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(Review Article)

The role of accounting in ensuring internal control and accountability in the public sector

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Abstract

This study examines the role of public sector accounting in strengthening internal control and financial accountability. Using comparative insights from developed and developing countries, it analyzes institutional integration, digital infrastructure, and audit practices. Based on audit data from Uzbekistan, the paper proposes targeted reforms to improve recovery rates, prevent fiscal irregularities, and align accounting systems with internal oversight functions.

Keywords: Public sector accounting; Internal control; Financial accountability; IPSAS; Internal audit; Digital governance; fiscal transparency.

1. Introduction

In the context of public administration and financial governance, ensuring internal control and accountability has become a foundational principle for the efficient and transparent use of public resources. The complexity of government operations, the scale of public expenditures, and the rising demand for fiscal responsibility from both domestic stakeholders and international development partners have underscored the need for robust oversight mechanisms. Within this framework, public sector accounting serves as a vital tool for institutionalizing financial discipline, detecting inefficiencies, mitigating fraud and corruption risks, and enhancing the overall quality of decision-making.

Accounting in the public sector goes beyond the mere recording of transactions; it is instrumental in generating timely and reliable financial information, which is necessary for performance evaluation, audit trails, and public scrutiny. As emphasized in international frameworks such as the International Public Sector Accounting Standards (IPSAS) and the INTOSAI Framework for Internal Control, accounting systems must be aligned with internal control objectives to facilitate preventive, detective, and corrective functions. The transparency and traceability that accrual-based accounting provides allow not only for better control over budget execution but also for effective measurement of asset use, liabilities, and contingent obligations.

Internal control is broadly defined as a process designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. According to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, the five components of internal control control environment, risk assessment, control activities, information and communication, and monitoring are all heavily dependent on the integrity and accessibility of accounting information.

The current drive toward fiscal consolidation, digital transformation, and the gradual adoption of IPSAS in Uzbekistan presents an important opportunity to reposition accounting as a central pillar in the national strategy for public financial

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management (PFM) reform. By enhancing the quality of financial records, integrating accounting with internal audit functions, and enabling real-time monitoring of expenditures, accounting can significantly improve the effectiveness of internal controls and elevate the standard of public accountability.

2. Literature Review

The nexus between accounting, internal control, and public sector accountability has been extensively explored in both academic and institutional literature. Accounting, as a subsystem of public financial management (PFM), plays a dual role: it serves as a tool for financial documentation and as a mechanism for internal oversight.

The foundations of public sector accounting are influenced by Agency Theory, which posits that agents (public officials) entrusted with public resources require mechanisms of accountability to ensure they act in the best interests of the principal (the public). Stewardship Theory also contributes to the literature by emphasizing the role of transparent financial reporting in legitimizing the actions of public institutions. As noted by Jones and Pendlebury (2000), public sector accounting has historically focused on legal compliance and budget execution, but with the rise of New Public Management (NPM), its focus has shifted toward performance measurement and strategic control.

Internal control systems are central to the integrity of public financial management. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), internal control is a dynamic process that is influenced by people, systems, and governance. Accounting information provides the quantitative and qualitative data necessary for identifying risks, enforcing spending limits, reconciling balances, and enabling post-audit verification. Diamond (2006) notes that weak accounting undermines internal control by obscuring the true financial position of institutions and creating opportunities for fiscal mismanagement.

Empirical studies, such as those by Brusca and Montesinos (2010), have shown that IPSAS-aligned accounting improves the quality of public financial data and promotes comparability across sectors and countries. However, authors such as Adhikari et al. (2013) warn that in developing countries, premature adoption of accrual accounting without corresponding improvements in institutional capacity can result in superficial compliance and undermine internal controls.

In low- and middle-income countries, public accounting is often fragmented, under-resourced, and misaligned with internal control objectives. Mikesell (2011) and Cangiano et al. (2013) emphasize that in the absence of reliable accounting systems, internal audits become ineffective, procurement systems become vulnerable to manipulation, and fiscal transparency declines. Studies focusing on transitional economies, including Georgia and Kazakhstan, demonstrate that reforming accounting and internal control systems through standardized reporting, digitization, and audit integration leads to measurable improvements in public accountability and donor trust (World Bank, 2017).

Table 1 Information on the Results of Audit Activities Conducted by Internal Audit Services of Ministries and Agencies for the Period 2019–2022 (in million UZS)

No.	Year	Number of Audited Entities	Amount of Identified Financial Errors and Shortages (mln UZS)	Amount of Recovered Funds (mln UZS)	Preventive Measures	Materials Submitted to Law Enforcement Authorities
						Number
1	2019	1,844	124,177	21,736	38,895	1,429
2	2020	2,246	199,106	25,921	416,265	1,578
3	2021	11,248	296,109	45,137	832,019	1,718
4	2022	3,918	299,576	43,139	420,044	557
	Total	19,736	918,968	134,933	1,707,223	5,282

Source: Developed by the author

The data in Table 1 provides a quantitative overview of the outcomes of internal audit activities conducted by ministries and agencies in Uzbekistan between 2019 and 2022. The figures reveal several important dynamics related to the scale, effectiveness, and institutional responsiveness of internal control mechanisms within the public sector.

