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Conceptual Improvement of Financial Control of Budget Expenditures in Uzbekistan

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Abstract: This article discusses in detail the possibilities of applying the three-line defense model and internal control frameworks in strengthening institutional and functional mechanisms of financial oversight of budget expenditures. Special attention is given to the role of these models in ensuring transparency, accountability, and efficiency within the budgetary system. The study emphasizes that the proper allocation of authority and responsibility centers is crucial in establishing effective preliminary and ongoing financial oversight both at the horizontal and vertical levels of public administration. In this context, preliminary control serves as an early warning tool to prevent misallocation of resources, while ongoing control ensures continuous monitoring and evaluation of financial flows during the budget execution process. Moreover, the article highlights that the main tasks in improving oversight include building a clear system of responsibilities, avoiding duplication of control functions, and ensuring that all three lines of defense—management, internal control units, and independent audit—work in harmony.

Keywords: financial oversight, preliminary control, ongoing control, distribution of authority, three-line defense, internal control, control environment, risk assessment, internal audit, external audit, budget expenditures, state budget.

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Introduction

In an era of increasing fiscal complexity and economic volatility, effective financial control of budgets is paramount for organizational sustainability and public trust. Budget management encompasses the allocation, execution, and oversight of financial resources to achieve strategic objectives while mitigating risks such as fraud, inefficiencies, and non-compliance. Conceptual improvements in this domain involve rethinking traditional control structures to incorporate dynamic, integrated models that align with modern governance needs.

Currently, in Uzbekistan, special attention is being paid to reforming all stages of public finance management based on advanced international practices to elevate its quality to a new level. In this context, strengthening financial oversight of public finances, particularly the expenditures of the state budget, which is its main component, is crucial for ensuring the timely and high-quality fulfillment of the state's tasks and functions.

Numerous studies by local and foreign scholars have been conducted on the economic and financial essence of financial oversight, with differences primarily stemming from the scope and level of development of the economic and financial systems, in our opinion.

Literature Review

In particular, Uzbek scientists A. Vakhobov and T. Malikov consider financial control as "the practical manifestation of the control characteristic of finance." They defined it as[1].

From this definition, we can understand that scholars consider financial control to reflect the implementation of the control function, which is one of the tasks of finance.

They also believe that financial control should be considered in the following two areas:

1. Strictly regulated activities of specially established supervisory bodies over compliance with financial legislation and discipline by economic entities;
2. An integral part of managing finances and cash flows at the micro and macro levels to ensure the efficiency and appropriateness of financial operations.

If we analyze the opinions of Uzbek scientists, we can conclude that they assessed financial control as a function of the financial category, in our opinion, where there is finance, its control must also exist. This, in turn, depends on the formation and forms of finance as a category. At the same time, a separate aspect of financial control is the division of financial control into compliance and efficiency control. Compliance control implies compliance of financial flows with regulatory legal acts, while efficiency can be considered as an assessment of the effect achieved through it.

At the same time, the introduction of financial control by scientists as an integral part of financial and cash flow management at the micro and macro levels in order to ensure the efficiency and expediency of financial operations is aimed at studying the organization of financial control in the executive bodies of the republic at the macro level and in the budget organizations within it at the micro level. This situation creates the need to analyze the organization of financial control in the implementation of budget expenditures by dividing it into micro and macro levels.

T. Malikov, Sh. Jalilov took a broader approach to financial control, stating that "the Ministry of Finance of the Republic of Uzbekistan and other financial bodies, within the scope of their powers, shall audit and inspect the financial and economic activities of recipients of budget funds in the control of the execution of the State Budget." as noted[2].

According to A. Ibragimov and B. Sugirbayev, financial control, which is one of the important functions of state management, includes all processes of financial resource movement, including the period from the formation of funds, from the start of any activity to determining its financial results[3].

Considering that today's most advanced financial control systems are based on international best practices, we consider it appropriate to analyze the views of foreign scholars on the essence and content of financial control.

As defined by foreign scholar N. Milyakov, financial control is the most important means of ensuring legality in financial and economic activities. It warns against wastefulness and wastefulness, and identifies the facts of theft and misuse of goods and material values and funds[4].

Analyzing N. Milyakov's opinion, we can say that he paid more attention to the compliance part of financial control, that is, to ensuring legality.

A. Zudilin and F. Akhmedov noted that in the functioning of the economy in market conditions, the financial control system is divided into two levels. In their opinion, "at the first level, financial control should protect the interests of the entire society and be regulated by the state[5]." In doing so, he must control revenues to the state budget and special funds and ensure compliance with the financial and accounting rules and methods established by legislative acts and state bodies.

