
AUDIT INSPECTIONS OF STATE PURCHASES AND CONTRACTS SIGNED ON THE BASIS OF TENDER IN BUDGETARY ORGANIZATIONS

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Abstract

Purpose – The paper aims to clarify the relationship between budget organizations and suppliers of goods, work and service providers. It studies the process of public procurement in budget organizations and suggests improvement of the current situation based on foreign experiences. In the study, the practical case of ensuring the openness of the budget process was considered on the example of the activity of the Accounts Chamber of the Republic of Uzbekistan, which is the highest body of state external audit and financial control.

Design/methodology/approach – In the article, the methods of grouping and sorting, comparison, comparative analysis and systematization were used to more accurately research the issues of conducting audits of contracts concluded on the basis of public procurement and tender sales in budget organizations.

Findings – The article provides insights into the stages of the state procurement process in Uzbekistan and several foreign countries. This shows that in all countries, efforts are made to use the state budget funds in a targeted manner: constant budget control is carried out and transparency of the procurement process is ensured.

Research limitations/implications – Because of the chosen research approach, the research results may lack generalisability. Therefore, researchers are encouraged to test the proposed propositions further.

Practical implications – If the state procurement process is improved based on the suggestions given in the article, the goal of rational use of budget funds will be



achieved. By limiting the human factor in the procurement process, it ensures fairness and justice.

Originality/value – This paper fulfils an identified need to address and prevent corrupt schemes in public procurement.

Keywords: audit control, budget organization, contract, public procurement, procurement system, state budget, tender sales, transparency.

Article Type: Research paper

This article examines the procedure for public procurement in budgetary organizations, its theoretical and methodological foundations within the framework of the legislation, and also examines analytical data on internal audits of bidding contracts concluded on the basis of public procurement. A practical case of ensuring the transparency of the budget process is considered on the example of the activities of the Accounts Chamber of the Republic of Uzbekistan, which is the highest body of state external audit and financial control. In addition, a comparative analysis of the experience of foreign countries in public procurement and audit of procurement, features of the procurement system was carried out, as well as issues of improving the existing public procurement system in the Republic of Uzbekistan based on analytical audit activities.

Introduction

In order to rationally use the funds of corporate organizations with a state share of more than 50% in budget organizations and charters, today, great importance is attached to the implementation of goods, works or services purchased for their needs through electronic sales. Because it is impossible to achieve purposeful and rational use of budget funds if an effective state procurement system is not formed. Taking into account that the main part of the state budget funds are spent on providing goods, works and services to the approved needs of budget organizations and budget recipients, it is desirable to carry out state purchases at the optimal price and quality. State procurement in the Republic of Uzbekistan is carried out on the basis of the law "On State Procurement" and the law states: "State procurement is a process of providing the needs of state customers for goods, works and services on a monetary basis, and the state and the agreement between the customer and the executive of



public procurement on the determination, modification or cancellation of rights and obligations on public procurement is a contract on public procurement."¹ Despite the fact that the main principles of public procurement are openness, transparency, competition, impartiality and non-corruption, it is no secret that corruption cases are widespread in public procurement and orders. Conducting audits of contracts concluded on the basis of public procurement and tender sales in budget organizations is an important measure aimed at preventing and eliminating the agreed tenders, loopholes and circumvention of laws in the field of public procurement. This determines the relevance of the research topic.

Literature review

Many local and foreign scientists have conducted significant scientific research in the field of public procurement, and the problems in the field of public procurement, which are considered one of the factors that determine the purposeful spending of the state budget and economic development, remain an equally urgent issue for all countries. In particular, regarding the issue of improving the procurement system for state needs based on foreign experience, Y. Vinokurtseva, as a result of her research emphasized that '...establishing an effective management system of state procurement is the main task related to the development of the procurement system for state needs in Russia'². According to T. Avdyushkina: 'In the mechanism of public procurement, internal audit must be carried out during the period of identifying the supplier and signing the contract with the winner of the competition, as well as after the completion of the work, service or delivery of goods, before the final payment is made'³.

