AMERICAN JOURNALS
Open Access, Peer Reviewed Journals

American Journal of Business Management, Economics and Banking
ISSN (E): 2832-8078 Volume 49, June- 2026

FOREIGN EXPERIENCE IN ORGANIZING INTERNAL AUDIT ACTIVITIES IN BUDGETARY ORGANIZATIONS

Khusainov Khasan Baratovich
Doctoral Student at Tashkent State
University of Economics
E-mail: khusainovkhasa@gmail.com
ORCID:0042-0045-0520-0022

A B S T R A C T	K E Y W O R D S
This article examines foreign experience in organizing internal audit activities in budgetary organizations, with particular attention to its theoretical and practical aspects. The role of internal audit systems in ensuring the efficient and targeted use of budgetary funds, strengthening financial discipline, identifying risks in advance, and improving the effectiveness of public financial management in developed countries is analyzed. In particular, the article considers internal audit mechanisms applied in the United States, the United Kingdom, Germany, France, and other countries, including risk-based auditing, internal control systems, the organizational independence of internal audit, and the application of international standards. Based on a comparative analysis of foreign experience, scientific conclusions and recommendations are developed to strengthen the independence of internal audit services in budgetary organizations, introduce risk assessment systems, expand the use of digital technologies, and improve criteria for evaluating audit performance.	Budgetary organizations, internal audit, internal control, public financial control, foreign experience, risk-based audit, financial management, audit standards.

Introduction

Today, the effective management of public finances, the targeted and rational use of budget funds, the strengthening of financial discipline, and the assurance of transparency and accountability in the operations of state organizations are among the most important tasks. The effective organization of internal audit activities within budgetary organizations plays a crucial role in accomplishing these objectives. Beyond monitoring the lawful and targeted expenditure of budget funds, internal audit enables the identification and prevention of financial, operational, and managerial risks; the assessment of internal control mechanism effectiveness; and the provision of information to management to support informed decision-making.

In global practice, internal audit is evolving from a traditional form of financial control into a modern, risk-based management tool. In developed countries, the primary focus of internal audit is not merely on detecting financial errors and violations that have already occurred, but rather on proactively assessing the risks of their occurrence, identifying weaknesses in the internal control system, and addressing them. Consequently, the experience of the USA, the UK, Germany, France, and other nations highlights the importance of the organizational independence of internal audit services, risk-based audit planning, performance auditing, the use of information technology, the continuous professional development of auditors, and the monitoring of the implementation of audit findings.

Another key aspect of international practice is that internal audit has evolved not merely into a control body that identifies shortcomings within a public organization, but into an independent function that provides advice and recommendations to management and assists in improving governance processes. This approach transforms internal audit from a punitive control mechanism into a preventive and strategic management tool. As a result, opportunities arise to enhance the efficiency of budget expenditures, the effectiveness of state programs, and the internal control environment within organizations.

Nevertheless, there remains a need to make broader use of advanced elements of international practice to further improve internal audit within Uzbekistan's budgetary organizations. In particular, promising areas include the automated selection of audit subjects based on risk levels, the implementation of continuous auditing mechanisms, the use of big data analytics and artificial intelligence technologies, the strengthening of the functional independence of internal audit services, the digital monitoring of the implementation of recommendations, and the evaluation of audit effectiveness based on result-oriented indicators.

In this context, studying the experience of foreign countries regarding the organization of internal audit activities in budgetary organizations—conducting a comparative analysis of their effective mechanisms and adapting them to Uzbekistan's practices while taking into account the specific features of the national institutional environment—is of significant scientific and practical importance. Such research serves to enhance the efficiency of the use of budgetary funds, prevent financial errors and violations, improve the quality of internal control, and ensure the effectiveness of public financial management.