Although the ideas of the above scholars serve to provide a broader understanding of the functional form of state financial control, its organizational, that is, institutional, aspects are also very important.

Methodology

The methodology of this research is aimed at analyzing the current state of the financial control system and identifying opportunities for its conceptual improvement in Uzbekistan. A combination of qualitative and quantitative approaches was applied, since relying solely on statistical data is not sufficient; it is also necessary to consider expert opinions, international experience, and existing legislation.

The main sources of analysis included annual reports published by the Ministry of Finance of the Republic of Uzbekistan and the Accounts Chamber, as well as country-specific reports

prepared by international financial institutions such as the World Bank, the International Monetary Fund, and the Asian Development Bank[6]. In addition, primary data were collected through discussions and interviews with specialists in the field, financial experts, and economists working in public finance.

A key element of the research was comparative analysis. The mechanisms of financial control in Uzbekistan were compared with international practices, particularly with the standards of OECD countries, which emphasize transparency, accountability, and efficiency in budget expenditure management. This comparison made it possible to identify existing challenges in the national system and propose practical solutions based on international experience[7].

Results and Discussions

In particular, if we pay attention to the organizational aspects of the current state financial control system in Uzbekistan, we can see that external financial control plays a significant role in it. In particular, the state financial control bodies established in our country, the Accounts Chamber, the State Financial Control Inspectorate and financial bodies, are considered an external financial control system in relation to budgetary organizations. In our opinion, despite its many positive aspects, it also has its own complexities. For example, in the external form of financial control, there is a problem of lack of time and human resources to constantly cover all financial transactions. In addition, the level of provision of external financial control with financial and other information is not always sufficient and of high quality. Therefore, in our opinion, the establishment and development of a standardized internal financial control system in Uzbekistan is especially relevant today. For this, the current state financial control system requires conceptual expansion based on international models and experiences.

In particular, the "Internal Control – Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) It is the most famous of such models[8].

The "Internal Control - Integrated Model" consists of 5 components and 17 principles, which provide the conceptual framework and structure of the organization of the internal control system. In this model, the internal control system consists of the control environment, risk assessment, control processes, information and communication, and monitoring components.

1. The control environment includes the organizational structure, policies, procedures, and employee behavior rules that ensure the fulfillment of the tasks and responsibilities assigned to state bodies in an integrated model of internal control.

The control environment consists of the following main elements:

adherence to the principles of honesty and ethical conduct;

the existence of measures that allow management to effectively implement control processes;

Formation of the organizational structure in accordance with the assigned tasks and effective distribution of powers and responsibilities;

establishing processes for attracting, developing, and retaining talented professionals;

the establishment of responsibility for activities, the existence of systems for evaluating, supporting and motivating employees.

2. Risk management is the second important component of internal control, which includes processes aimed at identifying, assessing, mitigating and monitoring risks that may negatively affect the implementation of state bodies' activities. This includes the implementation of risk management, including the analysis of the work carried out by organizational structures in managing risks, and the establishment of a Risk Management Committee aimed at ensuring the effectiveness of the risk management system[9].

The stages of the risk management process in government agencies are as follows:

- Risk identification stage. Risk identification is carried out in all structural divisions of a state body. In this, the structural division identifies risks that negatively affect its activities. The risk identification process should be carried out regularly.

- Risk assessment stage. Risk assessment involves assessing the likelihood and impact of identified risks and classifying them into levels. Based on the significance of the risks, their weight is determined and a risk register is formed.

- Taking measures to eliminate risks. At this stage, the structural unit determines measures to eliminate risks based on the results of the assessment stage. In this case, a plan of measures to eliminate risks is developed and approved by the Risk Management Committee. Relevant work is carried out based on the plan of measures to eliminate risks[10].

- Monitoring. Monitoring of the implementation of measures to eliminate risks is carried out by structural units where risks are identified and appropriate measures are taken.

3. Control processes are the third component of internal control. Control processes should be aimed at reducing risks that negatively affect the implementation of the tasks assigned to state bodies.

Control processes are implemented in all structural divisions of a state body by ensuring the following:

establishing clear rules and standards for the implementation of functions and business processes for the implementation of tasks assigned to a state body;

determination of the powers and responsibilities of employees in performing functions and business processes;

implementation of continuous and selective monitoring of functions and business processes;

Establishing control, error and risk warning systems using information technology in the process of performing functions and business processes.

4. The information and communication system is a component of internal control that will continue to grow in importance in the future.

When establishing an effective internal control system in government bodies, it is necessary to ensure that management and employees have the opportunity to obtain, analyze, and present the necessary information and data to stakeholders.

