
Internal audit as an important tool for the functioning of the internal control system

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Received: March 6, 2023 | **Revised:** March 22, 2023 | **Accepted:** March 31, 2023

DOI: 10.5281/zenodo.7769106

Abstract

This article summarizes the arguments and counterarguments within the scientific debate on the issue of researching the effectiveness of the state internal financial control system. The main goal of the conducted research is to highlight the main aspects of the implementation of internal audit activities in the system of managers of budget funds of the Ministry of Defense of Ukraine to develop further recommendations for improving the effectiveness of this activity. Managers at all levels regarding the expenditure of budget funds must be accountable for their own activities - not only regarding the policy of implementation, but also regarding the policy of financial management and control. Each manager is responsible for the formation and implementation of proper financial management and control systems regarding performance of assigned tasks, definition of goals, activity planning, budgeting, accounting, control, reporting, documentation, and monitoring. The systematization of literary sources and approaches to solving the problems of improving the system of state internal financial control proved the need for its constant improvement, considering the rapid changes in the economic mechanisms of the state and state administration. The object of the study is the system of state internal financial control of Ukraine. The article presents the results of a historical analysis of the functioning of the state internal financial control system. The results of the conducted research can be useful for internal auditors, scientists and managers who carry out their activities in the field of internal control, risk management, and internal audit.

Key words: state financial control, internal control system, internal audit.

Introduction

Support of heads of institutions through an objective assessment of the effectiveness of existing financial management and control systems is provided through the internal audit function. The role of the internal audit is the assessment of the financial management and control system, organized by the manager, the identification of imperfections/deviations of the relevant system, the provision of recommendations for its improvement (Manual on the organization, 2023).

In accordance with the EU requirements for the management of public finances contained in the “Acquis communautaire”, as well as the basic documents of the International Organization of Supreme Audit Institutions of Public Finance (INTOSAI), the assessment of the functioning of the internal control system is carried out by an internal audit (Chechulina, O.V., 2012).

The Institute of Internal Auditors (IIA) – an international professional association defines internal audit as a function of independent assessment, which is created within the organization to analyze and evaluate its activities. The purpose of internal audit is to help members of the organization in the effective performance of their duties. To this end, internal audit provides them with analysis data, evaluations, recommendations, advice, and information regarding the activities being audited. The purpose of the audit also includes the task of implementing effective control with the incurring of justified costs (Robertson, J.C., 2009).

At the same time, internal auditors do not participate in the development and implementation of internal control procedures, do not directly influence the development and implementation of internal control policies and procedures (Lytvynenko E.O., 2012).

The purpose of the article is to highlight the main aspects of the implementation of internal audit activities in the system of managers of budget funds of the Ministry of Defense of Ukraine.

Material and Methods

To achieve the goal of the research, it is suggested to decompose it and consider separately:

1) the legal basis for the functioning of internal audit in Ukraine and the inventory of tasks within the framework of internal audit activities;

2) organization of internal audit in the Ministry of Defense of Ukraine;

During the study, the following methods were used: analysis, synthesis.

Results and Discussion

1. The legal basis for the functioning of internal audit in Ukraine is regulated by the provisions of the Budget Code of Ukraine.

Internal audit is an activity aimed at improving the management system, internal control, preventing the facts of illegal, inefficient, and ineffective use of budget funds, the occurrence of errors or other deficiencies in the activities of the administrator of budget funds and enterprises, institutions and organizations belonging to the sphere of his management, and which provides for the provision of independent conclusions and recommendations. To carry out an internal audit, the manager of budget funds in the person of the manager forms an independent structural unit of internal audit, which is subordinate and accountable directly to this manager (Budget Code of Ukraine).

In order to implement the legal principles of the functioning of internal audit and ensure the activity of structural units of internal audit, the Government adopted the resolution “Some issues of implementation of internal audit and formation of units of internal audit” dated September 28, 2011, No. 1001.

The internal audit units are assigned the following assessment tasks:

- effectiveness of the functioning of the internal control system;
- the degree of fulfillment and achievement of goals defined in strategic and annual plans;
- effectiveness of planning and implementation of budget programs and the results of their implementation, management of budget funds;
- the quality of the provision of administrative services and the performance of control and supervisory functions, tasks defined by legislative acts;
- use and preservation of assets;
- reliability, efficiency and effectiveness of information systems and technologies;
- management of state property;
- correctness of accounting and reliability of financial and budget reporting;
- risks that negatively affect the performance of functions and tasks of the state body, its territorial bodies, enterprises, institutions, and organizations belonging to the sphere of its management.

In accordance with the tasks assigned to it, the unit evaluates:

- effectiveness of the functioning of the internal control system;
- the degree of fulfillment and achievement of goals defined in strategic and annual plans;
- effectiveness of planning and implementation of budget programs and the results of their implementation, management of budget funds;
- the quality of the provision of administrative services and the performance of control and supervisory functions, tasks defined by legislative acts;
- use and preservation of assets;
- reliability, efficiency and effectiveness of information systems and technologies;
- management of state property;

- correctness of accounting and reliability of financial and budget reporting;
- risks that negatively affect the performance of functions and tasks of the state body, its territorial bodies, enterprises, institutions, and organizations belonging to the sphere of its management.