The opinions presented by Y. Vinokurtseva and T. Avdyushkina on the subject of state procurement in budget organizations are appropriate. Because the effective organization of the regulatory system of state procurement, continuous monitoring and ensuring the rule of law helps to prevent the misuse of budget funds. In addition, it is important to conduct audits to reduce the risk of corruption in public

¹ Law of the Republic of Uzbekistan "On State Procurement" No.684, 04/22/2021

² Винокурцева Е.А. Опыт зарубежных стран в осуществлении закупок товаров, работ, услуг: аналитический обзор / Экономика, управление, финансы. Материалы X Международной научной конференции. ООО «Издательство Молодой ученый», 2019 стр 9-17.

³ Авдюшкина Т.В. Цели и назначение внутреннего аудита механизма государственных закупок. Вестник Московского университета имени С.Ю.Витте. Серия 1. Экономика и управление №4 (27)э 2018



procurement processes, but the analysis of which stage of the procurement process is more effective is important.

D. Gofurov, one of the local economists, on the improvement of the process of state and corporate purchases, it is correct to form a list of goods to be purchased by customers by concluding a direct contract, to hold auctions and competitive sales. Proposals and practical recommendations were developed and put into practice, such as coordination of the terms of these sales by setting the period of posting of announcements as 5 days for the auction and 10 days for the competition⁴. Also, the current problems in the practice of the public procurement system were divided into the main directions by S. Turabov, and these are: problems in the planning process of public procurement, inefficient use of budget funds by public bodies in the procurement process, unscrupulous participants in public procurement, the practice of procurement from a single customer cases of abuse and collusion between subjects of public procurement⁵.

A. Torayev in his scientific research stated that the use of the results of the internal audit service by external auditors reduces the cost of labor resources in the audit organization by reducing the time spent on the audit, as well as allows obtaining additional evidence based on the principle of the sufficiency of audit evidence⁶.

An important aspect of D. Gofurov's opinion is that the creation of a list of goods to be purchased by budget customers by concluding a direct contract will result in the purchase of goods, works and services strictly determined in accordance with the law. Also, the coordination of the terms of placing announcements about auctions and tenders helped to solve many problems related to the time factor in the state procurement process in our country. The introduction of internal audit service in budget organizations arises from the need to eliminate shortcomings in the organization. According to the practical information provided by A. Torayev, the cost of external audit was reduced by 10% through internal audit. Taking into account the specific features of the development of our country, the issues related to

⁴ Gofurov D.B. Improving the process of state and corporate procurement in Uzbekistan. Doctor of Philosophy (PhD) Dissertation in Economics. Tashkent-2020

⁵ Turabov S.A. Ways to improve the financial relations of budget organizations in the implementation of state procurement. Doctor of Philosophy (PhD) Dissertation in Economics. Tashkent-2021

⁶ Torayev A.N. Organization of internal audit in business entities and improvement of its methodology. Doctor of Philosophy (DSc) Dissertation in Economics. Tashkent-2020



the audits of the contracts concluded on state procurement in budget organizations have not been thoroughly studied, which became the basis for choosing the subject of this research.

Results and Discussion

Procurement for state needs is one of the main elements of market regulation, as well as an element of the social and economic system that ensures economic growth. In a situation where the development of legislation in the field of public procurement to meet the requirements of the private and public sector has become the demand of the times, there is a need to introduce new types of public procurement and improve the existing ones "On expanding the involvement of small business entities" was adopted. By the decision of the President of the Republic of Uzbekistan dated August 23, 2017 No.3237 electronic auctions held at the Republic Commodity Exchange have been canceled, and an improved electronic auction system has been introduced since April 2018.

In recent years, serious steps have been taken to introduce market mechanisms to all aspects of our economy. The task now is to create a foundation for long-term sustainable growth through deep structural reforms. As our president noted, "Nowadays, only 4 percent of entrepreneurs participate in state procurement. In the coming year, open requirements for public procurement will be introduced to 24 large state enterprises. As a result, our local entrepreneurs will have the opportunity to sell products worth at least 10 trillion soums to these enterprises every year. From now on, all public procurement will be under the control of the public and the Parliament.