To this end, establishing an effective information and communication system in a state body involves the following:

- be able to identify and use the necessary information and data to establish an internal control system. The information and data must be reliable, complete, and accessible to interested parties;

- establishment of an effective internal communication system that ensures the exchange of information and data;

- establishing effective cooperation in exchanging information and data with external stakeholders;

- development of mechanisms that ensure the effective exchange of information and data, as well as the widespread, convenient and secure use of information technologies.

5. Monitoring the internal control system is considered the fifth component of internal control, as it further strengthens accountability in a state body.

Monitoring the effectiveness of the internal control system in a state body is carried out through continuous monitoring and periodic evaluation.

Continuous monitoring is carried out by the structural unit during the execution of functions and business processes.

Periodic assessment includes general monitoring carried out by the internal control coordinator and activities carried out by the internal audit service to assess the internal control system[11].

The above internal control system has been established in many regions of the world and the countries within them, and by evaluating them, it is possible to assess the broad geography of the system.

Table 1
Results of a study of the compliance of regulatory documents related to internal control with international practices

Name of countries and territories	Rating
OECD average	8
European Union (EU) average	8
Latin America and the Caribbean average	8
Canada, Costa Rica, Estonia, Greece, Lithuania, Mexico, Netherlands, Norway, Slovenia, Spain, Sweden, USA	10
Argentina, Finland, France, Ireland	9
J. Korea, Poland, Portugal, Slovakia	8

Australia, Chile, Latvia, Ukraine	7
Czech Republic	6
Denmark	5
Austria, Luxembourg, Peru, Turkey	4
Japan	3

The data in Table 1 reflect the results of studies conducted by the Organization for Economic Cooperation and Development, in which the compliance of the current regulatory documents of many countries with international standards and models of internal control was analyzed on a maximum 10-point scale. From Table 1, we can see that the average score of the OECD member countries, the European Union, and the countries of Latin America and the Caribbean is 8. However, when viewed by country, countries such as Denmark, Austria, Luxembourg, Peru, Turkey, and Japan have scores of 5 points or lower on the implementation of the internal control system, which indicates low compliance with international standards[12]. Of course, this is also a process that depends on the assessment methodology, and there are different views and concepts on the implementation of the internal control system.

In addition, the "Three Lines Model" model developed by the International Institute of Internal Auditors is widely used to form the organizational structure of state bodies and organizations, to implement the distribution of powers and responsibilities of their structural units based on the principles of balance of interests and mutual restraint (Figure 1). This model presents three links between management functions in achieving the goals of state bodies and organizations, financial control, and protection from risks that may negatively affect them.

This model introduces the establishment of "defense systems" in organizations, showing the process of establishing effective protection against events (threats) that could negatively affect the achievement of each organization's goals (for example, financial errors and shortcomings).

In our opinion, such a limitation will facilitate the interoperability of financial control systems, since it will be easier to coordinate and organize checks and balances between systems established on the basis of clear rules.

The organization of initial, current and final types of financial control through a three-tier model increases the possibility of defining horizontal and vertical differences between them, centers of responsibility and accountability[13]. This, in turn, can be brought to a mutually reinforcing, complementary and restraining process based on the separation of the tasks of each tier.

In this Three Lines Model Two of them are directly under middle management.

