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# THEORETICAL FOUNDATIONS OF INTERNAL AUDIT OF EXTRABUDGETARY FUNDS IN PUBLIC EDUCATION SYSTEM INSTITUTIONS

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**Abstract**
The article describes the specific features of the organization of accounting for extra-budgetary funds, the organization of budget control, and internal audit issues in public education institutions. The article describes the organization of internal audit and financial control services in the public education system at the republican and regional levels.

**Keywords**: Accounting, extra-budgetary funds, budget accounting, internal audit, public education institution, expenditure.

## Introduction

It is well known that budgetary organizations are legal entities established to fulfill the functions assigned by the state, and they are financed from the state budget to carry out their activities. Allocations to each budgetary organization are made on the basis of approved expenditure estimates from the state budget. In addition, legislation allows budgetary organizations to generate extrabudgetary funds. That is, extrabudgetary funds are formed from income generated through activities corresponding to the organization's profile (production of goods, works, and services), from leasing temporarily unused buildings and properties, sponsorship, savings from efficient use of budgetary funds at the end of the fiscal year (or quarter), as well as from other sources, and are spent in accordance with the procedure established by law.

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Given our country's movement towards a market economy and the need to ensure the efficient use of budgetary funds, new sources of extrabudgetary financing for the education system are being developed. These include the provision of educational services, entrepreneurship, scientific consulting, expertise, publishing, production, various grants, income from scientific research, sponsorship, and other sources. This is also reflected in national legislation, which confirms the establishment of organizational and legal foundations for extrabudgetary financing of the education system.

As emphasized in the *National Program for Personnel Training*, the system of financing education and personnel training will be improved by introducing a multichannel financing mechanism (budgetary and extrabudgetary sources). The self-financing capacity of educational institutions will be strengthened, and the attraction of private and foreign investment into the education sector will be encouraged. The role of donors and sponsors in the material support of the continuous education and training system is expected to grow. Furthermore, normative-legal documents stipulate that revenues of educational institutions should be increased through paid educational services, entrepreneurship, consulting, expertise, publishing, production, research, and other activities permitted by their charters.

In line with the requirements of the market economy, as well as the goal of reducing the burden on the state budget and organizing personnel training in accordance with these requirements, measures to increase the share of extrabudgetary funds in financing the activities of public education institutions are being implemented step by step. To ensure transparency in the execution of educational institutions' budgets, their financial position, the targeted use of both budgetary and extrabudgetary funds, and budget execution reporting, financial statements on the movement of extrabudgetary funds are prepared and submitted. Considering the specific nature of public education institutions, it is essential to identify the state of budgetary financing and the opportunities for forming extrabudgetary resources. To ensure the targeted use of such resources, it becomes necessary to analyze financial reports on the movement of extrabudgetary funds. This, in turn, requires the more effective organization of

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internal audit systems in educational institutions and the achievement of tangible practical benefits from their outcomes.

Literature Review. Regarding accounting in budgetary organizations, the organization of budget control, and internal audit, both foreign and local scholars have conducted research, including Nguyen Thi Viet Lieng, A. Sonin, and from our country A.K. Ibragimov, K.B. Akhmadjonov, B. Tuyinov, G.A. Kasimova, and K.B. Aripova.

According to Nguyen Thi Viet Lieng, internal audit is an independent activity that provides objective assurance and consulting aimed at improving organizational performance through proper management of key business risks, carried out in the interest of the owners and senior management of the organization [1].

A. Sonin stated that, according to the definition of the Institute of Internal Auditors, internal audit is an independent and objective assurance and consulting activity aimed at improving the organization’s activities [2].

A.K. Ibragimov argued that internal audit provides information about the entity’s economic activity and confirms the reliability of its reports. He explained that this type of audit is mainly necessary for the prevention of resource wastage and for implementing important changes within the organization [3].

K.B. Akhmadjonov emphasized that internal audit is an independent system that assists business entities in achieving their goals through proper risk management, control, and corporate governance. It provides objective assurance and consulting aimed at improving the efficiency of financial and economic activities, ensuring the accuracy of accounting data, and establishing an effective internal control system in the organization [4].

According to B. Tuyinov, internal audit in budget-funded organizations refers to a system specialized in providing an impartial assessment of the legality of financial processes and the targeted use of budget funds, as well as offering professional advice on the planning and expenditure of organizational costs [5].

