



## **IMPROVING OF THE ACCOUNTING AND INTERNAL CONTROL IN BUDGET ORGANIZATIONS**

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### **ABSTRACT**

The article theoretically substantiates the necessity and interrelation of accounting and internal control in budgetary organizations of the road sector. The legal bases of the organization of accounting and internal control in budgetary organizations are studied. Important directions of ensuring internal control through the organization and maintenance of accounting in budgetary organizations of the road sector are revealed. Proposals for improving internal control through the organization and maintenance of accounting in budgetary organizations are formulated.

### **KEY WORDS**

Accounting service,  
accounting, internal  
control, accountability,  
reporting.

### **Introduction**

In the context of increasing global competition in the world, special attention is paid to ensuring the accountability of the public sector accounting system for the targeted and targeted spending of budget funds, as well as the openness of information about them. According to the report "Public Sector Financial Reporting Index for 2021" published by the International Federation of Accountants (IFAC), 57% of countries that have implemented the accrual method in global accounting use international public sector accounting standards (IPSAS)<sup>1</sup>. Recommendations are being developed for governments to expand the role of public sector accounting and the internal control system in ensuring the continuity of distribution, execution and control of funds in the budget system.

In Uzbekistan, work is underway to ensure accountability and openness of spending by bringing the accounting and internal control system in budgetary organizations in line with international accounting standards in the Public Sector. In the road system, which is the object of the study, the direction of funds is determined "for the purpose of construction and reconstruction of roads, bridges and overpasses in 2024, major and current repairs, storage, landscaping, prevention and elimination of consequences of natural disasters, preservation of the committee and its unstructured organizations in total 5,484,823.6 million soums"<sup>2</sup>. In particular, the tasks of assessing the current state of the organization and accounting in the organizations of the system, studying the state of functioning of the

<sup>1</sup> International Public Sector Financial Accountability Index 2021 Status Report

<sup>2</sup> <https://lex.uz/en/docs/6707765#6710514>

existing internal control system, identifying problems associated with the accounting and internal control system, as well as developing scientific proposals and recommendations for their elimination.

## RESEARCH METHODS

The article used abstract logical thinking, comparison, observation and analysis, induction and deduction, methods of synthesis, monographic research, systems approach, statistics, economic analysis.

## LITERATURE REVIEW

Research by foreign economists on the study of the accounting and internal control system in budgetary organizations was also reflected in scientific papers, brochures and articles. In particular, these include Jorge de Jesus, JSB Eirado, Jens Heiling, O. Mitina, T. Poleshchuk, M. Ryabova<sup>3</sup>. Uzbek economists such as N. Abdusalomov, S. Mekhmonov, A. Ostonokulov, Z. Khamidova studied the problems of accounting and financial reporting in budgetary organizations, as well as the development of theoretical and methodological foundations of internal audit<sup>4</sup>. It should be noted that in the scientific works of the above-mentioned economists, theoretical and practical problems of improving the accounting and internal control system in budgetary organizations of the highway system as a separate object of research have not been studied. At the same time, the adoption of current regulatory legal acts related to the reform of sources of financing the highway system, changing them in accordance with the conditions of economic modernization entails the need to conduct in-depth scientific research in this area.

## ANALYSIS AND RESULTS

The procedure for expanding sources of funding for budget organizations by type of activity through the production and sale of goods (works, services), leasing temporarily unused premises and other state property by budget organizations to other organizations, and additional income from the provision of sponsorship (gratuitous) assistance to budget organizations by legal entities and individuals has been established<sup>5</sup>.

Organizations of the highway system draw up estimates of revenues and expenditures of budgetary and extra-budgetary funds based on the regulation "On the procedure for drawing up, approving and registering expense estimates and state tables of budget organizations and recipients of budget funds". It has been established that the revenue part of the estimate of revenues and expenditures of budget organizations "is determined based on the volume of receipts of extra-budgetary funds and the areas of

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<sup>3</sup> MA Jorge de Jesus, JSB Eirado. Relevance of accounting information to public sector accountability: A study of Brazilian federal public universities. *TÉKHNE - Review of Applied Management Studies*. 2012.; Jens Heiling (2020) Contributing to The Global Economy. Public Sector Accounting - A Discipline in Its Own Right. ERNST & YOUNG GMBH, Stuttgart, Germany. September 29, 2020.; Митина О.В. Бухгалтерский учет в бюджетных организациях. Учебное пособие. 2020 г. 138 стр.; Полешчук Т.А., Маслова Т.С. Контроль и ревизия в бюджетных учреждениях. Учебное пособие. –М.: "ИНФРА-М", 2017. 227 с.; Рябова М.А. и друг. Бюджетный учет и отчетность: учебное пособие / - Ульяновск: УлГТУ. 2010.

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<sup>5</sup> Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 3, 1999 No. 414 "On improving the procedure for providing budgetary organizations with funds."

use of these funds, indicating the source of receipts in the estimates of revenues and expenditures, and the revenue part of the estimate of revenues is formed." from the balance of funds at the beginning of the current year<sup>6</sup>.