Also, as part of internal audit activities, the unit performs the following tasks:

1) plans internal audit activities, organizes, and conducts internal audits, documents their results, prepares audit reports, conclusions, and recommendations, as well as monitors compliance with recommendations;

2) interacts with other structural subdivisions of the state body, its territorial body and budget institution, other state bodies, enterprises, their associations, institutions, and organizations on issues of internal audit;

3) submits audit reports and recommendations to the head of the state body, its territorial body and budgetary institution for the adoption of relevant management decisions;

4) reports on performance results in accordance with the requirements of internal audit standards;

5) performs other functions in accordance with his competence.

2. The need for an internal audit in the system of the Ministry of Defense of Ukraine is due to the need for the legality and expediency of using financial, material and labor resources and increasing the efficiency of spending defense funds.

Internal audit activities should contribute to the confidence of the head of the institution and organization in the reliability of information regarding the effective and rational formation and use of budget allocations. Such guarantees should be provided by the internal audit as a tool for prompt response to the occurrence or threat of illegal, inefficient, and effective formation and use of budget funds.

According to the Declaration of the Internal Audit of the Ministry of Defense of Ukraine, the purpose of the internal audit of the Ministry of Defense of Ukraine is to assist the Minister in achieving the set goals with the help of a systematic and consistent approach to conducting internal audits by evaluating the activities of the Ministry of Defense of Ukraine, the General Staff of the Armed Forces of Ukraine, the structural units of their apparatuses and other controlled entities that belong to the sphere of management of the above-mentioned bodies for the purpose of improving the system of financial and material resources management, internal control and risk management; improvement of policies and procedures that ensure the prevention of illegal, inefficient and ineffective use of financial, material and other resources, the occurrence of errors and other deficiencies in activity; strengthening of accountability and improvement of activity efficiency; the development of integrity through the gradual development of a culture of ethical behavior based on the observance of ethical values (Declaration of the internal audit, 2023).

Conducting an internal audit in the system of the Ministry of Defense of Ukraine is governed by the provisions of the Procedure for conducting an internal audit in the system of the Ministry of Defense of Ukraine, approved by the order of the Ministry of Defense of Ukraine dated 15.12.2020 No. 475.

The performance of internal audit tasks in the system of the Ministry of Defense of Ukraine is entrusted to the Internal Audit Service of the Ministry of Defense of Ukraine (hereinafter – IAS), which consists of the Department of Internal Audit of the Ministry of Defense of Ukraine and territorial divisions of internal audit subordinate to it.

The authority of the IAS is to carry out internal audits, provide recommendations, proposals and consultations and exchange knowledge to achieve the goals of the Ministry of Defense of Ukraine, the Armed Forces of Ukraine; improvement of the management system, internal control and risk management; development of integrity, accountability and efficiency, support of ethical values.

Internal audit of military units (hereinafter - Institutions) includes activities aimed at improving the management system, internal control, prevention of illegal, inefficient and ineffective use of budget funds in the system of the Ministry of Defense of Ukraine, the occurrence of errors or other deficiencies in the activities of managers of budget funds and enterprises, institutions and

organizations belonging to the sphere of management of the defense department, and which provides for the provision of independent conclusions and recommendations.

Internal audit activities should be carried out using systematic, consistent and risk-oriented approaches to the assessment of the object of internal audit and contribute to the improvement of the management system (with the exception of operational (combat) management of the Armed Forces), internal control and risk management through the provision of independent and positive conclusions and recommendations.

Having determined the place of internal audit in the system of the Ministry of Defense of Ukraine, we believe that the main tasks of the IAS are to provide the heads of institutions with objective and independent conclusions and recommendations regarding: the functioning of the internal control system and its improvement; improvement of the management system; prevention of illegal, inefficient and ineffective use of budget funds and other assets; prevention of errors or other shortcomings in the activities of the state body, its territorial bodies, enterprises, institutions and organizations belonging to the sphere of its management.

The purpose of the audit is to assess the activities of the Institution's officials regarding compliance with legislative and regulatory acts on the following issues: legality and reliability of financial and budget reporting, correctness of accounting; preservation of assets and information, including preservation and use of state (military) property; resource provision, to investigate its condition and compliance of management decisions with legislation; construction, use of funds and land, conformity of management decisions with legislation; public procurement; educational activities; scientific research and research and development activities; introduction of the internal control system; payments of a social nature.

The audit objects are: management decisions of the institution's management, financial and planning documents and financial reporting, accounting registers, primary and other documents related to the financial and economic activity of the institution; documents related to the operation process and the state of resource provision at all its stages; documents related to the process of using funds and land at all stages; documents related to procurement procedures at all stages of their implementation; documents related to the main activity

One of the main tasks of the IAS is to assess the functioning of the internal control system in the Institution, to provide recommendations for its improvement without directly implementing measures for the organization of internal control, risk management, and making managerial decisions about the management of financial and other resources.

In IAS, the evaluation of the effectiveness of the internal control system in the Institution is a mandatory component of the internal audit program.

Conclusions

Based on the results of the audit, objective conclusions and recommendations are made to the management of the Institution. In addition, proposals are formed based on detected violations and inconsistencies of a financial nature, indicating the responsible persons and deadlines for implementation (elimination).

That is, internal audit plays an important role in: compliance by officials of the Institutions with laws, other normative legal acts, regulations, rules and procedures established by the Ministry of Defense and the Armed Forces; ensuring the performance of specified tasks in the most efficient, effective and economical way; ensuring optimal use of resources and preserving them from loss, damage, illegal or inefficient use; improvement of processes and capacity development, which in general contributes to the effective functioning of the Institution's internal control system.

Prospects for further research can be seen in the analysis of practical performance indicators of internal audit activities.

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