

Batum Shota Rustaveli State University



The Faculty of Business and Economics
Department of Economics

Tamta Beridze

**Problems of Undertaking Effective State Audit in the Conditions of European Integration and
Economic Growth**

Annotation

is represented to receive academic
degree of Doctor of Economics

Batumi-2018

The work is done in Batumi Shota Rustaveli State University, Faculty of Economics and Business, Economics Department.

Scientific supervisor: **Paata Aroshidze**
Candidate of Economics, Batumi Shota Rustaveli State University A.Professor.

Foreign Appraisers: **Ignace De Beelde**
Ghent University Professor (Belgium)

Appraisers: **Vazha Verulidze**
Candidate of Economics, Batumi Shota Rustaveli State University Professor.

Nikoloz Bakashvili
Doctor of Economics

Tsikara Zarandia
Doctor of Economics, Samtskhe-Javakheti State University Professor.

The defense of the Doctoral Thesis will be held on April 30, 2018, at 12:00 o'clock.

At the Dissertation Commission, created by the Dissertation Board of the Faculty of Economics and Business of Batumi Shota Rustaveli State University.

Address: Batumi, Ninoshvili str. N 35. University, Auditorium 430.

Secretary of the Dissertation Board
Doctor of Business Management, Asistant Prof. **Leila Tsetskhladze**

The dissertation work can be acquainted in the Ilia Chavchavadze Library of the University (Address: Batumi, Ninoshvili str. N 35).

Introduction

Relevance of the work: In order to assess the performance of state governance, receive financial information, and evaluate its authenticity and quality in the conditions of European integration, it was essential to develop facilitating control forms and relevant institutions of state governance approved in Europe, which would be absolutely distinct from the organizational-methodological and legal-legislative principles of inspection existing earlier.

Activities of those institutions should have been determined by: consultations, directives, organizing and improving the accounting rules, making up appropriate recommendations to improve the correspondence of financial reporting with the law, assisting in law-related topics, detecting fraud and weaknesses and developing special measures for their elimination.

These institutions should have been widespread all over the world as one of the types of state control system approved in international practice. Establishment of institutions should have contributed to the taken course of the country by engaging the state in the governance of economic processes. In the public sector of Georgia such kind of institution is State Audit Office of Georgia, carrying out external audits and structural units of internal audit, carrying out internal audit.

Despite the fact that audit service does not have a long-term history in the public sector of Georgia, it has become quite well-known in the process of economic changes. State audit greatly contributes to strengthening the economic situation in country. Audit is conducted to define the conformity of organization activities, financial accounting and reporting, authenticity of financial-economic activities with the acting legislation and standards. In view of the fact that the role of audit has been increased in the public sector, all audit institutions and activities carried out by them are in the limelight at the moment.

Problems which were accumulated over the years in the financial management and control system of Georgia, later on appeared in the light of contemporary economic challenges and EU integration. Nowadays, one of the main objectives of the state is to ensure the effectiveness of spending budget funds, which significantly affects the economic growth of the country. Audit service plays a great role in public sector of any developed country and its effective implementation is of crucial significance. Topics such as studying of problems existing in the public sector and developing major directions of effective audit performance gained a great interest because of above mentioned points.

State audit office has five-year history in the public sector of Georgia but the internal audit institutions were established seven years ago, underlying the fact that it is still on its phase of development. Improvement of legislative base and developing of manuals and methodologies on the example of foreign experience is one of the main priorities of the country. In the conditions of EU integration, functioning of supreme audit office and structural units of internal audit which are commensurable with international standards should exist in the public sector of the country. The audit carried out by them will guarantee an effective, legal and relevant spending of budget funds from the government's side.

State audit office of Georgia has its disadvantages as well, for instance: according to the law of Georgia, there are only five audit types (financial audit, compliance audit, systemic audit, performance audit and information technology audit) referring to the internal financial management and control system. In recent years, only a few ministries have conducted the efficiency and systemic audit in a pilot mode. Pursuant to the law, performance audit implies the analysis of the efficient spending of state budget funds, which we consider is very important for the country's economic growth, as the ineffective spending of the state budget is extremely harmful for the economy of the country.

Depending on the type of conducting public sector audit, its purpose is to make explicit, precise conclusions and work out useful recommendations on the basis of gained evidences.

We think that, it is essential to analyze the weaknesses of effective implementation of state audit on the scientific level, which on its side refers to the analysis of quality control in order to disclosure existing shortcomings and develop special recommendations for their elimination. Audit quality control system is rarely inspected in Georgia, as a result, it hinders the progress of already mentioned fields. Quality control should aim at detecting and eradicating problems found in audit activities. It should serve as a guideline for correcting made mistakes.

It is interesting that nowadays, there is the necessity of improving theoretical-methodological topics related to the conducting of efficient audit. Also, there is necessity of envisaging suggestions and conclusions made by theoreticians.

Exactly all above listed problems and the necessity of coping with them effectively, has become the main determinant of choosing this topic for my research, the name of which is: "Problems of Undertaking Effective State Audit in the conditions of European Integration and Economic Growth "

Aims and objectives of the study: Basic aim of the research is to explore audit activities at the scientific level, emphasize the importance of conducting effective audit in the conditions of economic growth and EU integration. Moreover, elaborate suggestions for audit quality control system in order to improve the audit efficiency.

We have set the following objectives:

- Review of audit theoretical basis;
- Review of state audit legislative base in Georgia, characterization of functions and aims of state audit office and internal audit structural units;
- Study of public sector characteristics in the conditions of EU integration;
- Review of European countries' experience;
- Analysis of audit planning and realization;
- Disclosure of factors obstructing the audit performance efficiency and the ways of their elimination;
- Analysis of audit quality control condition;
- Elaboration of important recommendations and suggestions for further improvement.

Subject and object of the study – Subject of the study is the control system of public sector audit activities, its structural organization and audit quality. Object of the study is the public sector audit activity of external and internal institutions and a range of theoretical-methodological topics related to it.

Theoretical and methodological bases of the study– Theoretical basis of the study is represented by the point of views of prominent Georgian and foreign scientists of public sector audit, also by the legislative base of Georgia, International Standards on Auditing (ISA), International Standards on Quality Control (ISQC), results of the research financed by the international organizations, theoretical and practical experiences of supreme audit organizations in various countries, guidelines and recommendation documents created in the frame of the projects developed by them, statistical data gained from Finance Ministry of Georgia and State Audit office of Georgia.

Methodological basis of the study is represented by the general scientific as well as economic research methods. Such as: functional analysis and synthesis, systemic and logical approaches, grouping, comparing, assessment and statistical analysis methods.

Condition of problem studying: Audit planning and its effective performance problems have never been studied earlier in Georgian economic literature, as well as the special significance of its quality control. We consider that above mentioned topic requires profound analysis and study. Effective Audit performance in the public sector represents the important prerequisite for economic growth of the country, as well as for its EU integration. Things mentioned above, might be achieved by studying and analyzing of problematic issues on effective functioning of public sector audit and by elaborating all necessary recommendations and suggestions to resolve the problems.

Many Georgian (E.Kharabadze, B.Alaverdashvili, L.Chumburidze, R. Dzadzamia, E.Tsiramua, N. Sreseli, N.Bakashvili etc.) and foreign (R. Montgomery, R. Jones, A. Bergman, K. Luder, O. Metisson, A. Pinto, J. Soly etc.) scientists have scientific researches in this field.

Scientific novelties of the work: Novelty of the work is to explore problems related to the implementation and improvement, regulation, structural formation and effective functioning of audit activities in public sector of Georgia. We have developed methodological approaches for quality control and audit performance improvement.

In general we can say that the novelty of the research is represented by the attempt of profound study and analysis of Public Sector Audit performance in Georgia and its conformity with quality theory and practice.

Scientific novelties of the thesis in a more specific form:

- We have studied the public audit experience of European countries and developed suggestions for their implementation by envisaging the current situation in Georgia;
- We have proved the importance of implementation of audit and quality control international standards in the public sector of Georgia,
- We have elaborated suggestions on formation and improvement of public sector audit quality control system;
- We have studied the legislative environment in line with public sector audit and developed the ways of its improvement.

Theoretical and practical value of the work: Findings, conclusions and suggestions given in the research can be used for planning of public sector effective audit performance in Georgia and achieving its conformity with quality control system, it is essential for effective functioning of public services in the state governance process which are pertinent to EU integration requirements.

Recommendations given in our dissertation might be used for increasing the efficiency of structures, controlling the public sector audit, opting effective strategies, eliminating shortcomings and propelling audit efficiency. Also, topics described in the thesis might be used for preparing the lecture courses in Higher Education Institutions.

Findings and recommendations given in the study will contribute to the implementation of correct practice of auditing and will support the auditors to carry out the audit in effective way, it will increase the level of correspondence between quality and conducted audit and will serve as a kind of incentive for improvement of state audit methods and professional qualification.

Approbation of the work: Approbation of the work was held on July 10 of 2017, on the joint meeting of Economics and Business Administration Departments. Main provisions of the work are represented in four articles. Reports have been made on international scientific conferences.

Structure of the work: Thesis consists of introductory part, three chapters, nine sub-chapters, conclusions and recommendations. There are 177 printed pages with questionnaires and references.