LITERATURE REVIEW

Issues regarding the organization of internal audit activities in budgetary organizations, ensuring their independence, assessing risks, and enhancing the efficiency of public fund utilization have been extensively studied by foreign economists and international financial institutions. In modern academic literature, internal audit is viewed not merely as a tool for financial inspection, but as an independent and objective function that serves to improve an organization's risk management, internal control, and corporate governance processes.

The *Global Internal Audit Standards*, developed by the Institute of Internal Auditors (IIA), constitute one of the international methodological frameworks for organizing internal audit. These new standards were released in 2024 and came into effect on January 9, 2025. They place particular emphasis on internal audit independence, objectivity, professional competence, the alignment of audit strategy with organizational goals and risks, the assessment of audit quality, and the creation of added value for management. The standards also address the specific aspects of implementing internal audit within public sector organizations. Approaches developed by INTOSAI play a significant role in shaping the theoretical and methodological foundations for organizing internal control and audit within the public sector. In accordance with the INTOSAI framework, internal control in public organizations relies on interconnected elements: the control environment, risk assessment, control activities, information and communication, and monitoring. In this context, internal audit must not be limited merely to the existence of internal control mechanisms within an organization but must also focus on evaluating their actual operational effectiveness. This approach is crucial for mitigating the risks of illegal or inefficient use of public funds.

The COSO framework also constitutes a vital theoretical basis for international practice regarding internal audit and internal control. Under the COSO approach, internal control is viewed as a continuous process—encompassing all levels of an organization—designed to achieve organizational objectives, ensure reliable financial reporting, and guarantee compliance with legal requirements. In the public sector, this approach serves as a foundation for establishing internal control mechanisms aimed at identifying and managing risks associated with the use of budget funds. The internal control principles developed by INTOSAI for the public sector also utilize the core components of the COSO model.

J. Goodwin (2004) conducted a comparative study on the characteristics of internal audit organization in the public and private sectors. The author emphasizes that internal audit activities in the public sector encompass broader public interests compared to the private sector. In public organizations, internal auditors must focus not only on verifying financial data but also on ensuring the lawful, purposeful, and efficient expenditure of public funds. This approach demonstrates that internal audit in budgetary organizations serves functions beyond mere financial control, extending to the enhancement of accountability and management efficiency.

D.G. Mihret and A.W. Yismaw (2007) investigated the factors influencing internal audit effectiveness within the public sector context. The authors established that the effectiveness of internal audit depends primarily on audit quality and the support provided by organizational management. Additionally, the qualifications of internal auditors, the implementation of audit recommendations, and management's response to internal audit findings were identified as significant factors. This demonstrates that when establishing an internal audit function within budgetary organizations, merely creating an organizational structure is insufficient; it is essential to provide appropriate resources and management support.

In their study of the organizational factors influencing internal audit effectiveness, M. Arena and G. Azzone (2009) determined that the characteristics of the audit team, the organization of audit processes, and the relationship between the internal audit function and the organization's management system impact internal audit performance. The authors argue that having a sufficient number of qualified internal auditors, employing independent risk assessment methods, and ensuring the audit committee's active participation in internal audit processes enhance effectiveness.

A. Alzeban and D. Gwilliam (2014) examined internal audit effectiveness using a sample of 79 organizations in Saudi Arabia's public sector. Their findings indicate that management support is one of the most critical factors determining the effectiveness of internal audit activities. The authors emphasize that such support manifests through the recruitment of qualified personnel, the allocation of adequate financial and organizational resources to the audit function, the assurance of internal audit independence, and the strengthening of cooperation with external auditors. R. Moeller (2009) characterizes internal audit as an integral part of an organization's overall management and risk management system. In his approach, the effective organization of the internal audit function Particular emphasis is placed on the audit framework, the risk-based audit plan, the professional competencies of internal auditors, information technology auditing, continuous auditing, and mechanisms for monitoring audit results. The author also notes that the modern role of an internal auditor extends beyond mere inspection to include providing advice to organizational management and improving management processes.

