PROBLEMS OF STATE FINANCIAL AND ECONOMIC CONTROL AND FUNCTIONING OF THE PUBLIC SECTOR IN GEORGIA

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Summary. The construction of a democratic state is unthinkable without proper and effective management and state financial and economic control. “Goverance” and “good governance” can be introduced through effective, coordinated and consistent decision-making that ensures transparency, accountability, cooperation and professionalism in the state. This is impossible without the presence of the state internal financial control mechanism. In order to ensure the financial and economic control of the state, the need for the existence of an internal audit structure, the stages of formation and development at the legislative level, the types of internal audit, the purpose and tasks at the initial stage of the introduction of state internal financial control, because the proper functioning of the internal audit system is an urgent challenge for our country, is discussed in the paper. In the part of fulfilling the obligations with the European Union, but also as a tool that ensures the development of the democratic state and the effective activity of the public sector.

Keywords: state audit; financial and economic control; internal audit; risk management; financial management.

Introduction

Often, the word audit is associated with control and evokes feelings of fear, frustration and wasted time. At any given time, most people in the public and private sectors believe that having someone scrutinize their work is a cause for concern and worry, but it is not. This is especially true in the field of internal audit of financial and economic control, which helps us to avoid potential errors and to make the work process smoother and more valuable.

The concept of state internal financial control was developed in Georgia back...
in the 90s of the last century, when it began to strive towards the European Union. The concept was aimed at the existence of such a system that would ensure the most economical and efficient management of public resources. In Georgia, the preparatory work for the development of the internal state financial control system started in 2008 and was divided into 4 stages: preparatory (2008-2009 years); Legislative (2010 - 2011 years); strengthening of theoretical knowledge (2012); Implementation of practical experience (2013).

Internal audit, as a department within the company, is responsible for an impartial, independent review of the state's financial institutions, business organizations and processes. According to the Law of Georgia, "On State Internal Financial Control", "Internal audit is an independent, objective, assurance and consulting activity aimed at improving the institution's activities, ensuring the achievement of its goals and perfect performance of its tasks, which evaluates and improves risk with a systematized, disciplined and organized approach the effectiveness of the management, control and governance process."

The aim of the paper is to review the creation and functioning of internal audit units, based on the analysis, to generalize how internal audit units implement the financial management and control system in the organization. The main tasks of the work are:

➢ Characterization of each component of state internal financial control, including the essence, types and forms of internal audit;
➢ Study and analysis of the activities of the State Internal Control Department (Harmonization Center) of the Ministry of Finance;
➢ Comparative analysis of the opinions of internal auditors in the public sector of Georgia;

Review and discussion

The formation and development of internal audit structural units of financial and economic control in Georgia was determined in accordance with the recommendations of the 2014 Association Agreement between Georgia and the European Union. The internal audit units of the state's financial and economic control are represented by the state and local self-government management bodies, where internal audit structures have been implemented. The role of the internal audit department is to provide the organization's senior management and governing bodies with an objective source of information regarding: risk management, control environment, control measures, information and communication, monitoring and evaluation, and compliance with applicable laws and regulations.

One of the roles of the financial and economic control internal audit is to continuously communicate and collaborate with the organization's management to systematically review control activities on critical systems and processes, identify risks in the internal control environment and provide recommendations to prevent harm to stakeholders. Internal audit helps the organization to achieve the set goals, using the timely identification of risks and the effectiveness of management processes.

Types of internal audits include: compliance audits, operational audits, financial audits and information technology audits, which we can see on chart N1.
A compliance audit is an examination of the compliance and conformity of a particular area, process or system with the policies, plans, procedures, laws, regulations, contracts or other requirements that govern the conduct of the area, process or system under audit. An operational audit is a review primarily focused on internal controls of key processes, procedures, or systems. The main objective is to improve productivity as well as efficiency and effectiveness of operations. A financial audit is an objective examination and evaluation of an organization’s financial statements to ensure that the financial records are a fair and accurate representation of the transactions they represent. An information technology audit is an examination of IT applications, operating systems, databases or infrastructure management controls. Reviews can be focused exclusively on IT or performed in conjunction with compliance, operational or financial audits.