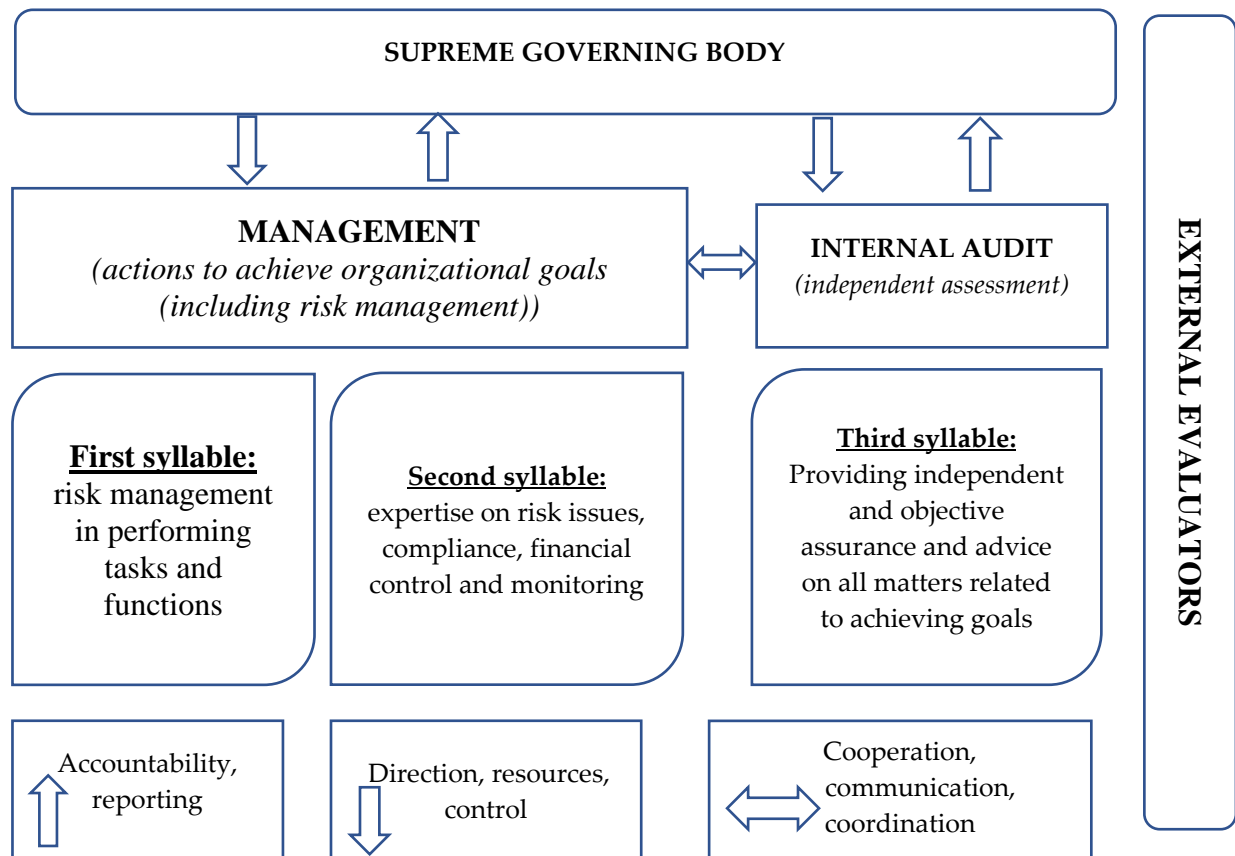


Figure 1. Three Lines Model.

The first level of risk protection is the organizations that are directly exposed to risks and perform the main tasks of the activity. These structures aim to achieve the organization's goals by minimizing or eliminating risks. The first in the management structures syllable is manifested through risk management in the performance of tasks and functions. According to it, financial control and risk management should be established at each stage of operational activities [14]. If we apply this to the system of budgetary organizations, then if institutionally we understand territorial and subordinate organizations, functionally we can consider issues related to the management and financing of subordinate organizations.

The second level of protection from threats is performed by management functions related to the development and implementation of policies used in the first level of protection, as well as monitoring its results. In the experience of our country, the second level of protection can include the implementation of horizontal functions in the structures of the central apparatus of state bodies and organizations (for example, strategic planning and methodology, human resources development and management, information-analytical and executive discipline, legal support, anti-corruption, and finance-economics) [15].

Also, in the second stage, new systems will be developed and implemented for the risk management process in the first stage.

The first and second levels of risk protection are organizationally and functionally separated from the internal audit, which is designated as the third level. This, in turn, ensures the objectivity of the internal audit by providing it with organizational independence, prevents conflicts of interest in terms of its functions, and allows it to make proposals and recommendations directly to the heads of state bodies and organizations.

Internal audit services provide assurance that the first and second tiers of operations and the risk management process within them ensure that the organization's goals are achieved, and are a system that provides advice on how to further improve them.

The use of the "Three Lines Model" model in government bodies and organizations helps to ensure operational performance, accountability, and consistency in setting and achieving goals based on rational implementation of organizational and functional division [16].

In turn, Effective organization and standardization of the activities of the first and second levels presented in the "Three Lines" model will help eliminate financial errors and shortcomings by further strengthening financial control, especially its initial and current types.

Conclusion

In our opinion, it is possible to conceptually organize internal financial control in Uzbekistan based on the above two models. To do this, in our opinion, the following work should be carried out:

1. Creating a legislative framework for internal control in our country based on the "Internal Control - Integrated Model";
2. Conducting an external assessment of the internal control system;
3. Development of a concept that includes the use of the three-tier model in the financial control system of budget expenditures;
4. Focus on the risk management process through coordination between first-line authorities and primary financial controls;
5. To form the responsibility of this level to develop measures aimed at preventing financial errors and shortcomings by coordinating the powers of the second level and current control;
6. In order to ensure the independence of the third-tier internal audit structures, establish internal audit committees in each ministry and include representatives of higher and other authorized organizations and experts in their composition, in addition to the relevant ministry;
7. Align the three-tier model with internal control processes in the activities of ministries and departments;
8. Establish a system of continuous professional development for employees of ministries and departments on the new state financial control system.

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