community organizations. However, the object of financial control, in his opinion, is the verification of the legality of financial activity only.[6]

According to Krokhina (2011), it is primarily intended to protect and secure the rights of state and municipal governments. Financial control is a way of creating incentives for the state or local authorities to obtain information on the implementation of regulatory legal acts. In other words, Krokhina links financial control with the activities of state and city authorities, which are part of the public finance policy.[7]

From the foregoing we can state that state financial control is aimed at the implementation of public financial policy and creation of conditions for financial stability. This means, first of all, the development, discussion, approval and execution of budgets and extra-budgetary funds of all levels, control over the financial activities of enterprises and organizations, banks and financial corporations. If determined (defined) by national economic interests, public financial controllers have the right to conduct audits and inspections both in the public sector and in the private and corporate businesses. However, financial control by the state in the non-state sector of the economy is only feasible and lawful in the area of fulfillment of monetary obligations to the state, including taxes and other obligatory payments, budget subsidies and loans allocated to them, as well as established (fixed) money by the government. compliance with the rules of accounting, bookkeeping and accounting.

We also pay our attention to the current internal audit and financial control services. Because the name of the "service" is internal audit and financial control, it is appropriate to ask whether an internal audit is being conducted or is under financial control.

Therefore, it is worth noting the internal audit service. The advantage of this service is the control over accounting and tax and budget regulations in the activities of the organization, and the results of these activities will certainly have a positive impact on any activity, including health care providers.

We will present the results of our internal audit to better understand the internal audit and financial control services.

“Internal audit - control and evaluation of the work of the executive body and structural subdivisions of the enterprise by checking and monitoring compliance with the legislation of the Republic of Uzbekistan, the completeness and reliability of the information reflected in accounting and financial reporting. implementation of the established rules and principles of business operations, safety of assets and implementation of corporate management principles. Understanding the activities of the business unit (internal audit service)”. [8]

According to Kovaleva and Konstantinov (1990), internal audit is an integral part of the corporate governance system to assess the effectiveness of the management system. Internal audits are an integral part of the enterprise's internal control and are conducted on a regular basis.[9]

Dodge (1992) acknowledges that internal audit is an integral part of internal control; by the decision of management bodies of the company for the purpose of control and analysis of economic activities.[10]

According to Robertson (1993): Internal Audit is an independent review and evaluation activity of an organization. Although the purpose of internal auditing may be provided to the organization by the board of directors, financial director or other managers, the purpose is to provide the organization with only a limited number of its managers or all stakeholders. [11]

Internal Audit - A number of auditing services provided by the Company's management, provided by an independent entity, such as: economic diagnostics, financial strategy development, marketing research, management consulting, etc. (Sukhareva, 1994). [12]

Adams (1995) commented on this: "Internal audit is an element of internal control system designed by the administration to audit, evaluate and report accounting and other components of economic management".[13]

Arens and Lobbeck (1995): "Internal Audit - Provides valuable information to the administration to make decisions about the effectiveness of its business".[14]

Voropaev (1996) explains that "internal audit is a way to independently evaluate the effectiveness of the organization and its management".[15]

According to Skobara (1998): Internal Audit is an internal control exercised by "internal audit services (agencies)".[16]

Internal audits are carried out by bodies overseen by the organization's internal control documents and by special oversight bodies of various aspects of the organization (Burtsev, 2000). [17]

Suites, Ahmetbekov, and Dubrovina: (2000) In accordance with an internal audit, an organization (enterprise) should be understood as an independent activity to verify its work and evaluate its interests.[18]

Alborov (2001) states in his research that "internal audit is in fact an organization, in other words an internal audit is a constant control of the effectiveness of managing an organization and its subdivisions.[19]

Internal audits of the Company's own audit companies by means of external auditing techniques (Vasileva and Kamfer, 2001). [20]

Internal audits of companies are conducted by their own specialists using external auditing techniques (Vasileva and Kamfer, 2001). [21]

Terekov (2003) internal audit is part of the internal control that must be sustained.[22]

M.V. Melnik, A.S. Pantelev, A.L. Zvezdin (2003) An integral part of the economic management system including controls, accounting systems and control procedures.[23]

Andreev V.D. (2003) Internal Audit "... is a form of internal control that is widely understood as a function of management ..." [24]

Internal Audit is an activity organized for the benefit of the governing bodies of an economic entity and regulated by internal documents to verify and evaluate the performance of the individual components of the internal control system (Melnik, Pantelev, Zvezdin, 2003). [25]

Simonenko (2004) argues that internal audit is a system of control over compliance with established procedures of accounting and reliability, which is regulated by an economic entity in the interests of managing entities and property owners.

