

## Regulation and organizational forms of internal audit of health care facilities

(Presented by Doctor of Economics, Prof., Oleg Shevchuk)

*Internal audit is the main form of control, which is a functionally independent assessment of the activities of health care institutions in order to provide recommendations and advice aimed at improving the activities, and the management of economic processes of the institution. The introduction of internal audit for health care institutions of Ukraine will help to use more efficiently not only budget funds, but also improve the health care system as a whole, thus bringing the medical sector in the country to a new level, namely equating to international and European standards.*

**Keywords:** system of state financial control; internal audit; internal audit department; budget funds; health facilities.

**Actuality of theme.** The development of the system of public financial control in Ukraine involves the introduction of new forms of its implementation, one of which was internal audit. Currently, the content of the term «internal audit of budgetary institutions» remains not fully disclosed and interesting for research, as the control system in the budget sphere is being reformed and the methods and principles of its implementation are changing. It will be expedient and relevant to consider in more detail the regulation of internal audit of budgetary institutions, namely in health care institutions.

**Analysis of recent research and publications on which the author relies.** The results of the analysis of recent research and publications testify to the constant interest of Ukrainian and foreign scientists in studying the world experience of regulation and the organization of internal audit. The issue of internal audit in all its manifestations was dealt with by such domestic and foreign scholars as I.Alekseeva [1], E.A. Ahrens [2], M.Vasilyeva [3], Y.Voronin [4], E.Dusaeva [5], S.Levytska [6], J.K. Lobbeck [2], V.Maksimova [7], M.Romaniv [8], Y.Slobodyanyk [9], O.Shevchuk [10] etc.

Ahrens E.A and Lobbeck J.K. [2] define internal audit as the verification of any part of the procedures and methods of functioning of the economic system in order to assess productivity and efficiency. Upon completion of this audit, the manager is usually given recommendations to improve operations.

Yu. Voronin [4] defines the concept of determining and evaluating the effectiveness of internal audit according to the criteria of effectiveness, economy and efficiency. Efficiency – «timely and high-quality achievement of established socio-economic goals and objectives».

It should be noted that most authors consider internal audit as an integral part or in the context of the audit of financial and economic activities, carried out by a separate division of the institution. At the same time, there is an increasing need to systematize existing scientific knowledge, analyze regulatory regulation and the practice of its implementation in Ukrainian institutions, as well as create an integrated approach to determining the essence, principles and tasks of internal audit and developing the main directions of its development in modern conditions of functioning.

According to the results of research done by Ukrainian and foreign experts, it should be noted that the regulation and organizational forms of internal audit remain incomplete and require further research, as there are constant changes in the state, which determines the relevance, scientific and practical value of this study.

**The aim of the article** is to study the regulation and organizational forms of internal audit of health care facilities.

**Presentation of the main material.** Internal audit means activities that provide independent, objective assurances, thus ensuring confidence in the proper functioning of the management system and achieving a specific goal by providing recommendations to reduce the risk of fraud and error. Internal audit is a necessary element for the environment of control, monitoring and information support of the institution's management in assessing the advantages and disadvantages of the internal control system, as well as to ensure the independence of the head of internal audit and his accountants to increase the value of budgetary institutions.

The organization of internal audit is carried out using a centralized or decentralized approach. According to the decentralized approach, the organization of internal audit is based on the principle of responsibility of the head and therefore contributes to the creation of an effective system of state internal control. Most European countries consider this approach the most appropriate for organizing internal audit of budgetary institutions.

To introduce internal audit in central executive bodies, their territorial bodies and budgetary institutions and other central executive bodies, the Cabinet of Ministers of Ukraine adopted a resolution dated of 28.09.2011 № 1001 «Some issues of establishing structural units of internal audit and conducting such audits in ministries,

others central executive bodies, their territorial bodies and budgetary institutions that belong to the sphere of management of ministries and other central executive bodies». Resolution № 1001 was the impetus for the establishment of 01.01.2012 separate structural units of internal audit through the reorganization of control and audit units in the central executive bodies (hereinafter – CEB) of their territorial bodies and budgetary institutions.