The financial and economic control internal audit activity implements the proper functioning of financial structures with a systematic approach to control in order to improve risk management and the efficiency of accounting processes. For this, internal audit is divided into 5 main standards: purpose, authority and responsibility; independence and objectivity; knowledge and proper professional care; quality assurance; improvement program.

Currently, about 120 internal audit entities and 450 public auditors are operating in the public sector of Georgia, one of the priority directions of the Harmonization Center is to promote the implementation of the system for improving the quality of internal audit activities in the public sector. Taking into account that the internal audit quality improvement system is currently being implemented in internal audit entities, the State Internal Control Department (harmonization center) as a result of negotiations with international partners, was able to obtain significant support from international organizations and experts in this direction.
The dynamics of existing internal audit subjects by years and number in the public sector are given on charts N 2-3

**Chart N2**

Dynamics of internal audit subjects of financial and economic control by years

In 2021, a total of 487 audits were planned, of which 94% were completed. Compliance audits accounted for the largest share (46%) of various audits conducted in 2022 and planned for 2023 in both years. The second place is the combined audit, and then, according to the quantities, the financial audit. IT audits remain a challenge, with a total of 1 IT audit conducted in 2022 and 4 IT audits planned for 2023.

Internal audit activities include the identification of all local management and control systems and the risks associated with them, therefore the risk assessment carried out by the internal audit entity serves to plan internal audit activities in such a way as to bring maximum benefit to the institution. Based on this, the purpose of risk assessment by the internal audit subject is to determine the risk level of a specific system, process or unit, for this it is possible to use cumulative or relative...
(comparative) risk assessment methods.

Internal audit in the organization carries out an assessment of processes, any activity and based on this assessment develops recommendations that help the head of the institution to achieve the goals of the management process and promote the formation of appropriate ethics and values in the public institution. Internal audit activities involve identifying risks and assessing vulnerability to risks, contributing to effective risk management and improving control systems to maintain effective control, studying the effectiveness and efficiency of control systems and promoting their continuous development.

**Conclusion and recommendations:**

The internal audit of financial and economic control, as one of the components of internal control in the monitoring and evaluation part, provides independent, objective and reasonable assurance to the management regarding the proper functioning of the internal control system of the institution. The degree of responsibility of internal audit in relation to financial management and control depends on the stage of development of the said system. Internal audit does not participate in the establishment of the financial management and control system. It evaluates the implementation progress of the financial management and control system in accordance with the defined stages. Today, the internal audit unit functions throughout Georgia in the structures of all ministries and autonomous units, as well as in the governance structures of all local government units, although it can be said that, despite great efforts and fifteen years of efforts, the implementation of the state internal financial control system in the public sector of Georgia turned out to be very contradictory, complex and difficult. During the work on the paper, the activities of a number of internal audit services were studied, but there are still no significant results of effective management of resources.

There are a number of problems to be solved in the public sector, such as the lack of action plans in budgetary organizations, low awareness of state internal financial control remains a problem, there are no risk identification, detection and assessment methodologies in organizations, in addition, there are functioning internal audit services whose activities do not comply with international standards. There is no sharp separation of rights and duties in the public sector.

All of the above factors affect the level of independence of the internal audit. Also, the activities of internal audit services cannot ensure efficient spending of budget funds. Considering the current situation, it is necessary to take the following measures:

- Raising awareness about the state internal financial audit control system;
- Constant growth of quality and qualification of existing internal auditors;
- Sharing of best practices through trainings, workshops and seminars in order to strengthen internal financial control;
- Organization of work meetings regarding risk management processes by internal audit services;
- Alignment of internal audit regulations and methodologies with international standards.
References:
[1] Law of Georgia "On State Internal Financial Control".