Aims, objectives and problem resolving logic determined the following structure of the work:

Introduction

Chapter I – State audit as the guarantee of government effective performance

- 1.1. Legislative basis of state audit implementation and audit implementing institutions
- 1.2. The role of audit in state governance
- 1.3. European experience of public sector audit

Chapter II – Audit as the accelerating mechanism for Economic Growth

- 2.1. Audit stages
- 2.2. The role of monitoring and evaluation in the process of audit
- 2.2. The role of audit in the economic growth of the country

Chapter III – Methods of State Audit evaluation effectiveness

- 3.1. State sector audit and quality control system
- 3.2. Responsibility of the management within the quality subordinated establishments
- 3.3. Ways of audit and quality control system improvement

Conclusions and suggestions

References

Appendix

II. Main content of the work

In the first chapter of the thesis “State audit as the guarantee of government effective performance” is concerned with the legislative basis of audit implementation and audit implementing institutions, what is the role of audit in state governance and also, European experience of public sector audit is examined in it.

There are two types of public sector audits in Georgia: internal and external audits. External audit in Georgian public sector is represented as State Audit Office. It is the supreme audit office responsible for audit implementation. Objectives set by the State Audit Office are the following: ensure the legitimacy of spending the state budget, protect its purposefulness and effectiveness, preserve the national wealth, property of State Autonomous Republics and local self-government units, as well as enhance Public Financial Management. In addition, State Audit Office monitors financial activities of political unions of citizens pursuant to the Organic Law -“Election Code of Georgia” and “law on Political Unions of Citizens” in the frame of competence defined by the Organic Law of Georgia.

The history of State Audit Office has began alongside the Restoration of State Independence of Georgia. The Institution of State Controller was founded in 1918 and since July 1 of 2012 we have got the final form of Supreme Audit Office represented by the State Audit Office, which is the successor to the Chamber of Control of Georgia. The Supreme Audit Office is managed by single executive (General Auditor), who is chosen by the parliament and who is accountable to the parliament only.

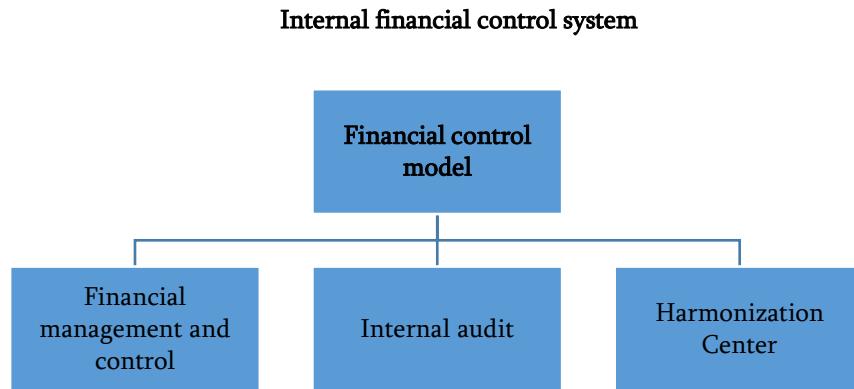
As for the Internal Audit, it is represented in various public sectors as a structural unit, department or service. Pursuant to the Georgian „ Law on State Internal Financial Control”, Internal Audit is independent, objective, authentic and consultation service oriented on improvement of institution activities and achievement of set objectives. In this respect, it analyses and enhances the effectiveness of risk control system and management by means of systematized, disciplined and organized methods.

In order to elaborate, form and implement the State Internal Financial Control, Financial Management and control and Internal Audit, existence of pertinent legislative base was important. Accordingly, on March 26 of 2010, Parliament of Georgia approved “law on State Internal Audit and Inspection”, which represents the basis for the State Internal financial system forming (Georgia’s ... 2010).

According to the above-mentioned law, units of Internal Audit have been formed since 2010. In conformity with the “Law on State Internal Audit and Inspection”, on the basis of N35 decree approved on November 9 of 2010, “Council examining the Internal Audit topics” (harmonization center) has been developed. Council decree has been endorsed and the council secretariat responsibilities have been determined.

The main aim of harmonization center is to coordinate activities of Internal Audit Units, provide synchronized functioning, avoid duplication of tasks, organize workshops for internal auditors for their continuous professional growth etc. Corresponding methodological documents have been elaborated by harmonization center, for example: Code of Ethics for Internal Auditors, Management principles for Internal Auditors, Internal Audit Methodology, Internal Audit Standards and the manual on risk management in state sector.

Implementation of internal control system plays an important role within the state sector financial management reform and the realization of this system is possible through the state internal financial control model, which has been adopted and elaborated by the EU.



Source: The scheme is drawn up by us, based on the Law of Georgia on State Internal Financial Control.

Financial management and control is the process integrated in the institution activities, tasked with ensuring the achievement of set objectives. On its side, **Internal Audit** evaluates whether the financial management and control system works properly in the institution or not and submits recommendations for fostering existing situation. **Harmonization center** takes responsibility for forming those two instruments and preparing appropriate methodology suited to international standards (Georgia's ..., 2010).

Development of state Internal Financial Control System represents continuous process requiring the implementation of relevant activities. In 2011 Georgian “Law on State Internal Audit and Inspection” was improved and thoroughly harmonized with international standards, such as: - *INTOSAI (International Organisation of Supreme Audit Institutions)* and *IIA (The Institute of Internal Auditors)*. In this regard, on July 9 of 2011 Parliament of Georgia made certain amendments in Georgian “Law on State Internal Audit and Inspection” and besides the fundamental changes and additions, the name of above-mentioned law has been changed as well and has become Georgian “Law on State Internal Financial Control”.

“Association agreement on the one hand between the EU and European Atomic Energy Community and its member states and on the other hand between Georgia” was signed in Brussels, on June 27 of 2014. There was the necessity of making certain amendments to get closer to European standards. In 2015, Georgian “Law on State Internal Financial Control” was amended aiming at getting closer to the international standards of Regulatory Legislative Norms of State Internal Financial Control.

It is worth noting that amendment should have been made in order to prosper the harmonization center, in particular, it should have been established as permanent, competent unit and get rid of restrictions hampering its efficient performance.

In order to ensure the mentioned recommendation, amendments have been made and Harmonization Center status has been changed, as a result, it has become the structural sub-division of The Ministry of Finance. Similar reforms are pursued in Eastern Europe and Eastern Partnership Countries, for example: Albania, Serbia, Montenegro, Croatia, Bulgaria, Hungary, Romania, Czech Republic, Poland, Armenia, Ukraine, Moldova, Georgia etc, where The Ministry of the Finance takes the responsibility for assessment/development of Internal Audit, managerial accountabilities and Financial Management and Control. Due to this amendment, some important harmonization responsibilities will be added to the previous edition of the law, such as: renewal

and elaboration of strategies in order to develop State Internal Financial Control System, monitoring and evaluation of methodological documents, implementation of certification program for internal auditors.

It is noteworthy that in accordance with the law, sub-devision of the inspection (in case of its existence) must be separated from the entityactivities in the institution, as it represents one of the important requirements and recommendations of EU and various donors (Georgia's ... 2015).

Hence, there are two audit institutions in Georgia: State Audit Office and Internal Audit Structural Units, they have a significant role in public sector successful functioning and economic prosperity.

Public Sector Audit plays an important role in proper state governance. As the core element of the public sector governance structure, audit is result-oriented and controls the spending of public budget funds.

Public Sector Audit is independent, objective and consultation service, tasked with improving of state governance. It gives a hand to the government to achieve all set objectives, manage the risk, assess and strengthen control and management process using systemic disciplined approaches.

Main directions of Internal and External Audit Institutions:

Financial Audit - the objective of which is to provide reasonable assurance whether the financial statements are presented fairly, in all material respects, and/or give an opinion on whether the financial statements were prepared in accordance with the regulatory and legal requirements and an applicable financial reporting framework.

Compliance Audit - the objective of which is to assess whether the activities of public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities..

Efficinecy Audit – is an essential tool for assessing public management economy, efficiency and effectiveness. It enables us to assess outcomes in concrete directions and how productively and economically were budget funds spent.

Information Technology Audit (IT) - focuses on obtaining audit credentials on whether information systems ensure achievement of goals set by the organization, protection of information assets, completeness and accuracy of existing data (State..., 2017).

If the audit is conducted in effective way with preserving all relevant standards in the public sector, organizations will be able to minimize risks. In this respect, in order to achieve goals and manage the organization resources, audit should rationally plan and implement human related processes and systems.

So, Internal and External Audits in the public governance of Georgia are tools contributing to getting purposeful, transparent and efficient sepnding of state budget and exactly this is the main indicator of state governance improvement.

In the process of the research, we got acquainted with public audit topics in fourteen countries, how they are conducted, what are their functions, what are the audit types existing in those countries. Now, we represent some of them:

Public Sector Auditing in Belgium - Belgium and its public administration has evolved into a more efficient and complex federal structure following several state reforms between 1970 and 2011. The top level of government now consists of the federal state, three communities (inspired by language and culture: Flemish, French and German-speaking Communities) and three regions (inspired by the establishment of more economic autonomy: Flemish, Walloon and Brussels-Capital) (Bellanca ..., 2013).

Central Authority – pursuant to the reform pursued in 2003, the role of the Supreme Audit Office was determined. Internal Audit and Supervision is mainly conducted by The Monitoring Department and Financial Inspection. The Monitoring Department is eligible to check the obligation reports, if the furnished documents

are correct and it also, monitors state tenders. Financial inspection is the independent body responsible for administrative and budget control, interested in preliminary assessment of effectiveness and efficiency of legality, regularity and financial expediency (Christiaens ..., 2012).

Internal Audit in Federal Government is under control of Federal Government Audit Committee. In case of conducting the Extrenal Audit, Supreme Audit Institution at federal level is responsible fot its supervision. External Audit is conducted at Federal Level in four formats: financial control, budget control, regular control and efficiency audit.