Studies conducted by the OECD on public sector internal control systems also highlight the interconnection between risk management and internal auditing. According to the OECD, effective internal control and risk management reduce the risks of fraud, corruption, and the misuse of budget funds in public organizations, while internal auditing provides independent and objective assurance and advice regarding the functioning of this system.

In the practice of European countries, internal auditing is inextricably linked to the Public Internal Financial Control (PIFC) model. This approach is based on the interaction between financial management and control, functionally independent internal auditing, and a central body responsible for their methodological coordination. A 2026 SIGMA/OECD analysis also noted the need to shift the further development of the PIFC system from a focus on compliance with formal legislative requirements to a model centered on performance, risk management, and managerial accountability.

A synthesis of international studies indicates that the effectiveness of internal audit in budgetary organizations largely depends on the functional independence of the internal audit function, the professional competence of auditors, risk-based planning, management support, the use of information technology, the effective organization of internal controls, and the monitoring of the implementation of audit recommendations. At the same time, international literature reflects a shift in the internal audit function from a traditional inspection role to one focused on prevention, advisory services, and enhancing management effectiveness.

Evaluating existing scientific approaches from the perspective of the practices of budgetary organizations in Uzbekistan demonstrates the necessity of adapting foreign models—rather than simply replicating them—to the national public finance system, the institutional characteristics of budgetary organizations, and existing management mechanisms. Therefore, development of risk-based internal audit in budget organizations, strengthening of functional independence of internal auditors, introduction of digital audit mechanisms, and formation of single criteria for evaluating internal audit effectiveness is an important task of further scientific research in this direction.

ANALYSIS AND RESULTS

The effective organization of internal audit activities within budgetary organizations is a crucial component of the public financial management system. An analysis of international experience demonstrates that the effectiveness of internal audit is determined not merely by the number of inspections or the volume of identified financial irregularities, but by the proactive identification of risks, the assessment of internal control systems, the enhancement of the soundness of management decisions, and the assurance of effective use of budgetary funds.

In the United States, public sector internal audit activities are grounded in the principles of independence, accountability, and risk management. Internal audit within government agencies extends beyond the mere verification of financial transactions to encompass the evaluation of program effectiveness, the results achieved through the use of public funds, and the reliability of internal control systems. This approach prioritizes the proactive mitigation of risks over the retrospective detection of irregularities within the budgetary organization.

In the United Kingdom, internal audit practice is characterized by a risk-based planning model. Under this model, not all areas of an organization's operations are subjected to the same level of scrutiny. Audit resources are directed toward processes characterized by high levels of financial and operational risk. Consequently, the internal audit service makes rational use of limited labor and time resources to cover the areas most critical to the organization. Furthermore, internal auditors advise management on risk mitigation and the enhancement of internal controls.

The German experience emphasizes financial discipline, the clear allocation of duties, and strict adherence to internal control procedures. Particular attention is paid to ensuring the internal audit function remains independent of the organization's management system. This independence enables the auditor to make decisions and provide impartial conclusions, free from the influence of the interests of the structural unit under review.

In the French public sector, internal audit is inextricably linked to public financial management, risk management, and results-oriented budgeting processes. The audit process evaluates not only the legality of expenditure but also economic efficiency and the impact on the outcomes of state programs. This approach allows for the analysis of budgetary organizations' activities by linking them to achieved results, rather than viewing them solely through the lens of expenditure. The Public Internal Financial Control (PIFC) model, widely adopted in European Union member states and candidate countries, is of particular importance. This model comprises three key elements: financial management and control, functionally independent internal audit, and the methodological coordination of the internal audit and control system. Under this approach, the head of the organization bears primary responsibility for managing budget funds and internal control, while the internal audit function provides an independent assessment of the system's reliability and effectiveness.