According to the Procedure № 1001, internal audit units must be established in all CEBs, and if necessary and by the decision of the CEB head, units or the position of internal auditor are introduced in their territorial bodies and budgetary institutions. In this case, the internal audit should be a unit separate from the performance of other management and control functions in the CEB, its territorial bodies and budgetary institutions. Functional and organizational independence of the internal audit unit should be ensured by the head of the CEB or territorial body, budgetary institution [11]. Thus, according to the Procedure № 1001, the internal audit unit in the budget institution is formed if necessary and by the decision of the CEB. In our opinion, it would be expedient to introduce this unit or position in all territorial bodies, and especially in budgetary institutions without exception, thus it will directly improve the functioning of the institution and help control the use of budget funds.

According to the Procedure № 1001 [11], the object of internal audit can include the activities of budgetary institutions and measures taken by its management to ensure the effective functioning of the internal control system.

Thus, for the effective use of budget funds, compliance with the law, achieving results in accordance with the established goal, the main tasks of internal audit include providing the head of the budget institution with independent, objective conclusions and recommendations regarding:

- activities of the internal control system and its improvement;
- counteraction to illegal, inefficient use of budget funds;
- counteracting the formation of errors or other shortcomings in the activities of the institution.

In addition to the above, employees of the internal audit department may perform additional instructions of the head of the institution related to internal audit, but one of the important functions of internal audit is advisory (consultative). Thanks to it, the internal auditor is actually involved in agreeing and resolving issues related to internal control and audit in the institution.

Consider in more detail the organization of internal audit units in budgetary institutions, in particular in health care facilities, which involves compliance with domestic regulations, in particular:

- the status and number of internal audit units in budgetary institutions must comply with the norms of the Procedure № 1001;
- job descriptions of employees and regulations on the internal audit department must be created in accordance with the Procedure № 1001 and the code of ethics of the employee of the internal audit department;
- planning the activities of internal audit units and the internal audit process, conducting audit research and performing audit tasks and implementing their results should be carried out in accordance with the requirements of Procedure № 1001 [11] and Internal Auditing Standards [12].

Important factors in ensuring the proper organization and implementation of internal audit in budgetary institutions, in particular in health care institutions are:

- creation of the optimal structure of the internal audit department;
- appropriate staffing of the internal audit department both in terms of the number of employees and their education and experience;
- establishing a clear division of responsibilities between employees of the internal audit department;
- systematic training (including through self-education) and training of internal auditors.

To ensure that the internal audit function is as useful as possible to the health care facility, the head of the internal audit activity should strive for effective management of that unit.

The organization of the internal audit department is regulated by internal audit standards, which consist of general standards of internal audit, standards of internal audit, standards of reporting, monitoring, formation and storage of cases, interaction with public authorities and quality assessment of internal audit.

Internal audit in budgetary institutions, in particular in health care institutions is conducted in the form:

- financial audit;
- performance audit;
- compliance audit [9, p. 124].

Let us consider each type of state internal audit in more detail.

Financial audit is the study of financial reporting, internal control and audit systems and individual transactions in controlled organizations. Its essence is to establish violations and discrepancies between factual data and legislation. It is held on an annual regular basis in a clearly defined circle of controlled organizations [9, p. 154].

The purpose of financial audit is to assess the reliability of accounting and financial reporting. Thus, it can be divided into [13, p. 362]:

- audit of financial systems and / or operations in order to assess their compliance with applicable laws and regulations;
- confirmation of the content and procedure for submission of financial statements by government agencies, including verification and evaluation of financial documentation and financial statements, if necessary – preparation of conclusions on financial statements;
- audit of legality and expediency of administrative decisions made by the organization – the object of inspection;
- analysis of reporting on any issues related to the audit or its consequence and should be covered.