Regional Government – Audit system in regions includes Supreme Audit Institutions, Internal Audit Office and External Auditor.

Local Government – reform pursued in 2010 at local governance level by the name of New Policy and Governance (BBC – Beleids-en beheerscyclus) and has no obligation to form Internal Audit Unit. Despite of this, some local organizations in Belgium form Internal Audit Units as the part of their structural organization. Supreme Auditing Institution-Court of Audit of Belgium maintains the function of External Audit to verify financial statements of provinces(Christiaens ..., 2015).

Public Sector Auditing in Finland - Finnish public administration is organized on two levels: national central government and local governments.

Central Government –there are two types of audits in central government: Internal and External. Internal Audit is conducted by Internal Auditors. Commonly, all ministries have separate Internal Audit Structural Units. External Audit is conducted by National Audit Office (NAO), which represents the Supreme Auditing Institution of Finland and is accountable to the parliament. NAO carries out Financial, Compliance, Efficiency and Fiscal Policy Audits, controls election and party funding.

Local Government –has double auditing system: Financial Audit is conducted by Certified Public Finance Auditors(CPFA), as for Efficiency Audit, it is conducted by the Local Government Audit Committee (Oulasvirta, 2015).

Public Sector Auditing in Germany - Public administration in Germany is subdivided into three levels of government: federal, regional and local.

Federal Government – pursuant to the basic law of Germany, Federal Court of Audit which is legally independent, conducts Financial and Compliance Audits. At federal government level, audit is composed of federal government financial statements, budget and budget execution audits. Federal Court of Auditing carries out: A) Regulatory Compliance Audit and B) Efficiency Audit.

Regional Government –at State Government level, Court of audit is tasked with similar responsibilities as Federal Court of Audit. State Court of Audit is responsible for budget total execution and economic management. They furnish the state parliament and regional government with audit outcomes annualy.

Local Government –local governments in Germany are obliged to audit their accounts. They are eligible to use the third state except for the case when the local government is having the audit office. (Berger..., 2015).

Public Sector Auditing in Switzerland – Swiss public administration is organized on three levels: federal government, regional government (so-called, cantons) and local government(municipalities).

Federal Government - The system of financial supervision of the Federal Administration consists of three units: financial committee, federal auditing office of Switzerland and financial inspectorate. Financial committee is the parliamentary body appointed by the members of federal assembly. Supreme financial supervisory body of federal administration is SFAO. It is independent and autonomous in the frame of its legal provisions. According to the international audit act,there are two main types of audit: Internal and Extrenal.

External Audit refers to not only traditional accountability elements, such as compliance and financial audit, but execution elements as well, for instance: assessment of effectiveness and efficiency. Internal Audit is relatively decentralized. Financial inspector of federal administration is responsible for the internal audit. Inspector directly belongs to executive management and carries out auditing functions and is managed by SFAO.

Regional Government -represented by financial committees, which are parliamentary bodies and are mainly responsible for financial controlling of federal regions.(Gruter, 2013).

Local Government - the role of financial committee is also very important at the local government level. External audit differs from local governments. Some of the municipalities, especially, small and medium sized entities are inspected by municipal services or by the mandates given to private auditing companies. Other municipalities, especially, large cities, own private independent auditing offices conducting internal and extrenal audits. (Fuchs..., 2015).

Public Sector Auditing in the UK - British public administration is organized on two levels: Central and Local.

Central Government –financial reports of central governments are inspected by the general auditor. There is one auditor for the entire Britain (Comptroller and Auditor General) and there are separate auditors for Walse, Scotland and Northern Ireland. (Treasury, 2013).The Treasury obliges the central government to have audit committees and internal audit bodies. Internal auditors employ internal audit standards of the British public sector. These standards were first published in 2013 for the entire public sector. The budget is not audited. Since 2010, the Office of Budget Responsibility makes comments on the British budget, but this is not an audit.

Local Government - there is a great tradition of local government decentralization, elements of which are still maintained. Audit of financial statement is conducted at the local level. Budget is not audited. Central public institution was established in 1984 to regulate local governance audit, known as an audit commission. It played two major roles: first, used to conduct a practical code for the audit, secondly, used to appoint auditors to each local government. New government abolished the commission in 2010 and in 2012 the government stated: The National Audit Office will be the supreme audit body and will be responsible for conducting the audit at the local level. Moreover, each local government will be given its auditor. The financial statement and efficiency audits are conducted at local level (Jones ..., 2015).

We can conclude that public sector audit has scarce experience in Georgia; it is always in the process of formation. As it is obvious from the legislative base review, the legislation has been significantly improved in recent years; Georgia's practice is getting closer to the European standards in terms of EU integration and shares the practical experience of European countries to adapt it later in Georgian reality. The significance of the audit will be more explicit if we note that efficient functioning of audit institutions leads to the improvement of state governance. After examining public sector audit of European countries, internal and external audit organizations and their functions at the state level, we can positively evaluate the amendment made in 2015 in Georgian "Law on State Internal Financial Control", as it is determined by the international practice and unconditionally promotes European integration process in our country.

In the second chapter of the work "Audit as the accelerating mechanism for Economic Growth", examines the audit stages, the role of monitoring and assessment in audit, the role of the audit itself in the economic growth of the country.

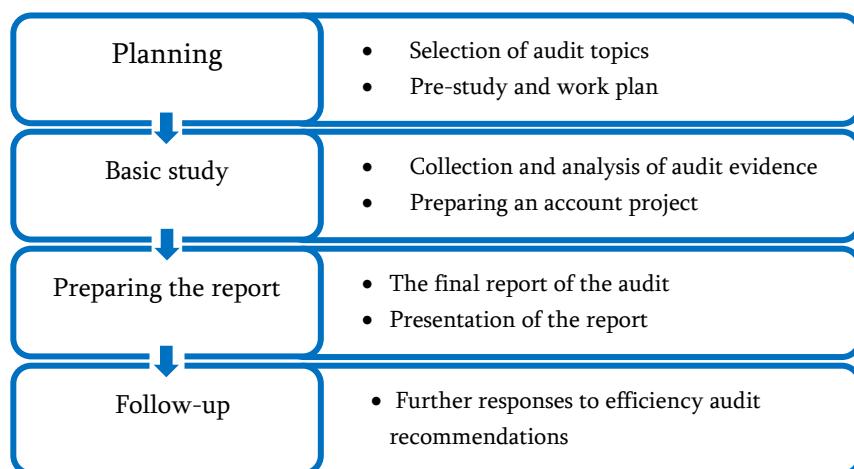
As we have already mentioned, audit at the state level is organized in two types: Internal and External. Correspondingly, there are range of differences and similarities in audit stages.

External audit in Georgia is conducted by the state audit. While conducting the audit, state audit office is guided by the decree of the general auditor “On determining the methodology for conducting the audit of financial-economic control of audit offices” released on December 28 of 2012. This decree determines that state audit office should guide through methods and procedures set by financial and efficiency audit manuals when conducting the audit (State ... 2012).

According to the efficiency audit methodology, efficiency audit consists of several stages, which are represented in the below given tables.

Scheme N2

Audit stages

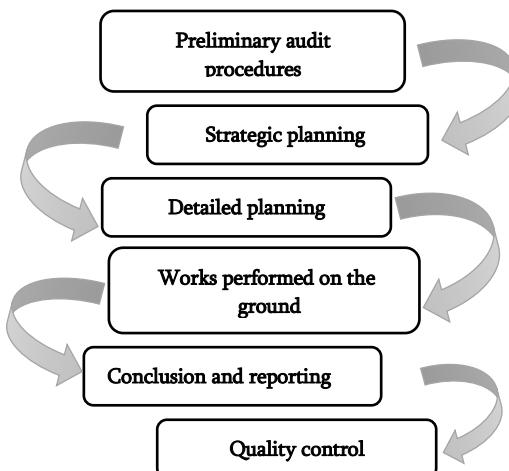


Source: Efficiency Audit Methodology, State Audit Office, 2013

The second important audit document widely used by the state audit office auditors is “Financial and Compliance audit manual”. Pursuant to the manual, there are the following audit stages:

Scheme N3

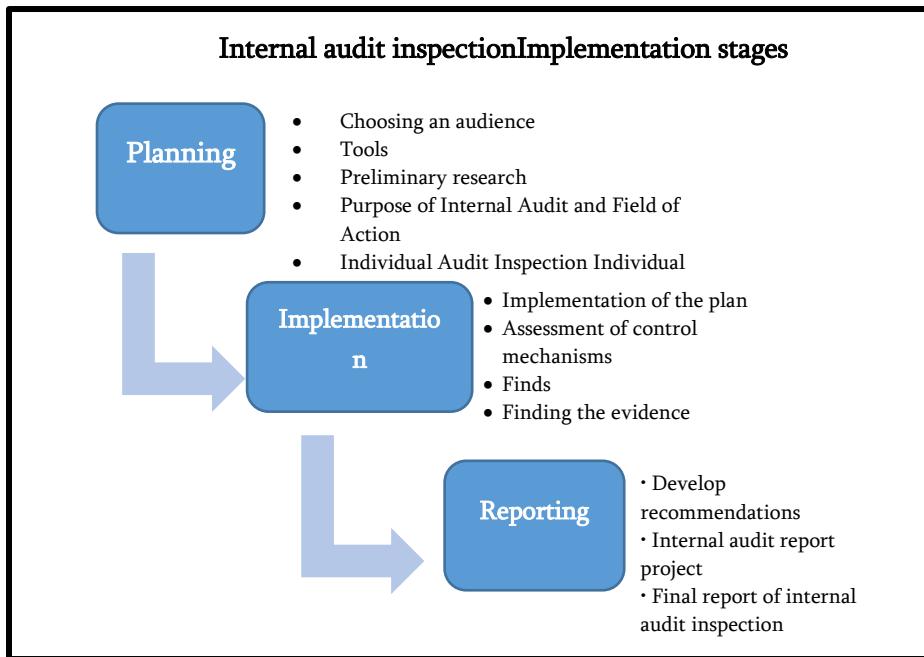
Audit stages



While conducting the internal audit, internal auditors guide with N593 “resolution on approving of internal audit methodology” adopted on December 26 of 2016. Internal audit inspection is divided into three stages (Georgia’s ... 2010).