Consistent and complex work is being carried out in our country to further improve the mechanism of state and corporate purchases, to ensure the openness and transparency of tenders. In particular, electronic sales were introduced, a special information portal of the Republican Commodity Exchange was created, and multi-level interdepartmental tender commissions were formed for the purchase of goods, works and services, including within the framework of investment projects. Despite the continuous introduction of various amendments and additions to the legal system of the Republic of Uzbekistan aimed at increasing the transparency of public procurement, there are still problems of violation of the law in this area. At the same time, the analysis showed that the current procedure of state and corporate purchases



and the organization of tender sales does not meet modern requirements, there are many stages of agreement that create conditions for various forms of corruption, overlapping procedures there are cases of food and censors. In addition, there are many cases of prolongation of tender processes, manipulation of prices, distortion of information about the quality and description of goods, and non-delivery of goods according to transactions concluded in electronic trade. The analysis of the results of the tenders, the determination of the causes of the identified violations, and the fact that its methodology and relevant documents are not fully developed and require improvement, create the need for an audit of procurement activities.

The launch of the special information portal on public procurement allowed us to strengthen public control over the implementation of public procurement and thereby prevent illegal actions of officials. State bodies and organizations annually publish detailed reports on their activities on official websites in the prescribed manner, and state the need to report on the place and time of their discussion with the participation of civil society. Also, starting from July 1, 2021, state bodies and organizations will receive tax and customs benefits and preferences for any state purchases, expenses on business trips of officials, and receiving guests from abroad, beneficiaries of legal entities, as well as annual cost estimates and their began to post information about the implementation.

Control over public procurement in budget organizations is carried out by the Accounts Chamber of the Republic of Uzbekistan, the General Prosecutor's Office of the Republic of Uzbekistan, the Anti-Corruption Agency, the Ministry of Finance and the Anti-Monopoly Committee. The Accounts Chamber of the Republic of Uzbekistan is a budget organization and one of the bodies that exercises control over state procurement. In the course of its activity, the Accounts Chamber carries out state procurement at the expense of budget funds and publish their financial information on their personal ach.gov.uz page according to regulation "On the procedure for posting information on official websites in order to ensure the openness of the budget process", registered by the Ministry of Justice on May 7, 2021 with No. 3299.



Table 1

Information about competitions (tenders) and state purchases held by the Accounts Chamber of the Republic of Uzbekistan⁷

Indicators	4 th quarter of 2021		1 st quarter of 2022		2 nd quarter of 2022		3 rd quarter of 2022	
	piec e	thousand soums	piec e	thousand soums	piec e	thousand soums	piec e	thousand soums
Contracts for the purchase of goods (works and services).	59	1 024 968,2	22	26 385,6	26	61 623,9	19	46 878,9
From this, electronic store	55	272 668,7	20*	24 499,8	20*	31 263,5	17	43 265,7
direct contract	3	2 299,5	2	1 885,8	6	30 360,5	2	3 613,2
based on the selection of the best offers	1	750 000						

According to the public information published by the Accounts Chamber of the Republic of Uzbekistan, it can be concluded that the state purchases were made mainly through the electronic store. The Accounts Chamber also used methods of public procurement based on the selection of the best offers and direct contracts, and the data of the first and second quarters of 2022 posted on the website show that there are some inconsistencies in the indicators, i.e. at first, information was shown that all purchases were made in the form of an electronic store, and by the next period, some goods (works and services) were indicated as purchased in an electronic store reflected in the form of a direct contract by itself.

The Anti-Corruption Agency of the Republic of Uzbekistan, which is one of the state control bodies, regularly examines the cases of compliance with the legal requirements in the state purchases made by budget customers and publishes the monitoring results on its official page. In the studies carried out by the agency, it was determined that a number of cases of violations of the law are being allowed by some state customers in the organization of public procurement, and measures are being taken to eliminate them.

On January 26, 2022, the Anti-Corruption Agency of the Republic of Uzbekistan gave a briefing on the work carried out during 2021, with a special emphasis on the

⁷ An analytical table was prepared by the graduate student based on open data provided by the Accounts Chamber of the Republic of Uzbekistan (<https://ach.gov.uz/uz/lists/pages/about>).



results of the studies conducted on the purposeful use of the state budget in regions and sectors, including the implementation of state procurement given Based on the order of the President of the Republic of Uzbekistan, the agency conducted more than 50 studies and inspections in regions and sectors within the framework of "Corruption-free area", "Corruption-free area" projects, "Prosperous village" and "Prosperous neighborhood" programs. These include studies in the fields of health care, higher and secondary special education, public education, internal affairs, and construction. During these activities, the collected documents related to the cases of corruption were submitted to the law enforcement agencies, and a total of 49 criminal cases and 24 administrative cases were initiated under the relevant articles of the Criminal Code. From this, 23 criminal cases related to the violation of the law on state procurement were initiated, and material damage of exceeding 142 billion soums was detected.

