

International Congress on Economics, Management and Business Studies
Hosted Online from New York, USA
Date: 23rd October, 2026
Website: https://econferencia.com

THEORETICAL FOUNDATIONS OF INTERNAL AUDIT OF BUDGETARY FUNDS UTILIZATION

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Abstract

The utilization of budgetary funds is one of the most sensitive areas of public administration, since it directly reflects how effectively the state converts the resources entrusted to it by taxpayers into public services and social outcomes. In recent years, the Republic of Uzbekistan has implemented large-scale reforms aimed at increasing budget transparency, introducing elements of performance budgeting and strengthening accountability for the use of public funds [2]. These reforms have raised the demand for internal audit in budgetary organizations. However, the development of internal audit practice requires a clear theoretical foundation: without an understanding of why internal audit exists, whom it serves and what it should evaluate, internal audit risks becoming a formal procedure that duplicates other forms of control.

The first theoretical pillar of internal audit of budgetary funds is the concept of public accountability. In democratic systems, public resources are managed on the basis of a chain of delegation: citizens delegate authority to elected representatives, who delegate the execution of the budget to the government, which in turn allocates funds to ministries and budgetary organizations. Each link in this chain generates an obligation to account for the use of the resources received. Internal audit strengthens the lower links of this chain by providing the head of a budgetary organization and its parent body with independent information on whether the funds are being used in accordance with their purpose.

In this sense, internal audit is not an end in itself but an instrument that makes accountability real.

The second pillar is agency theory. As M. Jensen and W. Meckling showed, whenever one party (the principal) delegates decision-making authority to another (the agent), information asymmetry and divergent interests create agency costs [4]. In the public sector, agency problems are particularly acute because the ultimate principal – society – is dispersed and has limited ability to monitor agents, while budgetary organizations are not subject to market discipline and do not face the threat of bankruptcy. Internal audit reduces information asymmetry by providing verified information on the use of funds, thereby lowering agency costs and limiting opportunistic behavior. Public choice theory reinforces this argument: since officials may seek to maximize their budgets rather than public welfare, internal audit must evaluate not only the legality but also the necessity and economic justification of expenditures.

The third pillar is stewardship theory, which offers a counterweight to agency theory. It assumes that many public managers are intrinsically motivated to act in the public interest and that excessive control can undermine this motivation [5]. From this perspective, internal audit should not be limited to detecting violations; it should also support managers by identifying weaknesses in processes, sharing good practices and advising on improvements. The combination of agency and stewardship perspectives justifies the dual nature of modern internal audit, which, according to the Global Internal Audit Standards of the IIA, includes both assurance and advisory services [3].

The fourth pillar is the theory of public value developed by M. Moore, according to which the task of public managers is to create value for society in the same way that private managers create value for shareholders [6]. Applied to internal audit, this theory shifts the focus from the question "Were the funds spent

according to the rules?" to the question "Did the use of funds create the expected public value?" This broadens the evaluation criteria of internal audit to include the effectiveness and social impact of spending, and not only compliance and economy.

Finally, institutional theory and the concept of the "audit society" formulated by M. Power warn of the risk that internal audit may be established primarily to create an appearance of control and legitimacy [7]. Such "ceremonial" internal audit generates reports but does not influence decisions. The practical implication is that the effectiveness of internal audit should be judged by the implementation of its recommendations and by real changes in the use of funds, rather than by the number of inspections or the amount of violations detected.

The synthesis of these theories makes it possible to clarify the conceptual apparatus of internal audit of budgetary funds utilization. We propose to define it as an independent and objective assurance and advisory activity carried out within a budgetary organization or its parent body that evaluates the legality, targeted nature, economy, efficiency and effectiveness of the use of budgetary funds, as well as the adequacy of the related risk management and internal control, in order to increase the public value created by these funds.

The object of this type of internal audit is the activity of a budgetary organization related to the planning, receipt and use of budgetary funds. Its subject includes financial operations, budget planning and execution processes, internal control and risk management systems, and the results achieved. Its specific principles, in addition to the general professional principles of integrity, objectivity and competence, include the principle of public interest, the principle of result orientation, the principle of risk orientation, the principle of preventiveness and the principle of transparency.

The theoretical foundations also determine the functions of internal audit of budgetary funds. The assurance function follows from the accountability concept and agency theory; the analytical and evaluative function follows from public choice theory and public value theory; the advisory and developmental functions follow from stewardship theory; and the requirement to measure real impact follows from the critique offered by institutional theory. Such a mapping of theories to functions shows that each function has a solid theoretical justification and that neglecting any of them weakens the internal audit system as a whole.

It is also important to distinguish internal audit of budgetary funds from related forms of control. Unlike internal control, which is carried out by management and staff as part of daily operations, internal audit is independent of the processes it evaluates. Unlike state financial control exercised by external bodies, it is oriented towards improvement rather than sanctions. Unlike external audit by the supreme audit institution, it serves primarily management and is continuous rather than periodic. Clear delineation of these forms prevents duplication and allows them to complement one another within an integrated system of public financial control.

In conclusion, the theoretical foundation of internal audit of budgetary funds utilization should be based on an integrative approach that combines the concept of public accountability, agency and public choice theories, stewardship theory, public value theory and the insights of institutional theory. Such an approach explains both the control and advisory roles of internal audit, extends its evaluation criteria from compliance to effectiveness and public value, and provides guidelines for assessing the real impact of internal audit on the use of budgetary funds. These theoretical provisions can serve as a basis for developing methodological guidance for internal audit in the budgetary organizations of Uzbekistan.



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