Scheme N4

Stages of internal audit inspection



Source: Resolution No. 593 on Approval of the Internal Audit Methodology of December 26, 2016 of the Government of Georgia.

Financial management and control is based on international standards of internal control and is carried out by means of the following interconnected components: (1) control environment; (2) risk management; (3) control measurement; (4) information and communication; (5) monitoring and assessment.

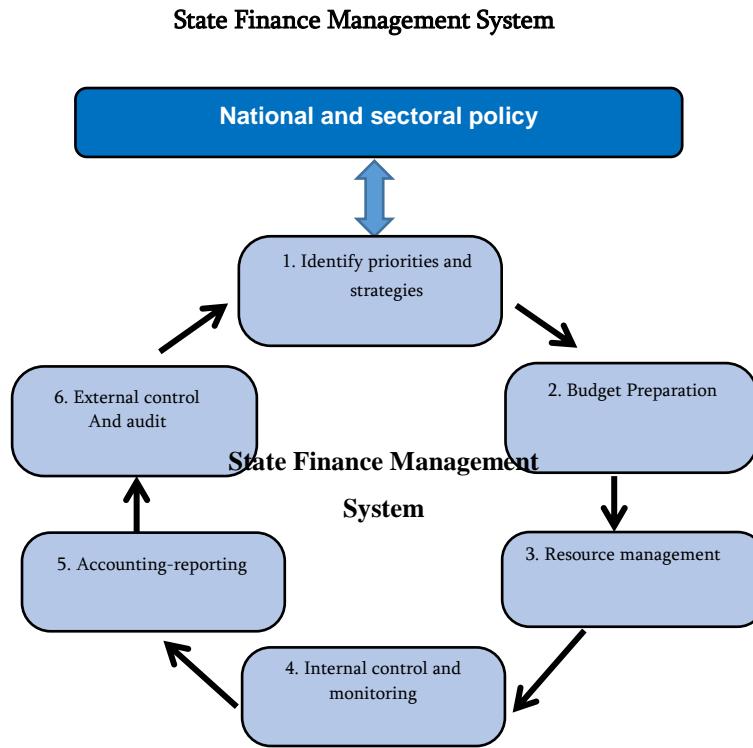
Without financial resources it is impossible to realize any functions and obligations owned by the authority. Those resources reflect on the budgets of state, republic and local self-government entities. The source of resource mobilization is the income of resident/non-resident, legal and natural persons. Therefore, it is extremely important to use the budget and all resources effectively, productively, deliberately and transparently with public engagement in it. In order to realize all above mentioned things, significant attention must be paid to the monitoring and assessment system.

Monitoring and assessment system forms the united system encompassing all information how to implement the policy and what programs, projects are included in it and what will be their outcomes. All in all, it serves as the main instrument making decisions on forming policy strategies.

Consecutive monitoring and assessment system enables the management identify whether the programs and projects contribute to the achievement of overall state strategies and set objectives or not. (For example: economic growth).

State Financial Management System is based on interrelated processes, which are divided into six stages.

Scheme №5



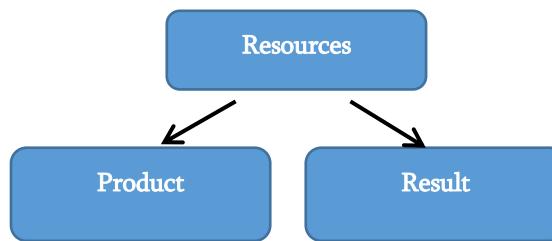
Source: Georgia Budget System, 2016 State Budget, Citizen's Guide, 2015

At the end, those stages form one unified system managing the state finances. Efficiency of this system depends on separate as well as simultaneous functioning of this stages. If all this stages work effectively but their functions do not correlate with each other, then there is no guarantee that state financial management system will get desirable results.

Monitoring of budgetary organizations can be carried out from the angle of work efficiency, which implies the analysis of result correspondence with expenses.

Scheme №6

Monitoring in terms of efficiency

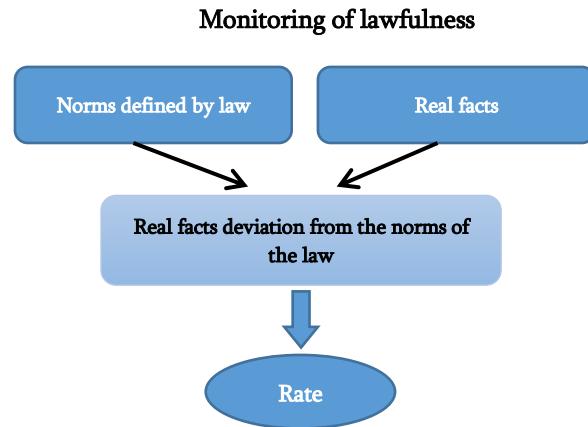


Source: Georgia Budget System, 2016 State Budget, Citizen's Guide, 2015

Product is the commodity or service created as a result of expenses incurred in the budget. For example: As a result of expenses incurred from the budget for building a new school, we get the new school as the product. Social outcome differs from the product. In case of above-mentioned example, social outcome might be the improvement of educational conditions.

Budget monitoring via the prism of legality is tasked with defects disclosure and real actions comparison with each other in compliance with normative and legislative acts for functioning of budget organizations.

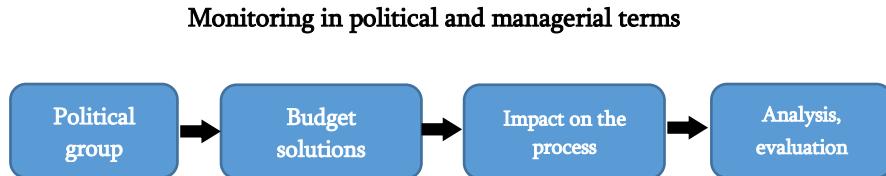
Scheme №7



Source: Budget Policy Formation Process and Monitoring of Budget Expenditure, Besik Amkavadze, 2015

From the angle of political governance, monitoring implies the assessment of the impact of different political groupson the proper functioning of budget organizations and it also analyzes what is the influence of state structures on making decisions related to budget organization activity.

Scheme №8



Source: State Budget and its Monitoring Methods - Guide, Association of Young Economists of Georgia, 2005

Program implementation monitoring – as we have already explained, monitoring is a management tool, which assesses and measures periodically if the objectives set by programs and sub-programs have been achieved.

The long-run priority of the government of Georgia is to ensure available, qualitative social protection and health care. Correspondingly, annual budget should strive for getting this goal and promoting the progress in this direction.

Depending on the volume of expenditures during monitoring of social and health expenses, it is better to monitor at the level of programs or sub-programs. It is undoubted that programs of these directions require improvement. Let's have a look at the universal healthcare program of 2015: The program budget may include quantitative as well as qualitative indicators but in this program just quantitative program is described. There are no qualitative efficiency and effectiveness indicators. This approach can make the health care more

available but the main priority of this direction which are the criteria of qualitative health care achievement evaluation is not presented in it.

Since March 1 of 2017, some changes have been made in the universal health care program. As a result of these changes, universal and private packages were first separated after the 1st of March, 2013. Since July 1, 2013, individuals who had no private insurance have been identified as the beneficiaries of the universal healthcare program but individuals, who have been using private insurance as of July 1, could not become beneficiaries of the universal health care program.

Principle has remained unchanged. According to the data of July 1, 2013, before the upgrading of bases, about 500 thousand people (496 061) have been using the private insurance. However, people whose private insurance has been terminated became the beneficiaries of minimal package of universal health care. Others, who were not registered among individuals having the private insurance who later got the policy by July 1, 2013, became beneficiaries of double insurance.

Accordingly, upgrading of existing lists was required as of July 1, 2013 order to make further reformations and achieve its aims, which implies availability and universality of health care services for uninsured population.

Outcomes of the changes: Since July 1, 2013 about 120 thousand people (115 771), who had no private insurance and could use only the minimal package of the universal health care, got the chance to become basic (full) package users.

On the other hand, according to the proposed amendments, "basic package" beneficiaries, instead of July 1, 2013, became uninsured individuals as of January 1, 2017. So, those being the beneficiaries of the double funding (private and universal) will get only private insurance.

All these amendments are directed to provide better health care services. Additionally, in order to avoid the worsening of conditions for beneficiaries, programming cases in the frame of so called "basic" or "minimal" packages which have not finished yet, will be compensated in accordance with the same package through which the service started. As for the warranty sheet issued for planned services, it remains valid until the elapse of the term.

Monitoring of the efficiency of program expenditure itself is very complex phenomenon. Research should include beneficiaries of the program as well as parties involved into the research (medical institutions, program implementing structures). Remarks of the population towards the program, program resource and sustainability should be figured out. Private and public sector attitude in the field of health care must be clear, maybe private medical institutions and insurance companies are in disparate conditions. Main aim of the monitoring must be the assessment of expenditure efficiency and elaboration of recommendations, if it is possible to reach the better health care with more or less expenditure.