First, the total number of audited entities over the four-year period amounted to 19,736, with a particularly notable peak in 2021 (11,248 entities), indicating a strategic intensification of audit coverage. This surge may be attributed to the post-pandemic reassessment of public expenditures and increased focus on fiscal discipline. The subsequent decline in 2022 (3,918) suggests either a reorientation toward more risk-based audits or resource constraints limiting audit outreach.

The total volume of identified financial errors and shortages amounted to 918.9 billion UZS, demonstrating persistent weaknesses in financial control, particularly in 2021 and 2022, when over 290 billion UZS in deficiencies were detected annually. The steady growth in these figures suggests systemic inefficiencies in financial operations, delayed reconciliation practices, or inadequate financial management capacity at the institutional level.

Importantly, the amount of recovered funds 134.9 billion UZS represents only approximately 14.7% of total identified deficiencies, highlighting significant gaps in follow-up enforcement, recovery procedures, or legal limitations surrounding restitution. Despite some progress in increasing recovery levels (notably in 2021), the figures suggest the need for strengthening post-audit actions, including coordination with legal departments and treasury enforcement mechanisms.

The scale of preventive measures implemented totaling over 1.7 million across the four years suggests a proactive response by internal auditors in addressing control weaknesses. These measures include training, regulatory clarifications, and process improvements. The dramatic increase in 2021 (over 830,000 actions) aligns with the peak in audit volume, suggesting that preventive efforts are correlated with audit intensity.

Lastly, the number of audit cases submitted to law enforcement authorities is substantial (5,282 cases involving 694.3 billion UZS), signaling that a considerable proportion of audit findings may involve suspected fraud or misuse of public funds. The high monetary value associated with these submissions reinforces concerns about compliance culture and institutional accountability. However, the declining trend in 2022 may reflect improved prevention, better internal corrections, or changes in legal thresholds for reporting.

Table 2 Role of Digitalization and Technology in Enhancing Control through Accounting

Country	Digital Accounting Infrastructure	Impact on Internal Control and Accountability
France	Chorus ERP system covers all stages of the financial cycle; real-time data access to auditors and controllers.	Enables automated internal checks, multi-level approvals, and comprehensive audit logs.
South Korea	dBrain system integrates accounting, budgeting, procurement, and performance management modules.	Reduces fraud risks, strengthens compliance, and provides early warnings on deviations.
Germany	Use of SAP platforms across federal and state institutions; digital document and workflow controls.	High transparency and traceability in accounting records; embedded preventive controls reduce audit findings.
Estonia	X-Road interoperability platform connects treasury, ministries, and auditors in real time.	Promotes real-time reconciliations and automatic validation of financial entries; low levels of manual errors.
Georgia	Treasury and budget platforms enhanced with EU technical assistance; integration at central government level.	Improvements in audit efficiency and expenditure control, but limited automation at the municipal level.
Kazakhstan	E-Minfin portal introduced to digitize reporting; limited connectivity with internal audit functions.	Gains in reporting speed, but internal control benefits limited by outdated local information systems.

Source: Developed by the author

The comparative analysis underscores that digitalization is a key enabler of effective internal control through accounting. France and South Korea illustrate how end-to-end digital systems allow for automated validations, audit trails, and anomaly detection. These systems not only strengthen fiscal discipline but also reduce dependency on ex-post controls by embedding preventive checks directly into the accounting process.

Among developing countries, Estonia stands out for its seamless digital integration across government functions, allowing accounting data to inform internal control systems in real time. By contrast, Georgia and Kazakhstan demonstrate partial integration, where central systems function relatively well, but local-level inconsistencies persist. Kazakhstan in particular faces challenges in synchronizing internal audit mechanisms with its growing digital accounting reforms due to lack of standardized platforms and skilled personnel.

Recommendations

To enhance internal control and financial accountability in Uzbekistan's public sector, several integrated reforms are necessary. First, a unified digital platform should be established to monitor audit findings, recovery actions, and enforcement in real time, enabling centralized oversight and reducing institutional fragmentation. Second, post-audit enforcement protocols must be strengthened by mandating legally binding recovery timelines, integrating treasury actions with audit outcomes, and involving law enforcement authorities more systematically. Third, audit planning should transition toward a risk-based model, supported by the development of predictive analytics and capacity-building programs focused on forensic auditing, IPSAS compliance, and public sector fraud detection. Fourth, preventive measures identified by internal audits must be formalized within national internal control standards, and their effectiveness regularly assessed through performance audits and KPI monitoring. Finally, to reinforce institutional accountability, audit findings should be linked to managerial evaluations, and administrative codes should be revised to impose stronger sanctions for repeated or high-value violations of financial procedures.

3. Conclusion

The analysis of internal audit activities in Uzbekistan from 2019 to 2022 reveals both progress and persistent systemic challenges in ensuring financial accountability and internal control. While the growing scale of audit coverage and the volume of preventive actions reflect institutional commitment, the consistent recurrence of financial irregularities and the limited recovery of identified losses signal critical enforcement gaps. Comparative global experiences suggest that digital integration, and the strategic use of audit data are essential to transitioning from reactive to preventive control systems. By institutionalizing robust accounting-audit linkages, building audit capacity, and holding public officials accountable through transparent mechanisms, Uzbekistan can significantly strengthen its internal control framework and advance toward internationally recognized standards of fiscal governance.

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