Internal audit is part of the overall management and control system of the organization's production and business (Naletova and Slobodchikova, 2005). [26]

Internal Audit is the control of internal governing bodies of the organization and the governing bodies of the organization (members of the general meeting of business partnerships or companies, members of the supervisory board, the board, the board), the body that controls various aspects of the organization (Ripol. Saragosi, 2006). [27]

Internal Audit is an independent activity in the organization to check and evaluate its activities for the benefit of managers. The goal is to help employees effectively perform their duties (Podolsky, 2008). [28]

Bychkova (2009) Internal audit is an element of internal control system organized by the company management to analyze accounting and other management information.[29]

According to Alborov (2010), the internal control tool is directly subordinated to the management of the business entity by the special services of the organization or its employees (specialists). [30]

Paramonova (2012), Internal Audit Inspection Forms of Corporate Audit Forms, which provide recommendations to the management of the organization on the content of financial and economic activity, informing of any significant problems and failures and developing measures to improve the efficiency of the enterprise is possible.[31]

“Internal auditors evaluate the business activities of an economic entity, firm, entity, etc. as an independent expert. They will present the results of the analysis and evaluation, information on the activities of the undertaking that they are investigating, and give their recommendations and advice to the parent company that is managing company”. [32]

Ibragimov and Sugirbaev (2010) recognized internal audit in budget organizations as follows: “Internal audit is an objective activity aimed at effective implementation of internal control, aimed at presenting reports and recommendations on improving efficiency and effectiveness of budgetary organizations”. [33]

Mehmanov (2018) described the internal audit in budget organizations as follows: “Internal audit - control of the organization and execution of estimates by the organization by checking and monitoring compliance with the legislation, ensuring the reliability of financial reporting data, and compliance with budgetary discipline. activities aimed at targeted and reasonable spending of funds”. [34]

### Analysis and discussion of results

The purpose of this financial control is clear if we aim to increase the efficiency of the health care system in our country. It is clear that this quality is linked to the proper organization of activities such as staff competence, technological excellence, the constant introduction of innovations as well as financial control. In the structure of state budget expenditures in the country, the amount of expenditures on health care is constantly included in the expenditure part of the State Budget.

**Table – 1: Total costs and social sector and population Expenditures on social support (billions of soums) [35]**

Indicators	Years		
	2016	2017	2018
Social sphere and social support of the population	22 766,0	27 009,3	34 664,0
Education	13 831,7	15 979,6	19 504,3
Health	5 811,6	7 330,0	9 562,0
Culture and sport	460,6	750,2	1 165,4
Science	238,2	275,5	389,3
Social security	161,1	435,3	714,0
Social benefits, financial assistance and compensation	2 043,2	2 238,4	3 150,8
<b>Total cost</b>	<b>40 911,3</b>	<b>49 343,7</b>	<b>62 170,0</b>

As can be seen from Table 1, expenditures on social sphere and social support allocated from the state budget have a steady tendency to increase from 2016 to 2018. The share of health care expenditure has also increased steadily. In the structure of expenditures on the social sphere and social support, the largest share of post-education expenditures belongs to healthcare, from 5,811.6 billion soums in 2016 to 9 562.0 billion sums in 2018, ie 14.2% of

total expenditures. We can see an increase of 15.4%. This will increase the role of financial control and internal audit in the health care system.

The purpose of our research is to make recommendations and recommendations on how to provide financial oversight and internal audits in the healthcare system.