Monitoring of state procurement- state procurement is among one of the important issues in the monitoring of budget expenses. State procurement must meet three principles: (1) transparency; (2) economy (3) efficiency.

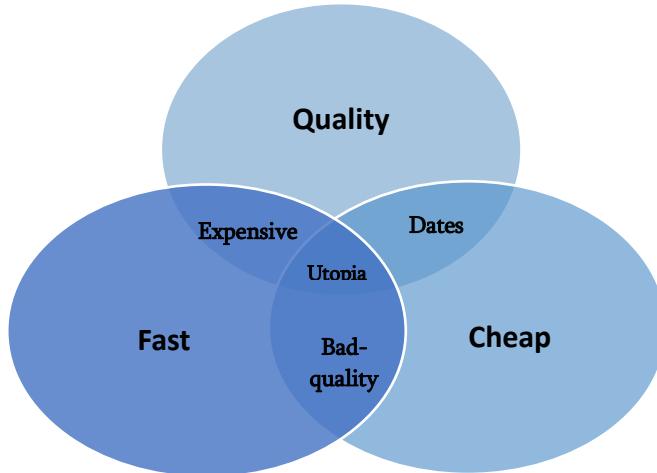
There are several state procurement forms in Georgia:

- *An electronic tender* – enables us to purchase GEL 5 000 or more;
- *Contest* – alternative way of project service procurement;
- *Simplified procurement* – enables us to purchase maximum GEL 5 000;

The Main challenge of procuring organizations is that they often try to purchase good product very fast and cheaply and of course it is very difficult to achieve all those three objectives. You can get good product if tender is conducted well. For this, providers must be given adequate time for their participation in the tender.

Scheme №9

Challenge of procuring entities

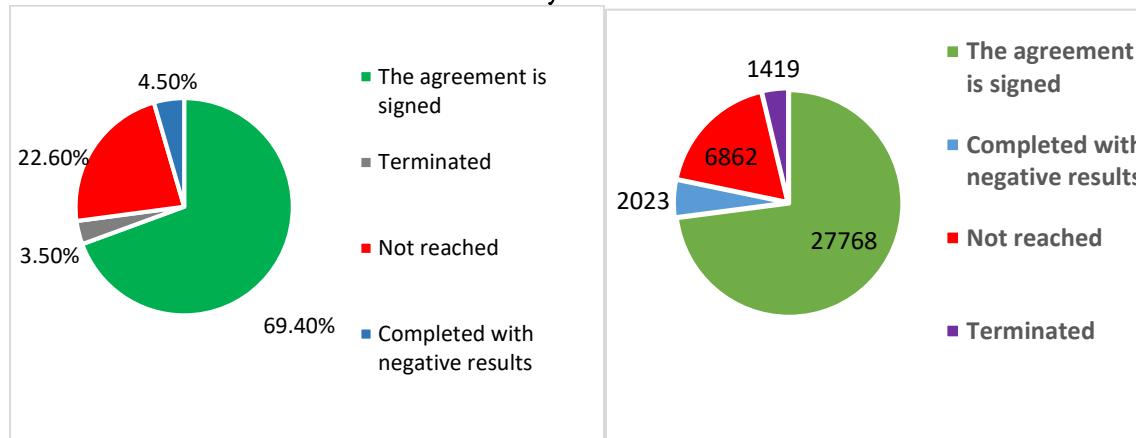


Source: State Budget and its Monitoring Methods - Guide, Georgian Young Economists Association, 2008

To analyze electronic tender efficiency throughout the country, we should discuss the status indicators granted to electronic tenders announced in 2015-2016.

Diagram N1

Distribution of final statuses
Granted by the tender in 2015-2016



Source: Public Procurement Agency's activities for 2015 and 2016.

It is clear from the diagrams that according to the statistics of 2015, the share of incomplete, terminated tenders in the entire volume amounted 30,60 % and according to the statistics of 2016, its share amounted 27%. Although, indicator of 2016 has decreased almost by 4% compared to the indicator of 2015, more than ¼ of

announced electronic tenders has negative results. We can assume that the main reason of negative results is the fact that participant companies offer extremely low prices and therefore, proposals made by the tenders can't be ensured, or the second reason is the fact that procurement organizations offer extremely short time for product delivery and work performance.

In addition, we should note that it is impossible to find the information concerning the total cost of announced tenders and also, information concerning cost indicators of incomplete tenders with bad results.

While implementing of state procurement monitoring, the role of simplified procurement must be underlined, specifically, how objectively the purchaser applies to the simplified procurement way, since there is no competition during this type of procurement and the risk of corruption is high, therefore, monitoring from the angle of law is required. Monitoring of electronic tenders is much easier, since the electronic tender system operating in Georgia is open for any user. Through using the electronic portal of the state procurement agency, it is easier to observe the entire procurement procedure, before signing the agreement after the tender has been announced.

Monitoring of administrative / bureaucratic expenses –administrative expenses of the budget are so called state governance expenses. Monitoring of administrative expenses can be conducted by means of two different directions: law and efficiency.

Largest part of administrative expenditures comes on labor remuneration. So, we should emphasize on legality and efficiency of above mentioned expenses.

Based on these parameters, we can examine salaries and bonuses issued in the ministries of Ajara in 2016-2017 from the angle of law compliance and efficiency.

Table N1
Trends of Salaries, Bonuses and Payment Supplements in the Ministries of Adjara (GEL)

Name	Salary		Supplement		Bonus	
	2016	2017	2016	2017	2016	2017
Ministry of Finance and Economy	1,334,753	1,344,599	532,832	513,214	375,651	405,390
Ministry of Agriculture	842,057	706,031	425,219	205,474	167,428	214,510
Ministry of Education, Culture and Sport	695,225	663,896	357,763	339,949	171,986	176,929
Ministry of Health and Social Affairs	780,475	756,915	403,646	401,912	154,528	146,028

Source: The table is drawn up by us, based on public information requested from the ministries through official letter.

It is clear from the table that 70-80% of the salaries represent bonuses and salary supplements in above mentioned ministries. Distribution of salary supplements and bonuses, take place in compliance with the law but the efficiency analysis of issued bonuses is not carried out in none of the mentioned ministries. Also, there is no evidence why the bonuses were issued to certain employees only. Unfortunately, there is no incitement for employees in the public services.

In our opinion, exactly this is the main determinant of amendments made in 2017 in Georgian "Law on labor remuneration in public services" and was enacted in 2018. According to these amendments, bonuses and salary supplements were merged into the article on salaries.

In order to analyze the efficiency of expenses, we should estimate the amount of administrative expenditure in terms of relativity. We should calculate how many percent of the total expenditure comes on administrative expenses. Indicators of the relativity will help us to compare Georgian statistics with foreign statistics. Moreover, indicator of relativity should be estimated in line with gross domestic product.

The share of labor remuneration expenses in the state budget of 2016 in the entire expenditure amounted 16%, as for the state budget of 2017, it amounted 15% and pursuant to the law on state budget of 2018, potential share of labor remuneration in the total expenditure will be 14%.

Table N2

The share of labor compensation in total expenses (GEL)

Name	Fact of 2016	Plan of 2017	Plan of 2018
Expenses	8,741,830.8	9,157,212.8	9,720,893.2
Remuneration	1,452,292.5	1,397,505.1	1,413,619.1

Source: The table is drawn up by me, based on the Law on "Georgia's 2018 Budget."

Analysis of administrative expenditure of Georgia shows that in recent years, Georgian government managed the important optimization of bureaucratic expenses in concrete direction. Nonetheless, the size of Georgia's state bureaucracy and the expenditure on its provision exceeds the economic capabilities of Georgia and requires further optimization.

According to current situation, indicator of relativity of the size of Georgia's state bureaucracy and expenses falls far behind that of developed countries in Europe. Additionally, statistics of 2011-2016 show that the relativity indicators similar to Georgia are characterized by positive trends. For example, according to the data of total budget of Georgia, nominal amount of bureaucratic expenses increases annually but it does not have any bad influence on budget and economy at all, on the contrary, its share is decreasing. In particular, according to data from the past 6 years, bureaucratic expenditure has increased by GEL 800 million, however, share of bureaucratic expenses in total state budget has decreased almost by 6% and by 0.3% in relation to GDP(Bureucratic..., 2017).

