Some Aspects of Building a Financial Control System
(By the Example of Georgia)

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Abstract

In this article, we have shown that financial control is a complex, multilateral and multidirectional process. It includes the formation of cash funds and their use, the identification of the economic efficiency of financial transactions and the control of the appropriateness of costs.

In Georgia in recent years, special attention has been paid to the State system of internal financial control, which provides independent, objective, public, transparent professional state internal financial control, as well as the creation of an internal audit system.

On March 26, 2010, the Law "On State Internal Audit and Inspection" was adopted, which is the main basis for creating a system of state internal financial control.

The goal of our study is to show how the structure of the organization of financial control in Georgia corresponds to the tasks set. This paper also investigates the importance of financial control system to promote the stable functioning of the financial system.

In Georgia is created the following structure of organization of the financial control: State Financial Control; Departmental Financial Control; Internal Financial Control; Independent Financial Control.

The results show that the financial control system should ensure the implementation of the rights of the state and its organization, as well as all economic entities in the country and protect the rights of all parties.

Keywords: State Financial Control, Departmental Financial Control, Internal Financial Control, Independent Financial Control

1. Introduction

In Georgia State Financial Control System and peculiarities of its operation are defined by the Constitution of Georgia and the Budget Code of Georgia.

2. Some aspects and structure of the financial control system

Executive authorities' financial activities are controlled by the President and the government representative bodies. According to the Constitution the Presidential control of the finances is carried out by means of the issuance of the decrees related to the financial issues, signing laws, nomination the of National Bank President candidates to the parliament and candidate approval.

On the basis of the law "The Law of Georgia on the Structure, Authority and Rules of Operation of the Government of Georgia” (February 11, 2004), Georgian Government regulate financial-budgetary relations, present the draft of the state budget to the Parliament. Georgian Government is carrying out a common state policy in the field of finance, money and credit, carry out coordination and control over the activities of the Ministries and special financial control.

An important place in the state financial control system holds the Ministry of Finance. It controls directly its implementation. Ministry of Finance carries out possess of the development and execution of the state and local budgets, is involved at the implementation of monetary control, controls the directions and effectiveness of the state investments and etc.

The use and expenditure of public funds and other values material from July 2012 supervises the State Audit Office. It is also authorized to inspect activities of other financial and economic state bodies, to present to the parliament proposals on improving Tax Legislation.

The State Audit office (Georgia) is the supreme audit institution, responsible for performing audit. It is entitled to financial, compliance and performance audit implementation. The special attention is paid to the Public Internal Financial Control System, which provides independent, objective, public, transparent professional Public Internal Financial Control and, establishment of Internal Audit System among them. Internal control is the instrument which provides the transparency and independence of the principals of financial management and financial control to ensure countries financial stability and strengthening.

The law “On State Internal Audit and Inspection” was adopted on March, 2010. According to this law and based on the decree N 345 of 9th November 2010 "Internal Audit Issues Review Board" (Harmonization Center) was established. The main objective of the Harmonization Center is coordination of the activities of the entities of the Internal Audit, ensuring the synchronized operation, development of the internal audit processes, organization of the trainings for the internal auditors to ensure their professional development and etc.

The law “On State Internal Audit and Inspection” was improved in 2011 and harmonized with the international standards – INTOSAI and IIA. In this regard, the Parliament made the relevant amendments to the law “On State Internal Audit and Inspection” (December 9, 2011) and except for fundamental changes and addition, the name of the law was changed to the law “On State Internal Financial Control”.

The central role in the Public Internal Financial Control System holds Internal Audit. It is an independent and objective activities aimed to ensure the improvement of institution activities, which with systematic, disciplined approach evaluates and improves risk management, control and governance process efficiency and is directed to the accomplishment of the institution's objectives.

The role of non-state financial control is significantly increased, the role of the financial control, that is carried out independently, without the direct participation of State enforcement authorities, but on the basis of the relevant state laws and regulations.

Internal control is exercised by the enterprise itself, by its economic services - Accounting, Finance Division, Financial Management Service itself, on financial and economic activities of Enterprise, its branches and subsidiaries.

The Legal Basis for Audit Control is defined by the law of Georgia “On Accounting and Financial Audit” (June 29, 2012). Audit in Georgia is carried out in accordance to the International Auditing Standards (ISA).

3. Results and discussion

As we can see, the development of a financial control system is a continuous process for which relevant actions should be carried out continuously by relevant authorities. We also demonstrated the importance of financial control system to promote the stable functioning of the financial system.

4. Conclusion

The content of financial control forms and methods have changed significantly in Georgia due to the changing role of the state in a market economy and developing democracy. In particular: The scale of the state financial control has been limited significantly. At the same time, widens the scope of activity of non-state financial control from audit and insurance firms, mortgage companies and etc. side; especially increased the role of the pre-control. The development of democracy caused the strict control of financial activities of the executive branch and necessity of in-depth analysis of spending effectiveness and feasibility while approving state budget.

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