The Resolution of the President of the Republic of Uzbekistan dated August 21, 2017 "On further improvement of the mechanism of financing of educational and medical institutions and the system of state financial control" defines the main objectives of internal audit and financial control services:

a) centralized financial and accounting services - centralized ordering and execution of expenditure estimates of subordinate organizations, calculation and payment of wages, procurement of goods, works and services, accounting of budget and extra-budgetary funds, as well as goods (works, services); monitoring of revenues from realization of services);

б) Provision and prevention of services of republican and regional internal audit and financial control - prevention of illegal use and embezzlement of budget funds by:

planning and execution of expenditure estimates in subordinate institutions, budget accounting, monitoring of tender (competitive) bidding and contracting;

improvement of the system of budgetary accounting and reporting to the heads of subordinated institutions and centralized financial and accounting services, prevention of unjustified accounts receivable and payables, strengthening of budget discipline, use of budgetary funds, including increase of efficiency of procurement of goods, works and services, as well as centralized financial accounting. preparation of recommendations on strengthening the staff of the services;

tasks such as submitting mandatory submissions to subordinate agencies to eliminate violations of the law, the causes and conditions that may lead to such violations.

Taking into account these tasks, the tasks set out in the essence are widely presented. That is, the assigned tasks do not just cover internal audit or financial control. At the same time, we have seen from the literature review that the concepts of internal and financial control differ.

Therefore, in our opinion, when establishing an internal audit and financial control service:

- separate organization of internal audit service;
- It is advisable to create separate financial control services.

It is also desirable for the Internal Audit Service to assign a separate staff unit to a separate financial control service, depending on the service's performance. At the same time, specific tasks for the internal audit service should be assigned to the financial control service.

Today, the priority of the reforms being implemented in the country is to improve the welfare of the population, for example, the ongoing wide-ranging reforms undertaken by our government. In particular, the Decree of the President of the Republic of Uzbekistan "On Further Improvement of the Mechanism of Financing of Educational and Medical Institutions and the System of State Financial Control" clearly outlines the goals and objectives.

The resolution will increase the transparency of budget process in educational and medical institutions, strengthen public control over budget financing, improve accounting and reporting mechanisms, increase the responsibility of ministries and agencies to strengthen budget discipline in subordinated institutions, as well as modern information technologies and internationally recognized financial control standards. prevention and prevention of budget violations The Ministry of Finance, Accounts Chamber, Ministry of Public Education, Ministry of Health and Ministry of Higher and Secondary Special Education of the Republic of Uzbekistan approved the proposals and set up the following services on September 1, 2017: made:

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Today, the Main Department of Control and Audit of the Ministry of Finance of the Republic of Uzbekistan is reorganized into the Main Department of State Financial Control of the Ministry of Finance of the Republic of Uzbekistan with additional functions:

constant monitoring of the financial activity of budget organizations through special automated software for budget management and budget accounting in budget organizations;

carrying out systematic preventive work with budget organizations on observance of budget legislation;

in-depth analysis and elimination of violations of budget legislation and other violations of budgetary legislation development of specific measures;

and increasing the effectiveness of inspections of budget organizations, with the use of remote control, reducing ineffective audits through the use of modern information technologies and databases to identify objects and targets.

There were many reasons for this decision, because it is not an exaggeration to say that a new era of economic reforms has already begun in our country. The Strategy of Action for the years 2017-2021 adopted by the government in our country sets many tasks that require improvement of legislation in all areas of the country.

Indeed, in recent years, there have been shortcomings in the establishment of financial control and internal audit services. In other words, it has led to ineffective use and misappropriation of public funds. A number of new regulations are being adopted to prevent such negative effects. As mentioned above, the main goal of all these measures is to improve the socio-economic status of the population.

Based on the foregoing, the main objective of improving the financial control and internal audit services in the healthcare system of the Republic of Uzbekistan is the establishment of control over expenditures. Of course, constant oversight restricts various lootings and overheads in our country and promotes sustainable financial and economic activities.

### **Conclusions and Suggestions**

1. There is still no set of procedures for financial control and internal audit in health care facilities. In our opinion, the absence of such procedures indicates that the financial controls and internal audit in the system are not regulated.

2. In order to increase the efficiency of the organization of the state financial control and internal audit in the system it is necessary to separate the “financial control” and the “internal audit”.

3. It is desirable for the Supervisory Board to make a decision to hire the head of the Internal Audit Service in the health care system rather than the Ministry of Health. Because the appointment of the head of the internal audit department by the ministry does not ensure the independence of the head of the internal audit service.

4. It is desirable to establish a ratio of financial control and internal audit personnel in the tax system at a rate of 1/3, depending on the size of their work.

5. It should be noted that the internal audit service in the health care system can provide its conclusions on both public and non-governmental health services.

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