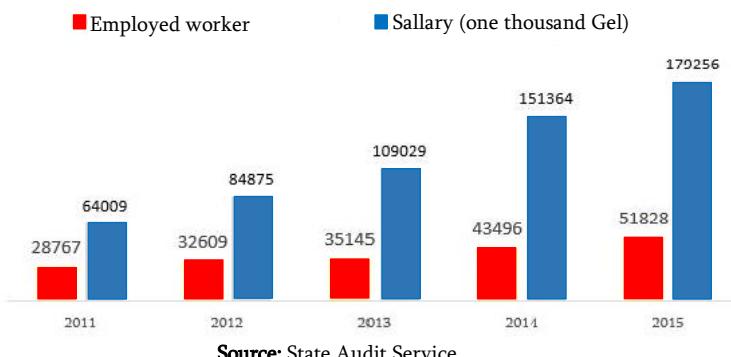
Diagram N2

Relative indicators of employed and bureaucratic expenditures in the public sector



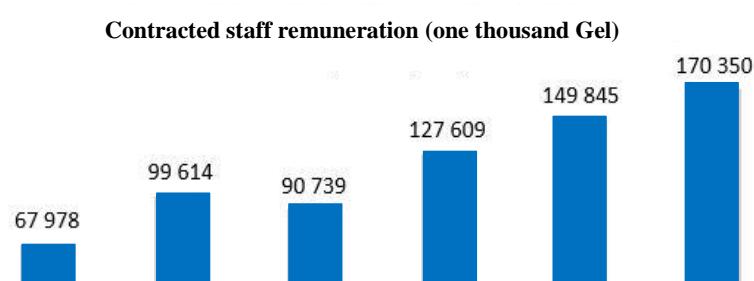
The share of public sector employment in the total workforce has also been slightly decreasing, albeit with notable exceptions that raise questions about the optimal size of the bureaucratic apparatus. The biggest challenge in this regard is the number of public servants in state and municipal LEPLs and NNLEs which is unreasonably high and keeps increasing. For instance, the number of persons employed by municipal NNLEs has doubled since 2011 to 51,828 employees in 2015. As a result, labor remuneration expenses of NNLEs have tripled since 2011 to GEL 179 million in 2015. Georgian legislation does not explicitly define the criteria for setting up such entities, which leads to duplication of authority (Bureaucratic..., 2017).

Diagram N3
Quantity of employees in the NAPR employed by the municipalities and the expenses on their remuneration



Extensive practice of employing supernumerary employees by public institutions is another challenge. It is common for public institutions to exceed the legal limit on the number of such employees they can employ. As a result, labor remuneration expenses for supernumerary employees have also increased from GEL 68 million in 2011 to GEL 170 million in 2016.

Diagram N4



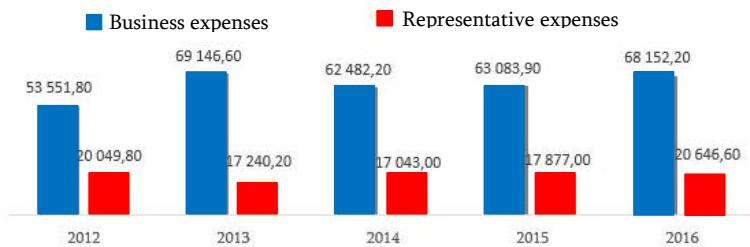
Source: Challenges of the Bureaucratic System in the Context of Public Reform, 2017

Wasteful spending due to lack of regulation and monitoring is also a significant problem. This problem manifests mostly in relation to the remuneration system, which is unbalanced and non-transparent, and riddled with the practice of issuing unreasonably high bonuses or salary supplements. Wasteful spending also applies to the purchase of luxury vehicles, and inadequately high representation and travel expenses in case of specific public institutions

A comparison of work visit, representation and telecommunication expenses reveals that only the latter has been decreasing since 2011. This is most likely due to the fact that this area is more regulated than the other two, of which work visit expenses have remained unchanged, while representation expenses have been increasing every year, pointing to lack of regulation (Bureaucratic..., 2017).

Diagram N5

Official visits and representation expenses (one thousand GEL)



Source: Challenges of the Bureaucratic System in the Context of Public Reform, 2017

The Georgian public service is undergoing a transition. Despite a number of important steps that were taken within the reform, its continuous monitoring and improvement remains essential.

In addition, considering Georgia's economic hardships, its system of state bureaucracy must also be made efficient, which, on the one hand, will be able to pursue state goals and deliver services, while, on the other hand, will not become a barrier for economic development due to high maintenance cost.

According to relative indicators resulted from different studies, we can conclude what is the share of administrative expenses in in state budget. For example, the share of administrative expenses of Estonia and Poland amounts 19% in budget expenses, it is 10% less than in Georgia. This indicates that the level of "bureaucratic" spending share is high in carrying out responsibilities by the state, which indicates on insufficient level of efficiency. (Namchavadze, 2015).

The role of public sector and its responsibility in the community has significantly increased in the preceding years all over the world. Special attention is paid to the public sector internal and external audits, because exactly they have to analyze the efficiency and effectiveness of public sectors and on their basis submit reports and recommendations.

We consider that the country's economic growth greatly depends on the effective functioning of public sector audit. International cooperation plays considerable role from this angle, as during the cooperation, international experience and practice are exchanged.

Sharing of progressive experience accumulated in the field of audit is promoted by special international organizations and we should recall some of them:

- INCOSAI International Congress for Supreme Audit Institutions
- INTOSAI – International Organization of Supreme Audit institutions
- EUROSAC – European Organization of Supreme Audit Institutions
- ASOSAI - Asian Organization of Supreme Audit Institutions

Above mentioned international organizations play a great role in developing and improving international standards of state financial control, this was conditioned by globalization of the world economy, improvement of foreign investment regulations and their efficiency and what is the most significant, by ensuring legal, purposeful, efficient use of financial resources.

Reforms pursued in public sector will be successful if the credibility level is increased towards the state audit and if the situation in public sector is improved. By realization of these reforms, state public sector will benefit from it and will have professional auditors, who will properly evaluate the financial hardships in the country and set long-run perspectives. Ongoing reforms contribute to the increasing of transparency level and decreasing risks in public sector, this is especially important factor for the development of country's economy. Final reforms' outcomes will be available for our society and as a result, they will get the country, standing on the path of prosperity and economic growth.

The audit evaluates state budget, extensive state programs, legality and efficiency of received and spent funds. If the shortcomings are revealed at the beginning and afterwards eliminated by relevant measures, this significantly influences the country's economy. If the audit makes preliminary evaluation of elaborated programs in the frame of budget or various grants and finds out that planned results can't be achieved, we should make an alternative decision: modification, prompting the improvement of the productivity should be made in the program. In our point of view, this will directly reflect on economic progress of the country, as there will be no misuse of the budget and public institutions will be oriented on defining effective priorities and programs.

As we have seen in the second chapter, there are similarities as well as dissimilarities between the stages of public sector internal and external audits in Georgia. We think that the biggest difference between them is that the external audit in contrast to the internal audit is concerned with audit quality control too. At this stage, the compliance of audit quality with international standards of audit quality control is determined, shortcomings are revealed and relevant ways are found for their further elimination.

In this chapter we underlined the role of monitoring and assessment which are one of the important components of financial management and control. We have reviewed the share of administrative expenses in the state budget during last years within this component, made comparative analysis with other countries and have concluded that the share of administrative expenses in Georgia is much higher than the same expenditures

in other countries, based on the statistics and by means of the electronic tender we have evaluated the efficiency of state procurement in Georgia, as well as all factors affecting it.

The third chapter "Methods of State Audit evaluation effectiveness" examines the state sector audit and the quality control, management responsibilities in the frame of quality subordinated institutions, ways of audit quality control improvement.

Quality control must guarantee us that the audit objectives are achieved and the audit is planned, organized and implemented through effective use of resources. Strategies and procedures implemented in line with audit quality control must correspond to legal, professional and ethic requirements of audit control itself.

№593 resolution of December 26, 2016 "On approving the internal audit methodology" reviews the main aspects of quality control. In accordance with the mentioned methodology, the head of internal audit entity must develop and later on implement quality control program including three basis forms: internal and external evaluations and ongoing surveillance.

It is good practice to elaborate efficiency indicators in advance in the frame of internal audit entity, to measure its own level of efficiency and to set new objectives. Let's discuss some of the examples:

Percentage difference between planned and implemented internal audits: This coefficient is used as the efficient planning indicator. Revisions and changes of internal audit entity and planning process might be caused due to a big number of unrealized internal audits.

Time for submission of the internal audit report: It is considered that if little time passes from the internal audit implementation before report submission, it indicates that the high level of internal audit activity management and organization is achieved. But in case of big time interval, we can conclude that evaluation system is characterized by different shortcomings or outdoor activities are inefficiently carried out.

Objections by internal audit entity: If the report absolutely corresponds to the internal audit entity, it means that conducted audit was effective and this is an example of the ideal report. Reasoned objections made by internal audit entity, might indicate on inadequate, unsatisfying work of internal audit entity.

Percentage of important system changes: Whether there was a significant change in the inner system of the institution that was carried out in accordance with the recommendations issued based on the internal audit report.

Percentage of agreed recommendations: As a rule, all issued recommendations do not fall into the final internal audit report. Thus, the coefficient of agreed recommendations, in comparison with "rejected" recommendations, might be a good indicator of internal audit entity efficiency (Georgia's ..., 2016).

Audit quality control mechanism plays an important role in successful functioning of audit entity and is tasked with audit quality evaluation, risk analysis and elaboration of special measures for its elimination.

According to Georgian "Law on state internal financial control", harmonization center takes responsibility for external evaluation of the quality and controls the compliance between audit and quality in the public sector. It is worth mentioning that there is no internal audit quality controlling structural divisions inside the organization in other structural entities at the state level.

Quality control at the level of external audit has been promoted since 2011 by the quality assurance department of the state audit office, which enables us to assume that the office service correlates with international standards and best practical audit approaches have been implemented and utilized in it.

Implementation of quality control system implies formation of two stage system in compliance with international standards of audit procedures:

- **Hot review** is conducted during the audit work is conducted but before the auditor's report is issued with a prime objective to ensure compliance with relevant auditing standards and achieving engagement's objectives.