Also, when the announcements posted on the special information portals "dharid.uz" and "tender.mc.uz" by the budget customers on the construction and current repair of facilities were studied on site, a total of 85.5 billion was spent on 134 facilities. It became known that the current repair and construction works have been started or have already been completed without the winners of the competition being determined (Table 2).

Table 2

Analysis of current repair and construction works by budget customers in Uzbekistan by sectors and regions (2021)⁸

№	In the cross-section of industries	Number of objects	The amount of funds allocated to the objects (in billion soums)
1	Ministry of Public Education	61	50,7
2	Ministry of Health	25	9,7
3	Ministry of preschool education	7	1,8
4	Ministry of Higher and Secondary Specialized Education	4	1,3
5	Local governments and other organizations	37	22,0
№	In the section of regions	Number of objects	The amount of funds allocated to the objects (in billion soums)

⁸ Prepared by the authors based on information from the official website of the Anti-Corruption Agency of the Republic of Uzbekistan (anticorruption.uz)



1	Samarkand region	10	42,2
2	Andijan region	45	14,0
3	Kashkadarya region	32	10,4
4	Namangan region	27	9,5
5	Jizzakh region	7	3,7
6	Tashkent city	4	3,7
7	Navoi region	5	1,8
8	Bukhara region	4	332

In addition, in the monitoring conducted in the field of public procurement, it was determined that the requirements of the laws "On State Procurement" and "On Competition" were allowed to be violated in 458 tenders by the budget orderers of the Republic, and 446 submissions were made aimed at eliminating the causes and conditions of corruption-related offenses and the purposeless spending of 141 billion soum funds was prevented.

There are many problems related to control at all stages of the state procurement process: setting unreasonable requirements for the product purchased by the budget organization; making unreasonable demands on the supplier, asking them to meet strict requirements regarding excessive licenses or the qualifications of their personnel; incorrect pricing; creating an incorrect lot number; setting an inappropriate deadline for the performance of works and services; incorrect assessment of the qualifications of suppliers by the purchasing commission in the budget organization, etc.

If the participation of the human factor in the public procurement process is limited as much as possible and selection processes are carried out digitally, and if the participants in the procurement process correctly and accurately enter their data into the platform created for this, the existing problems would be significantly eliminated. It is also important to establish a strict punishment in the legislation for cases of waste of budget funds by the customer and the supplier by mutual agreement, and to change the order in which they can get away with fines only. In addition, we consider that it is appropriate to reduce and coordinate the types of control over the activities of the budget organization, taking into account that the continuous inspections by several bodies during the activity of the budget organization will have a negative effect on the activity of the budget organization.



The reforms implemented in Uzbekistan in the field of management of public procurement processes aim at a number of goals, such as effective management of state funds, as well as the creation of a competitive environment in procurement processes, and the wider involvement of small businesses and entrepreneurial entities in this field. The effectiveness of the procurement of state and local bodies directly depends on such factors as the current legislation, the effectiveness of the bodies regulating public procurement, and the level of professionalism of the procurement staff.

It is important to study the foreign experience of conducting audits on public procurement and tender contracts, in particular, the practice of the USA, Australia, the European Union and other developing countries, and to apply their positive experiences to the introduction of effective mechanisms for managing the public procurement system of our country. Below we will consider the specific features of the state procurement process of several foreign countries.