Table 1 A comparative analysis of the experience of foreign countries makes it possible to distinguish the following features

Country/model	The main feature of internal audit	Practical significance
USA	Independence and performance audit	Assessing the effectiveness of state programs and budget funds
Great Britain	Risk-based auditing	Directing audit resources to high-risk areas
Germany	Strict internal control and functional independence	Ensuring financial discipline and auditor impartiality
France	Results-oriented financial management	Evaluating costs in relation to the results achieved
PIFC model	Coordination of financial management, internal control and independent audit	Forming a unified and comprehensive state internal financial control system

Also, the analysis showed that there are several common factors that ensure the effectiveness of internal audit in foreign practice. First, the functional independence of the internal audit service is ensured. Second, audit planning is based on the results of the risk assessment. Thirdly, high requirements are placed on the professional qualifications of internal auditors. Fourth, the implementation of audit recommendations is regularly monitored. Fifth, the use of digital technologies and automated data analysis tools in the audit process is expanding.

Important institutional measures for the development of internal audit in budget organizations are also being implemented in Uzbekistan. However, the analysis of foreign experience shows that there are a number of priority areas for further improvement of internal audit in national practice. In particular, it is desirable to gradually transform the internal audit from an inspection function focused mainly on the detection of financial violations to a system that serves to improve risk assessment and management efficiency.

It is important to use the level of risk when choosing audit objects in budget organizations. Each line of activity can be evaluated on the basis of criteria such as the amount of financial resources, deficiencies identified in previous audits, complexity of operations, staff turnover and internal control status. As a result, high-risk areas are included in the audit plan first.

The analysis shows that the development of a digital internal audit system in the conditions of Uzbekistan can also have a great practical effect. Through the analysis of accounting, public procurement, payroll, contracts and budget execution data in a single information environment, it is possible to automatically identify suspicious transactions, duplicate payments, deviations from the norm and other risky situations. This allows the main time of the auditor to be directed not to manual examination of documents, but to analysis and professional opinion.

Based on foreign experience, it is desirable to improve the internal audit efficiency evaluation system in budget organizations of Uzbekistan. In practice, it is not enough to evaluate efficiency only by the number of audits conducted or the amount of financial deficiencies detected. It is necessary to take into account the reduction of identified risks, the level of implementation of audit recommendations, the reduction of repeated violations of the law, the saving of budget funds, the improvement of the internal control system, and the level of management's use of audit results.

As a result of the research, the following main directions, which are appropriate to be introduced into the practice of Uzbekistan from the foreign experience on the organization of internal audit in budget organizations, were determined:

1. Further strengthening of the functional independence of the internal audit service;
2. Formation of audit plans based on a risk-based approach;
3. Increase the share of efficiency and operational audit along with financial audit;
4. Training and continuous improvement of internal auditors based on international standards;
5. Digitization of audit processes and automation of data analysis;
6. Continuous monitoring of the implementation of audit recommendations;
7. Evaluation of internal audit effectiveness through result-oriented KPIs;
8. Strengthening the integration between internal audit, risk management and internal control systems.

In general, the results of the research show that in foreign countries, internal audit has become a strategic instrument that increases the overall management efficiency of a state organization from a means of controlling the legality of the use of budget funds. The implementation of the advanced aspects of this experience in Uzbekistan, adapted to the features of the national budget system, will allow strengthening the preventive and advisory functions of the internal audit, reducing financial risks, increasing the efficiency of the use of budget funds, and ensuring transparency and accountability in the state financial management.

CONCLUSION

The results of the study of foreign experience in organizing internal audit activities in budgetary organizations show that modern internal audit has turned from a simple inspection tool of state financial control into an important mechanism for improving the efficiency of organizational management. In the practice of developed countries, the main tasks of internal audit are not limited to identifying financial violations, but also include proactive risk assessment, checking the reliability of the internal control system, assessing the effectiveness of the use of public funds, and providing practical recommendations to management.