G.A. Kasimova and K.B. Aripova highlighted that the establishment of internal audit services in budgetary organizations helps to ensure only positive performance indicators. This type of control does not impose sanctions for identified errors and shortcomings, but rather provides recommendations for their

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correction. They also stressed that it is advisable to engage highly experienced staff with many years in accounting positions, as well as certified auditors, in internal audit departments. A distinctive feature of internal audit activity is that inspections are carried out continuously throughout the year, with the department providing monthly and quarterly reports on audited objects, allowing for the detection of minor errors that would otherwise be difficult to identify in annual audits [6].

Based on the above, it can be concluded that internal audit is an activity aimed at strengthening budget discipline, preventing violations of budgetary legislation, and assessing the efficiency of using both budgetary and legally permitted extrabudgetary sources.

Discussion of Analysis and Results. In public education institutions, it is of critical importance to plan internal audit activities according to the legal framework governing extrabudgetary income and expenditures. This includes assessing and minimizing risks in internal audit activities, ensuring the efficient use of both budgetary and extrabudgetary funds, preventing corruption, and organizing the planning of internal audit inspections in accordance with international auditing standards. Consequently, the need arises for more focused scientific research in this area.

According to Article 62 of the *Law of the Republic of Uzbekistan "On Education"*: financing of state educational institutions is carried out from the republican and local budgets of the Republic of Uzbekistan, as well as from extrabudgetary funds and other sources not prohibited by law [2]. In our country, expenditures for general secondary education amount to 54 trillion UZS, which is 22.9 percent higher compared to the expected execution of 2024, and constitute 15.7 percent of total state budget expenditures. These expenses are mainly directed to providing quality education to nearly 6.8 million students (207,000 more than in the previous academic year) in more than 10,000 general secondary education institutions (see Table 1).

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**Table 1 Key Indicators of Public Education System Institutions (mln UZS)**

| **Years** | **2021** | **2022** | **2023** | **2024** | **2025** |
|---|---|---|---|---|---|
| **Total number of institutions, units** | 10 292 | 10 507 | 10 520 | 10 620 | 10 441 |
| General education schools | 9 924 | 9 959 | 9 972 | 10 072 | 10 038 |
| Boarding schools | 231 | 227 | 227 | 227 | 244 |
| Orphanages | 121 | 127 | 3* | 3 | 3 |
| Presidential schools | 4 | 14 | 14 | 14 | 14 |
| Creative and specialized schools | 12 | 180 | 180 | 180 | 142 |
| Number of students (thousand persons) | 6 280,2 | 6 405,9 | 6 534,0 | 6 666,9 | 6 772,6 |
| Current expenditures (billion UZS) | 28,0 | 33,0 | 38,0 | 44,0 | 54,0 |
| Of which: per student (million UZS) | 4,3 | 5,2 | 5,8 | 6,4 | 8.0 |
| Capital expenditures | 3,4 | 3 ,0 | 2 ,5 | 4,4 | 3,0 |

Note* – In 2023, the activity of orphanages was terminated.

**Prepared by the author based on the 2025–2027 Budget Statement data.**

In this regard, the main part of expenditures, i.e., 88 percent, is directed to salaries and social tax payments. The main sources of financing in public education system institutions are budgetary allocations, parental contributions, and funds from development foundations. For the purpose of forming systematic information on the generation and targeted use of extrabudgetary funds in public education institutions, as well as introducing control over them, their accounting is organized on the basis of normative-legal documents. The accounting of extrabudgetary funds is simultaneously maintained by the relevant treasury department and the budgetary organizations.