Therefore, analyzing the above, we can conclude that the financial audit contains elements of the audit of financial statements, this type of audit is used to verify the actual state of financial statements and compliance with the relevant criteria.

Next, it will be useful to consider a performance audit. The performance audit means checking any part of the procedures and methods of functioning of the economic system in order to assess the efficiency, effectiveness and efficiency of the budgetary institution.

During the performance audit the efficiency of human, financial and other resources, as well as information systems is checked, the results are evaluated and monitored, the measures taken to eliminate the identified shortcomings are analyzed [13, p. 364].

Due to the audit of the efficiency of health care institutions, the subject of public financial control is expanding due to the fact that the audit of the efficiency of health care institutions includes new tasks and objectives, compared to the state financial audit.

The objectives of the audit of the effectiveness of health care facilities are aimed at:

- analysis and evaluation of the effectiveness of the use of state, regional budgets and other state resources;
- development of sound recommendations and proposals for improving the efficiency of public resources, as well as optimizing the activities of health care facilities.

The main tasks of the audit of the effectiveness of the health care institution and the possible solution or the result of solving the problem are presented in Fig. 1.

Having conducted this study, we can conclude that the implementation of any task of auditing the effectiveness of health care facilities will allow more efficient use of budget funds, thereby improving the activities of the institution, making it more effective for the state.

The subject of the audit of the effectiveness of the health care institution is:

- directions of activity and performance of functions;
- funds of the state (regional) budget, which are allocated for solving tasks and target programs;
- state property and other resources;
- organization of budget process implementation;
- some of the most important issues of public resource management;
- international and intergovernmental agreements and relations.

There is the theory of performance audit on the main elements that characterize the state of public resource management. «Theory of three E» consists of economy, efficiency and effectiveness. Cost-effectiveness is determined by thrift, economy and the degree of minimization of costs in view of product quality. Efficiency is determined by productivity, the degree of utility of resource consumption to create a quality product. Effectiveness is determined by the effectiveness, success and level of achievement of the goal. That is, efficiency means «spend less», efficiency – «spend efficiently», efficiency – «spend wisely».

Thus, the cost-effectiveness audit is aimed at evaluation [13, p. 381]:

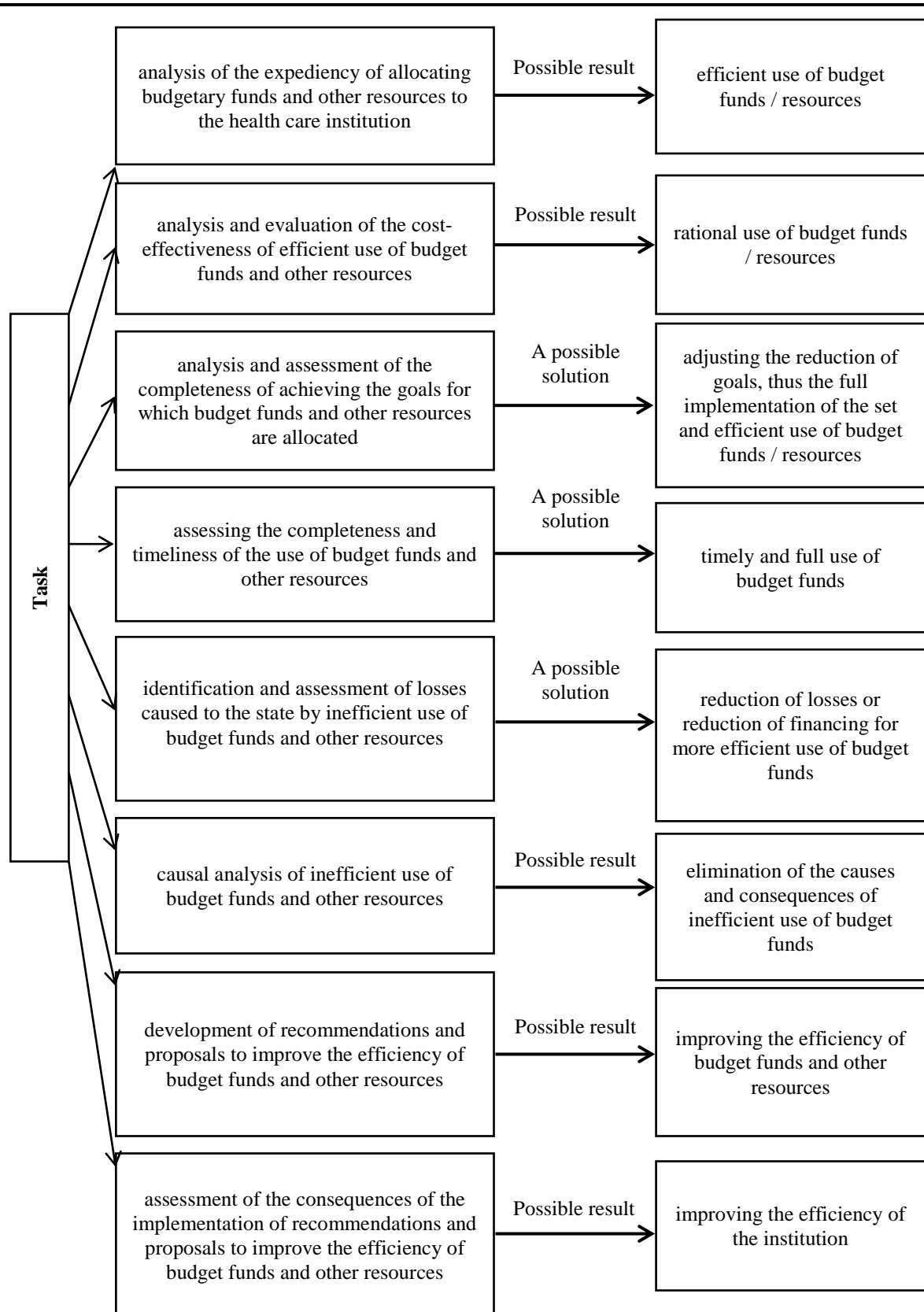
- acquisition, protection and use of the institution's resources;
- causes of unproductive or uneconomical work;
- observance by the institution of laws and rules.

Audit of performance or target programs includes the definition of [13, p. 382]:

- the degree of achievement of the desired results or profit, which is determined by current legislation or the authorized body;
- efficiency of organizations and functioning;
- compliance with the law and regulations of this program.

In general, the purpose of the audit of the effectiveness of health care facilities is to improve the management of the institution by examining the effective use of budget funds and other resources of the institution.

To determine the type of audit, the institution needs to determine exactly what objectives the audit should pursue and what outcome is expected because audit differs from financial audit in theory performance, and these two types of audit often intersect in practice.



Reference: author's development.

Fig. 1. The task of auditing the effectiveness of the health care institution and the possible solution or the result of solving the problem

Performance audits are performed by different types of audits because they have different subjects, objects, goals and objectives. Therefore, this form of audit has the following types of inspections:

Performance checks related to the performance of public functions, namely the use of:

- public funds for the performance of public functions, the implementation of the objectives of socio-economic policy of the state (for example, checking the effectiveness of the use of state budget funds for health care, education, etc.);
- public funds by ministries, departments or budgetary institutions in the course of performing their functions and socio-economic tasks;
- public funds in certain areas or activities that are carried out comprehensively by ministries, departments or budgetary institutions.

The second group is inspections of budget programs, in the implementation of which several ministries, departments, budget institutions, organizations (state target programs, budget programs) participate [7].