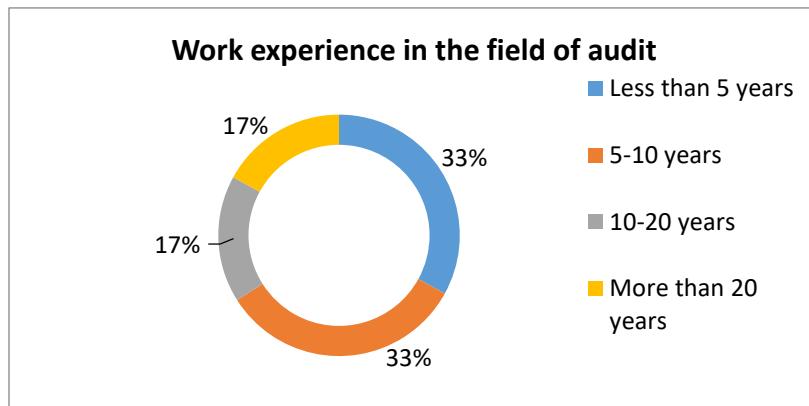
- **Cold review** is conducted with a view to check for the weaknesses in the firm's quality control procedures and system, proficiency of audit team members and how they can be improved to make later audit assignment more effective and efficient.

Managements of organizations decide all the major issues concerning the organization and its professional practices. The managements are responsible for the promotion of quality control culture within the organization.

In order to evaluate and analyze what is the condition of audit quality control system in the public sector, we have conducted the research and questioned the internal auditors of state audit office and other public services.

Relying on the results of the research, we can conclude that the age of employed in the structural units of the public sector audits is differentiated, although those aged from 30 to 39 prevail with small percentage. Also, we should mention that 46% of respondents were more than 40 years old. Hence, we think that majority of public servants are well qualified and experienced, especially if we take into consideration the fact that most of the auditors have got 5-10 year working experience in accounting and auditing. It means that there is no deficit of inexperienced workers in the public sector audit, on the contrary, most of them have gained a deep experience while working in this field and theoretically we can assume that public sector audit will be conducted in effective way.

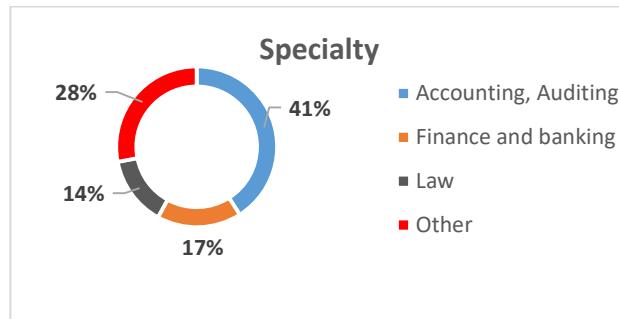
Diagram N6



Source: Diagram is drawn up by us, based on research.

Research clearly demonstrated that more than 40% of auditors studied on accounting and auditing, indicating the fact that the personnel in the public sector audit is staffed according to requirements, as it is essential public servant to have not only practical knowledge in this field but vigorous theoretical knowledge in accounting and auditing. It is important to note that only 14% of audit workers have legal education.

Diagram N7



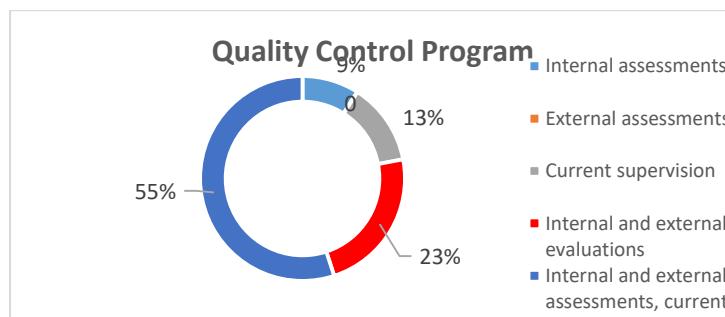
Source: Diagram is drawn up by us, based on research.

We think that if the above-mentioned indicator increases, it will be very profitable for our country, as every service in Georgia whether it is public or private is regulated by the legislation. So, it is a great priority when there is at least one worker in the structural entity who is able to make profound analysis of legislative requirements and based on team work give other workers a hand in developing of similar skills. Taking into account the statistics of the research, it is clear that 45% percent of employees have education in other fields and we suppose this is a weakness of audit sector, at least 90% of employees must have proficiency in the field of accounting, auditing and law, because if there is necessity of involvement single-skilled specialist/expert in auditing, any structural entity is eligible to do it legally and there is no need for the public sector audit to be staffed with single-skilled specialists.

42% of respondents state that the quality control program is not implemented in the organization. The process of auditing itself needs to be evaluated, if its quality corresponds to international standards, deficiencies must be detected and eliminated.

50% states that the implemented quality control program within the organization encompasses internal and external assessments and ongoing surveillance. This indicator is satisfactorily goo at this stage, nonetheless, it is better if audit personnel is retrained and provided with recommendations on quality control program. They should get the chance to differentiate between pros and cons of internal/external audits and ongoing surveillance, so that afterwards, they could compose optimal program in order to use all methods in combined and more effective way.

Diagram N8



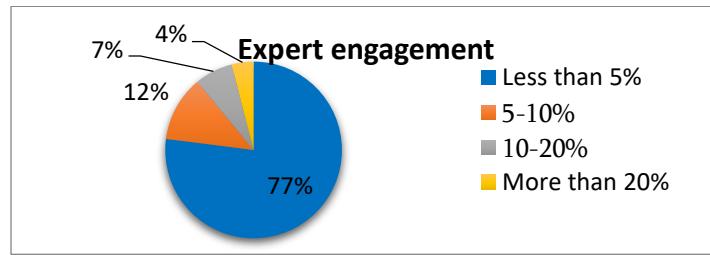
Source: Diagram is drawn up by us, based on research.

More than 95% of auditors say that they are provided with professional trainings and can participate in different conferences and take professional courses. This fact indicates that the management is very interested

in improving the personnel qualification which definitely contributes to improving the efficiency. Undoubtedly, trainings and professional courses positively influence personnel qualification and knowledge, especially in our fast-moving business environment, where existing situations must be suited to international standards, foreign experience shared and implement various methods in our reality.

More than 75% of auditors say that involvement of invited experts in auditing is less than 5%. Thus, we can conclude that entities are staffed with qualified and professional personnel but the low percentage of invited experts involved in auditing might be conditioned by the fact that there are few cases when consultation of single-skilled experts is required.

Diagram N9



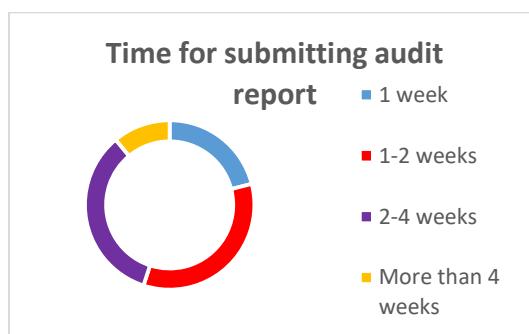
Source: Diagram is drawn up by us, based on research.

As for the elaboration of efficiency indicators in public entities, in 48% of audit entities it has been already elaborated and in 52% not yet. Last percentage is very high, as without efficiency indicators it is impossible to evaluate the auditing. Those respondents who stated that efficiency indicators are elaborated, did not specify what kind of indicators they refer to. That is why, we have suspicious mind whether the responses of our respondents were honest and we are prompted to assume that even 48% of audit entities has no efficiency indicators.

According to auditors, deviation is less than 5% between planned and conducted audits. Therefore, we can conclude that almost every entity makes risk assessment in advance and on its basis entities for inspection are chosen.

The majority of interviewed auditors need more than 1 week and less than 1 month to submit an audit report. This indicator enables us to assess the functioning of audit structural entities positively and it is evident that auditors are very delicate in time management.

Diagram N10

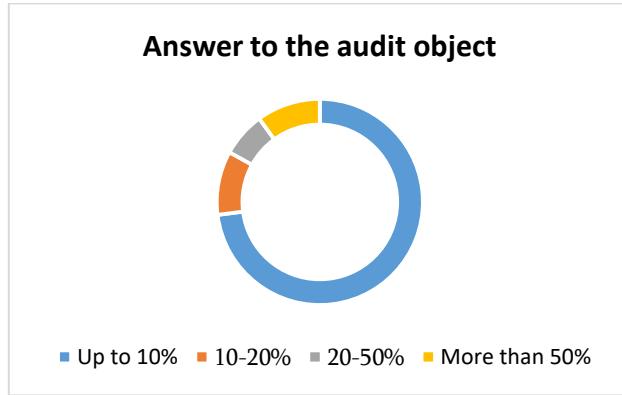


Source: Diagram is drawn up by us, based on research.

More than 70% of respondents say that indicator of objection of internal audit entities is less than 10%, this indicator is supported by agreed recommendations' indicator which is more than 50%. So, it is clear that

auditors provide us with reasoned assessments and recommendations. The information presented in the audit report is acceptable for most of the audit entities and agree with the comments, indicating on the high qualification of auditors.

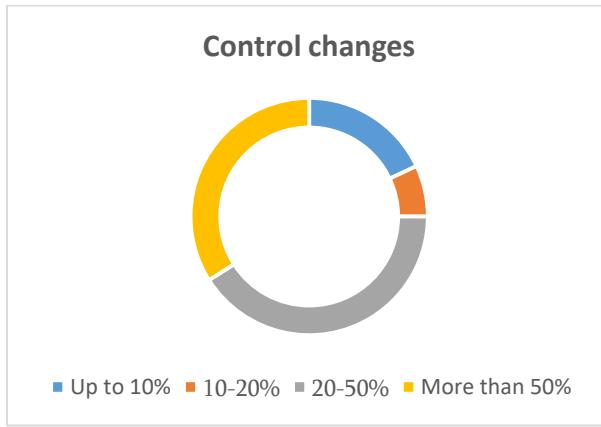
Diagram N11



Source: Diagram is drawn up by us, based on research.