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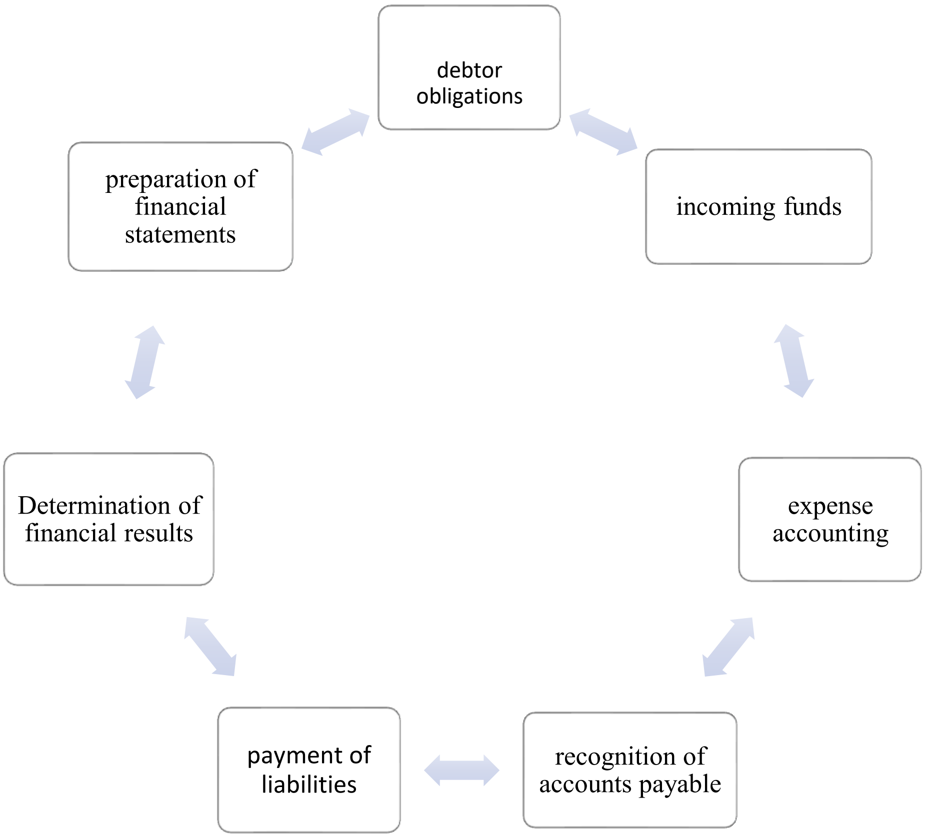


Formed by the author.

**Figure 1. Movement of extrabudgetary funds in a budgetary organization**

As can be seen from the data in the figure, the circulation of extrabudgetary funds in a budgetary organization involves the following: receivables arise on the basis of contracts related to the sale of goods or services; funds are transferred to accounts for the fulfillment of contractual obligations; expenses are recorded in connection with the sale of goods or services; on the basis of extrabudgetary funds received in the supplier's account from the customer, payables are created; obligations are fulfilled through the delivery of goods or services by the supplier to the customer; financial results are determined based on the fulfilled obligations, and financial statements are prepared.

In public education institutions, effective management and allocation of expenditures are crucial for ensuring transparency, accountability, and efficient use of public funds for higher-level government bodies. Achieving such results requires internal audit to play a decisive role in independently and objectively

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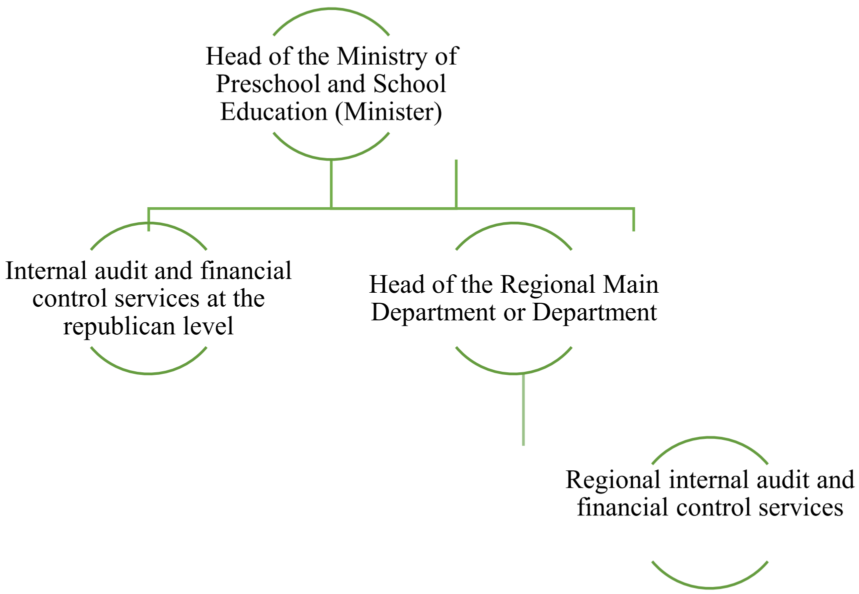
assessing financial processes, control, and expenditures. However, the need to continuously improve the methodology of budgetary expenditures is growing in order to adapt to evolving management requirements.