To achieve its goals and objectives, performance audit must adhere to the principles of objectivity (elimination of all subjective assessments and priorities), scientific (improvement of functions, organization and management through the use of scientific analysis), systematic (application of all factors and relationships in the activities of the object of audit), independence (independence, protection from material and forceful influences by authorities and officials), publicity (notification of governing bodies and the public about the results of the performance audit). Also, the performance audit should determine the efficiency of using not only budget funds, but also be an essential component of tax, customs and currency control [10, p. 178]

Next, it is advisable to consider a compliance audit, as a compliance audit is designed to identify compliance with specific rules, regulations that affect the results of operations or reports. For example: auditing the payment of taxes, auditing sections of financial statements to verify compliance with debt obligations, verifying the use of government subsidies to identify compliance with the conditions of their provision, studying the personnel policy of the institution to establish compliance with the law on equal employment opportunities [8].

Virtually every institution has defined activities, contracts, agreements and legal norms, compliance with which requires a compliance audit. Compliance checks require the establishment of appropriate criteria for evaluating financial statements.

According to the nature of the definition of requirements, the audit is classified: for compliance with certain specific requirements or orders (fully defined requirements); on compliance with the general expediency (completely undefined, abstract requirements) [8].

The audit of compliance with the order reflects the procedures of audit control over compliance with the laws and regulations, orders, rules and tasks established by external authorized bodies. This type of audit, for example, includes the audit of accounting records and reporting on compliance with established rules, requirements or regulations.

The appropriateness audit reflects the procedures of audit control of the activities of heads of institutions on the rationality, reasonableness, reasonableness, usefulness. For example, the following may be audited for appropriateness: established norms and standards; budgets, attraction of new financial resources, implementation of significant capital expenditures; accounting policy; insurance, etc [6].

Compliance checks are performed by both internal and external auditors. If the law or regulations have a direct and material effect on the financial statements of the institution, the verification of compliance is usually an integral part of the audit of the financial statements. For example, the auditor reviews the institution's compliance with the restrictions set out in the long-term debt obligation to ensure that breach of that limit will not result in the payment of the entire obligation by the lessor's decision, which would cause the debt to be transferred to current accounts payable [6].

**Conclusions and prospects for further research.** Thus, internal audit is the main form of control, which is a functionally independent assessment of the activities of health care institutions in order to provide recommendations and advice aimed at improving the activities, improving the management of economic processes of the institution. The internal audit of health care institutions is regulated by the Procedure № 1001, Internal Auditing Standards, according to which the essence of internal audit is the verification and consulting activities carried out by a particular unit. This unit may be the internal audit service within the institution or functionally independent body. Organizational forms of internal audit are financial audit, which provides a study of financial statements, performance audit – the audit is carried out to assess the effectiveness and cost-effectiveness of the institution's budget and compliance audit, which is designed to identify compliance with specific rules, legislation affecting the results of reports.

Having conducted this study, it can be argued that the introduction of internal audit in health care institutions in Ukraine will help to use more effectively not only budget funds, but also improve the health care system as a whole, thus bringing the medical sector to a new level, namely equates to international and European standards. Thus, in order to eliminate the existing shortcomings in the organization of internal audit, it is necessary to bring the provisions of the Budget Code governing internal audit and management in line with international standards, and create a unit in the Ministry of Finance to harmonize internal audit and financial management.

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Research interests:

- internal audit in budgetary institutions;
- state financial control.

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**Регулювання і організаційні форми внутрішнього аудиту діяльності закладів охорони здоров'я**

Внутрішній аудит є основною формою контролю, за якого проводиться функціонально незалежна оцінка діяльності закладів охорони здоров'я з метою надання рекомендацій та консультацій, які спрямовані на вдосконалення діяльності, підвищення ефективності управління економічними процесами установи. Запровадження внутрішнього аудиту у закладах охорони здоров'я України допоможе більш ефективно та результативно використовувати не тільки бюджетні кошти, а й налагодить систему охорони здоров'я в цілому, тим самим виведе медичну сферу в країні на новий рівень, а саме прирівняє до міжнародних та європейських стандартів.

**Ключові слова:** система державного фінансового контролю; внутрішній аудит; підрозділ внутрішнього аудиту; бюджетні кошти; заклади охорони

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