Table 3
Peculiarities of state procurement and procurement audit in foreign countries⁹

Country name	Uniqueness in the process of public procurement	Purchase process	Peculiarities of state procurement audit
USA	It has a long history and is one of the most effective public procurement systems in the world	In 5 stages: planning, ordering, sorting and conclusion of contracts, control, evaluation of results	An independent public procurement audit can be carried out at each level of the budget. Internal audit is carried out during the entire purchasing process: before and after the purchase is made
Great Britain	Treasury is the authorized body that approves expenditures and manages the procurement process	In 3 stages: planning, placing orders and execution	More than 90% of government procurement is spent on defense. Therefore, a special audit agency was established in the Ministry of Defense to check contracts
Australia	The Australian method of "effective spending" has been developed. They have weak contract enforcement control	A purchase concept is established by comparing the value of the proposed product and the final value	Powers and responsibilities for public procurement are assigned to the heads of state ministries and organizations, and they exercise control

⁹ The comparative table was prepared by authors based on "Vestnik nauki i obrazovanie" No. 16(52). Part 1 2018, https://auditfin.com/fin/2016/2/fin_2016_21_rus_08_10.pdf and https://www.elibrary.ru/download/elibrary_46319914_44478890.pdf



Canada	The concept of "optimal value" is a combination of price, technical benefit and product quality	The country's production and regional development are of great importance, national goals are implemented through the "Canada Annual Procurement Strategy"	The government is an important body in the control of public procurement and conducts audits on a regular basis
Belgium	It is introduced that the notification on public procurement is presented to suppliers as information for participation in procurement 2-11 months before the announcement of procurement.	In 5 stages: purchase decision is made, cost estimate calculation, analysis, document review, payment control	State legislation pays special attention to cost control at all stages of procurement

Their significant practical experience shows that budget funds are spent effectively in foreign countries. Government purchases have a special place in the category of main expenses of budget funds. World experience in the organization of procurement shows that the most effective form of large-scale procurement of goods and services is holding open competitions (tender). Most developed countries use public procurement on the basis of public procurement.

Conclusion

A number of conclusions were formed based on the results of the research of the theoretical foundations and practical aspects of conducting audit inspections on contracts concluded on the basis of state procurement and tender sales in budget organizations. The main ones are the following:

1. The reforms implemented in Uzbekistan in the field of management of public procurement processes aim at a number of goals, such as effective management of state funds, as well as the creation of a competitive environment in procurement processes, and the wider involvement of small businesses and entrepreneurial entities in this field. Monitoring in the field of public procurement is an ongoing monitoring of compliance with the legislation on public procurement, the implementation of the goals, principles and limitations of public procurement established by this Law by collecting, summarizing, systematizing and evaluating information about the conduct of public procurement will consist of a system.



2. The Anti-Corruption Agency of the Republic of Uzbekistan is implementing a number of measures aimed at preventing corruption risks and eliminating the causes and conditions that cause corruption by fully implementing the principles of openness and transparency in the field of public procurement. Since public procurement is carried out directly from the budget, it is necessary to pay great attention to its effectiveness.

3. It is important to study the foreign experience of public procurement management, in particular, the practice of the USA, Australia, the European Union and other developing countries, and to apply their positive experiences in the introduction of effective mechanisms for the management of the public procurement system, taking into account the specific characteristics of our country.

We believe that the following proposals are appropriate to increase the effectiveness of the fight against corruption in public procurement in Uzbekistan:

1. To create and put into practice a single portal with the possibility of data screening for all public procurements. Data-screening from the proposal allows to quickly identify suspicious tenders on the basis of hidden signs of corruption, such as situations related to conflicts of interest in public procurement, steep price drops, rejection of applications, price reductions to an insignificant 0-1%.

2. The participation of the human factor in the process of public procurement should be limited as much as possible and selection processes should be carried out in a digitized manner. It is necessary to create a special procedure for determining the winner of the competition and to digitize the process in order to prevent the procurement commission from creating corrupt schemes during the competition. For this, if the participants in the procurement process enter their data correctly and accurately on the platform created, the existing problems would be significantly eliminated.

3. Increasing accountability. In the case of violations of the law in the process of public procurement, administrative action is often taken in practice. If gross or repeated violations of procedural rules in public procurement are observed, there should be sufficient grounds for criminal prosecution. This will increase the responsibility of the participants in public procurement and achieve a rational use of budget funds.



4. Coordination of control over the activities of budget organizations. Due to the fact that the budget organization is financed from the state budget in order to carry out its activities related to the performance of the assigned tasks, it is considered to be an object of constant control, and it imposes many restrictions on it, and the specified tasks are not fully fulfilled. For this reason, the effective organization of the internal audit and internal control system in budget organizations does not leave the need for external control, and this practical measure also contributes to the development of the state.

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