Currently, internal audit and financial control services in the public education system are organized at both the national and regional levels. At the regional level, the internal audit and financial control service is part of the regional main department and directorates, based on the organizational structure and staffing schedule (see Figure 2).




Source. Formed by the author.

**Figure 2. Organizational structure of internal audit and financial control services established in the public education system**.

At the regional level, employees of the internal audit and financial control service are subordinated and accountable to the heads of the regional main departments and departments in accordance with the organizational structure and staffing schedule. In such a case, the principles of independence, objectivity, accountability, and impartiality of the internal audit service remain questionable [8]. The reason is that internal audit services, in carrying out their functions, should report only to the top management of the ministries and agencies and be free from other factors that may influence their activities.

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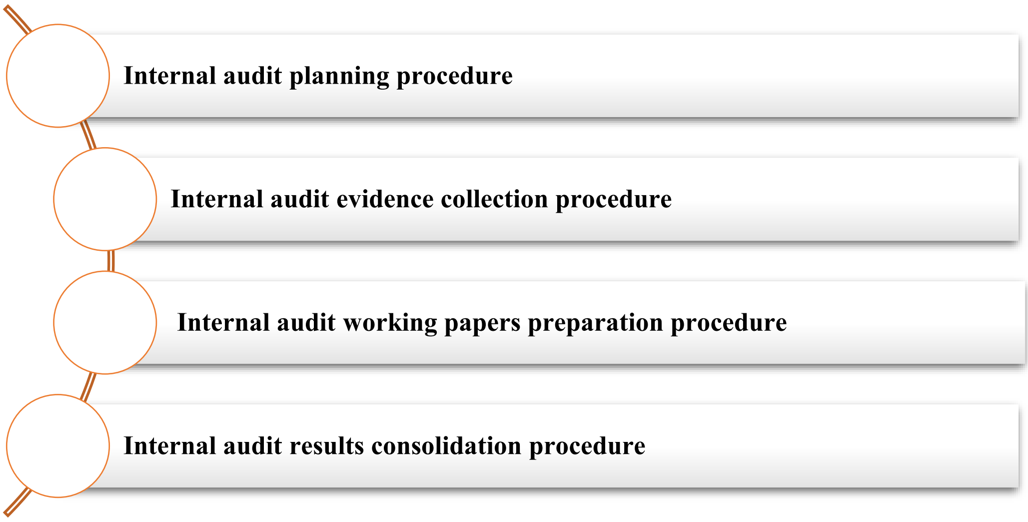
In the methodological support of internal audit activities in public education institutions, attention should be paid to the following aspects (Figure 2).




Source. Formed by the author.

**Figure 3. Methodological support of internal audit activities in public education institutions.**

By focusing on the methodology of internal audit in public education institutions, organizations can enhance their capacity to prevent, detect, and mitigate financial violations, errors, and inefficiencies. The adequacy of the internal control system allows compliance with relevant regulatory and legal documents in public education institutions, ensures the accuracy of financial statements, enables reliable data analysis, reinforces overall accountability, and facilitates the use of evaluation methods.

## Conclusion

The system of internal audit and financial control services in public education institutions represents one of the new directions of state financial control, and there are different approaches to its organization. Therefore, when implementing this system, we propose the following recommendations based on international experience. In the Ministry of Preschool and School Education, it is necessary to establish a group consisting of representatives of relevant organizations to implement the internal audit and financial control system. Based on the

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requirements of this group, qualification requirements for candidates and training programs should be developed.

One of the directions for improving internal audit in public education institutions is to introduce the "State Internal Audit and Financial Control" programs, which will increase the effectiveness of financial oversight. During the internal audit process in public education institutions, it is advisable to apply International Auditing Standards. Organizing internal audit activities in accordance with audit standards ensures a unified approach to audit planning, the type of control and inspection, data collection, and systematization. At the same time, it creates opportunities to assess the effectiveness of internal audit activities.

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