According to the internal auditors, percentage of control changes after audit in most cases is less than 20%-50% and more than 50% in audit entities. We consider that this percentage is not sufficient and they should exercise stricter control on monitoring of implementation of recommendations. As we have already mentioned, audit object takes into consideration any remarks made by audit, nonetheless, only recognition of mistakes is not enough. Issued recommendations must be implemented on time, mistakes must be corrected and future recommendations envisaged. If issued recommendations are not implemented, it will lead to the pitfall of the audit and state budget as well.

Diagram N12



Source: Diagram is drawn up by us, based on research.

Majority of respondents say that internal audit entity requires improvement of quality control level but at the same time we should mention that all the respondents gave at least 7 point out of ten to the level of quality control in audit entity. This creates a kind of contradiction, because if the auditors say improvement of quality control system is required, it is impossible to give such high scores.

Pursuant to the findings, in order to foster quality control system in public sector, important measures must be taken. First of all, quality control standards must be developed for public sector, as well as for Georgian manuals, so that all the auditors could explore what is the role of quality control system. In the internal audit

methodology separate chapter is dedicated to quality control system but we think it is not enough for gaining profound theoretical knowledge.

It is noteworthy that quality assurance department exists only in external audit institution in the state audit office. As for internal audit structural units, quality of activities is monitored by harmonization center, however, it is still vague what principles are used by them for monitoring.

In conclusion we can say that there are legal bases for audit quality control system, quality control program has been developed theoretically, this topic is especially interesting for Georgian legislation. Also, at the level of internal and external audits, it is defined how to evaluate the audit quality and competences of relevant institutions are indicated too.

Additionally, a brief overview of the activities and results of the Quality Assurance Department of the State Audit Office is included in the annual report of the State Audit Office. However, we can't say the same thing in reference to the evaluation of internal audit quality control, harmonization center has never evaluated audit quality control system, so, there are no reports in this direction.

Study of quality control system clearly demonstrates that important changes must be made in this direction. In our opinion, the most significant functions for audit quality control system must be specified, so that, interested state or public organizations could compare provided activities with international standards and functions used in quality control system.

Conclusions and suggestions

In recent years much has been done to achieve better institutional structure of the country. Important institutions have been formed in the direction of audit, this type of institutions have never existed before but if they did, it was of recommendatory character, mainly taking punitive measures.

The country has differentiated between internal and external audit institutions that determine economic direction of the country.

We think that quality control standards must be implemented in Georgia, tasked with the assessment of whether the auditors employed in state sectors follow professional standards or not. Every state office must have quality control policy and procedures for professional services.

Quality control system should not only take punitive measures but also contribute to the audit institutions. Quality control system should supervise if the auditors follow the requirements of Georgian legislation, audit international standards, quality control international standards and the code of ethics.

Recommendations should be given to those auditors who are really in need of it, particularly, if their service requires improvement and implementation of new standards. However, in specific cases disciplinary measures can be taken.

Research conducted on audit quality control in public sector audit institutions, made it clear that the audit in this direction requires important improvement in Georgia. First of all, the personnel should be retrained in order to improve their qualifications, as their low qualification negatively influences the audit quality, whether it is financial, systemic, efficiency, compliance or IT audit.

It is undoubtedly that efficient state audit greatly contributes to the country's economic growth and development because state audit office evaluates state policy and conducts state budget audit, analyzes the purposefulness of state expenditure and conformity of its spending with state legislation. On their side, internal audit structural units contribute to the effective functioning of each public structure.

The Georgian public service is undergoing a transition. Despite a number of important steps that were taken within the reform, its continuous monitoring and improvement remains essential.

The absence of state internal financial control system during many years, its total or partial demolition threatened the transparency and accountability of state budget spending. That is why, initiatives are always important, especially those ones which contribute to the transparency of budget funds and the research on how to conduct the audit effectively and what is its compliance with international standards, represents exactly this initiative.

In order to evaluate and analyze public sector control system we have conducted the research (interviewed internal auditors of state audit office and other public services) and according to results it became clear that public sector audit requires development through the implementation of quality control system.

EU integration processes in Georgia caused changes in the field of accounting, financial reporting, auditing, in private as well as public sectors and the issue of evaluation of public sector audit efficiency and implementation of quality control system has been already included in agenda.

By means of audit it becomes clear whether the state programs achieve set objectives and what expenses are required for it. By studying the efficiency of auditing and implementing quality control system, the following must be explored:

- If audit institutions function effectively;
- If the quality control system of conducted audits is analyzed;
- If the management is concerned with the elimination of deficiencies.

Methods, which will help how to avoid failure and conduct audit effectively must be used in the process of audit quality control.

Service for Accounting, Reporting and Auditing Supervision Subdivision of the Ministry of Finance of Georgia was established in 2016, which sets standards and requirements in Georgia for accounting, auditing, reporting and submission, ensuring quality control – aiming to meet the EU requirements for regulating accounting and audit legal acts. The objective of the service is to regulate the financial accounting-reporting field at the state level and to strengthen monitoring on audit profession.

In order to carry out effective service at the level of internal audit, active office represented by the harmonization center must fulfill all requirements and regularly inspect the qualification of internal auditors and monitor the quality of conducted audit. As for the improvement of external audit quality, requirements enabling the state or public organizations observe the conducted audit, must be elaborated. It would be better if the employed auditors were obliged to present the certificate of public sector auditor proving their competence and qualification, moreover, their qualification must be improved from time to time.

Basic principles of audit quality control system can not envisage all kinds of approaches, methods and procedures. The audit is related to those issues and aspects which encompass the entire public sector. In this respect, it is impossible to develop methods where all specific cases will be examined.

We think that efficiency indicators must be elaborated, which will enable the internal and external appraisers of audit quality control, make proper evaluations. Efficiency criterion might include the best practice of offices doing the same activities, as well as foreign experience.

Pursuant to our findings we can conclude the following:

1. It is better if preliminary consultations and recommendations are given to audit institutions, as it will contribute to meeting quality control international standards and improving audit efficiency. By means of this

process, the auditors conducting the audit and quality control system appraisers should find common ground and make relevant conclusions.

2. Qualified, well prepared auditors are the important pre-requisite for conducting the efficient audit, they must manage by means of international standards and Georgian legislation. Also, auditors must be retrained to achieve better results.

3. Audit quality control should be carried out as further inspection, as well as ongoing surveillance, which implies the inspection of audit efficiency in compliance with the quality in the process of auditing itself.

4. Legislative base of Georgia should be improved in accordance with quality control international standards, as in most cases exactly legislative shortcomings determine the ineffectiveness of audit.

5. Special rules for realization of recommendations issued after external and internal evaluation of audit quality must be implemented and its further monitoring system must be developed at the level of legislation. This implies the formation of special office controlling the quality with strictly determined functions and obligations, tasked with providing audit efficiency and eliminating extensive weaknesses. Monitoring on realization of recommendations is the most important thing for us, actions taken by audit entity in order to resolve problems must be reviewed constantly;

6. Auditors must be engaged in elaboration of efficiency indicators in order to conduct quality relevant auditing, so that it did not hinder making objective and unbiased assessment for the next time. Above mentioned process will bring the risk of taking improper decisions to a minimum. When elaborating the indicators of efficiency, experience of auditors as well as research practice of effective audit implementation must be taken into consideration;

7. In order to impose obligations (to conduct audit effectively, be result-oriented) on public sector auditors, preserving of quality relevant audit principles at the legislative level must be mandatory. These requirements are not regulated by current legislation and that is why, the auditors do not have direct obligations to conduct the audit in compliance with quality international standards. Mentioned amendments will contribute to effective auditing, hence, economic growth and ongoing EU integration process in the country;

8. Audit quality control practice must be implemented at the level of organizations and audit process. By means of mentioned method, the risk of improper decisions and too many expenses at the level of organizations will be brought to a minimum. Introduction of audit quality control system ensures high reliability of audit conclusions and recommendations;

9. Audit standards and quality control standards representing the methodological base must be implemented. Elaborated international standards must become mandatory normative documents for use. Public sector experience of foreign countries must be studied because it will help us to avoid mistakes in the process of audit normative regulation of our country;

10. In order to ensure the efficiency of audit inspections, modern technologies must be used as well. It significantly simplifies the process of auditing itself and of course it can't be done without proper knowledge and proper equipment;

11. Finally, administrative sanctions must be imposed on workers conducting inefficient audit and if mistakes are made again, those workers must be punished. Audit is mainly tasked with the evaluation of whether active systems function properly, budge funds are effectively spent, operations carried out in public sector are legal and appropriately reflected in reporting. If mentioned process is carried out through improvement of above-listed deficiencies, it will definitely accelerate economic growth of the country.

**Results of the Doctoral Thesis are reflected in the following
Scientific articles:**

1. Beridze T, "Information Technology Audit in Georgia", European Scientific Journal (ESJ), 2017.
2. Beridze T, "Comparative Analysis of the State Audit Office of Georgia and the Court of Audit of Belgium", Ukraine – EU. Modern Technology, Business and Law, Collection of International Scientific Papers, 2017.
3. Beridze T, "Performance Audit in the Public Sector", Scientific Letter of Academic Society of Michal Baludinsky, 2017.
4. Beridze T, "Internal Audit Quality Control in the Public Sector of Georgia", Scientific-Practical Accounting Journal, 2017.