The experience of the USA, Great Britain, Germany, France, and the European Union countries shows that functional independence, risk-based planning, professional qualifications, performance auditing, the use of digital technologies, and regular monitoring of the implementation of audit recommendations are important in ensuring the effectiveness of internal audit. In particular, the PIFC model serves to strengthen accountability and financial discipline in budgetary organizations by ensuring the interconnection between public financial management, internal control, and independent internal audit.

In Uzbekistan, large-scale reforms are being implemented to improve the internal audit system in budget organizations, introduce national standards, increase the professional potential of internal auditors, and digitize audit processes. At the same time, it is necessary to introduce effective elements of foreign experience more widely, taking into account the characteristics of the national budget system.

Based on the results of the study, in order to increase the effectiveness of internal audit in budget organizations in Uzbekistan, it is advisable to widely introduce a risk-based audit planning system, strengthen the functional independence of internal audit services, increase the share of efficiency and operational audit, use digital audit and data analysis technologies, automate monitoring of the implementation of audit recommendations, and assess the effectiveness of internal audit based on specific performance indicators.

It is also necessary to develop internal audit services in budget organizations not only as a control structure that identifies shortcomings, but also as an advisory and preventive mechanism that helps to manage risks, improve management decisions, and increase the efficiency of using budget funds.

In general, the systematic and step-by-step adaptation of foreign experience to the national practice serves to strengthen financial discipline in budget organizations, increase the efficiency of using budget funds, reduce risks, increase the level of transparency and accountability, and improve the quality of state financial management.

REFERENCES

1. The Institute of Internal Auditors. Global Internal Audit Standards. – Lake Mary, Florida: The Institute of Internal Auditors, 2024.
2. INTOSAI. Guidelines for Internal Control Standards for the Public Sector (INTOSAI GOV 9100). – International Organization of Supreme Audit Institutions.
3. Committee of Sponsoring Organizations of the Treadway Commission (COSO). Internal Control – Integrated Framework. – Durham, NC: COSO, 2013.
4. Goodwin J. A Comparison of Internal Audit in the Private and Public Sectors // Managerial Auditing Journal. – 2004. – Vol. 19. – No. 5. – P. 640–650. DOI: 10.1108/02686900410537766.
5. Mihret D.G., Yismaw A.W. Internal Audit Effectiveness: An Ethiopian Public Sector Case Study // Managerial Auditing Journal. – 2007. – Vol. 22. – No. 5. – P. 470–484. DOI: 10.1108/02686900710750757.

6. Arena M., Azzone G. Identifying Organizational Drivers of Internal Audit Effectiveness // International Journal of Auditing. – 2009. – Vol. 13. – P. 43–60. DOI: 10.1111/j.1099-1123.2008.00392.x.
7. Alzeban A., Gwilliam D. Factors Affecting the Internal Audit Effectiveness: A Survey of the Saudi Public Sector // Journal of International Accounting, Auditing and Taxation. – 2014. – Vol. 23. – No. 2. – P. 74–86. DOI: 10.1016/j.intaccaudtax.2014.06.001.
8. Moeller R.R. Brink's Modern Internal Auditing: A Common Body of Knowledge. – 7th ed. – Hoboken, NJ: John Wiley & Sons, 2009.
9. OECD. OECD Public Integrity Handbook. – Paris: OECD Publishing, 2020. – 239 p. DOI: 10.1787/ac8ed8e8-en.
10. Klaas K., Sáenz De Ormijana P. Refocusing Public Internal Financial Control: Guidance for SIGMA Partners // SIGMA Papers. – No. 81. – Paris: OECD Publishing, 2026. – 54 p. DOI: 10.1787/bc9bc104-en.
11. INTOSAI. Internal Control: Providing a Foundation for Accountability in Government (INTOSAI GOV 9120). – International Organization of Supreme Audit Institutions.
12. INTOSAI. Guidelines for Internal Control Standards for the Public Sector – Further Information on Entity Risk Management (INTOSAI GOV 9130). – International Organization of Supreme Audit Institutions.