According to the Directive "On Accounting in Budgetary Organizations" and the budget accounting standard (SBU No. 2) "Chart of Unified Accounts", the accounting procedures in the organizations of the highway system are presented in the form of bilateral transactions on accounts, sub-items, preliminary and consolidated accounting documents, and accounting registers. According to the "Regulation on the Circulation of Documents and Document Flow in Accounting", the organizations of the highway system have systems regulating the documentation of transactions related to accounting objects. According to Standard No. 1 of Budget Accounting "Accounting Policy", among all budgetary organizations, the organizations of the highway system must form an accounting policy in order to implement their estimates, regulate the internal control system in the conduct of financial and economic activities and implement effective management by forming systematized accounting information. Accounting policy is applied during the financial year as a set of certain methods, bases, allowances, rules and techniques used by budgetary organizations in maintaining budgetary accounting and preparing financial statements in accordance with established principles<sup>7</sup>.

Accounting policy covers all issues related to accounting processes, i.e. it is necessary for budgetary organizations to ensure the purposefulness of the accounting system. A well-structured accounting policy indicates the high qualifications of the chief accountant. This, in turn, will have a positive effect on the economic activities of the budgetary organization in the future.

Accounting policy is developed on the basis of the laws of the Republic of Uzbekistan, decrees of the President, resolutions of the Cabinet of Ministers, regulations and standards related to the scope of activities of the accounting entity. When developing an accounting policy, special attention is paid to its organizational, technical and methodological aspects. According to the order of the head of the accounting entity, the accounting policy will be developed at the end of the reporting year and approved for the next financial year. In accordance with this order, the following provisions are also approved at the same time:

job descriptions for accounting employees;

working chart of accounts of accounting, reflecting synthetic and analytical accounts;

procedure and schedule of document flow;

methods of valuation of property and liabilities;

procedure of write-off of assets;

procedure and terms of inventory;

technology of processing of accounting information and other necessary documents.

Development of accounting policy and its structural construction can have common aspects for all subjects of accounting. However, there are different aspects of the activities of economic entities with organizations of the highway system from the point of view of accounting objects, funds, procedure of use of funds and methods of reflection of income and expenses on the account (table 1).

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<sup>6</sup> Regulation "On the procedure for drawing up, approving and registering budgetary organizations and recipients of budgetary funds, estimates and staffing schedules" (December 15, 2014, list number No. 2634)

Budgetary accounting standard of the Republic of Uzbekistan (SBU No. 1) "Accounting policy" (December 27, 2016, list number No. 2853)

**Table 1 Distinctive aspects related to the formation of accounting policies for accounting entities<sup>8</sup>**

<b>Business entities</b>	<b>Organizations of the road system</b>
<b>ACCOUNTING OBJECTS</b>	
<ul style="list-style-type: none"> <li>- long-term assets;</li> <li>- current assets;</li> <li>- liabilities;</li> <li>- private equity;</li> <li>- financial results;</li> <li>- expenses;</li> <li>- income.</li> </ul>	<ul style="list-style-type: none"> <li>- non-financial assets;</li> <li>- financial assets;</li> <li>- accounts receivable;</li> <li>- accounts payable;</li> <li>- financial results;</li> <li>- expenses;</li> <li>- income.</li> </ul>
<b>APPLICATION OF METHODS OF REFLECTING INCOME AND EXPENDITURE ON THE ACCOUNT</b>	
<b>Calculation method</b>	<b>Cash-based accounting method</b>
<b>SOURCES OF FUNDING</b>	
<ul style="list-style-type: none"> <li>- own funds;</li> <li>- attracted funds.</li> </ul>	<ul style="list-style-type: none"> <li>- budget funds;</li> <li>- Funds of the Republican Road Fund;</li> <li>- Funds of the Fund for Development and Support of the Activities of the Committee of Highways;</li> <li>- Funds of the Development Fund;</li> <li>- other extra-budgetary funds.</li> </ul>

There are various aspects related to the development of accounting policies in business entities and organizations of the highway system. In this regard, it is justified that a separate standard for the development of accounting policies for business entities was developed. However, there are various aspects in terms of accounting objects, funds, the procedure for using funds and methods of reflecting income and expenses on the account of organizations of the highway system. From the above, it can be said that a separate accounting policy related to bookkeeping should be developed in organizations of the highway system, and for this purpose a standard concerning the accounting policy should be adopted.

Standard of SBU No. 1 "Accounting Policy" is designed to increase the level of reliability of financial statements of organizations of the highway system and their financial statements of a given periodicity, as well as the level of comparison with the financial statements of other organizations of the highway system.

Accounting policies are developed by organizations of the highway system in order to select one of several mutually exclusive methods of accounting provided for by budget legislation. It should be used when selecting and applying accounting policies in standard organizations of the highway system, accounting for changes in accounting policies and preparing financial statements.

Inventory, which is considered an important accounting method in the implementation of financial and economic activities in organizations of the highway system, is of particular importance. Inventory in organizations of the highway system serves to ensure the reliability of accounting information, maintain the quality of material assets and control over the state of liabilities.

<sup>8</sup> Prepared by the author

Inventory is one of the activities that are constantly being introduced into the practice of organizations of the highway system, and it is relevant to study its specific aspects and theoretical and methodological foundations based on the tasks set before it, based on current demand. Although in theory inventory is considered an element of control, in practice control is carried out in the process of inventory. In organizations of the highway system, inventory is carried out on a planned basis by types of accounting objects for the following periods (table 2).

**Table 2 Frequency of planned inventory by accounting objects in organizations of the highway system<sup>9</sup>**

Accounting objects	Period of planned inventory
Fixed assets	At least once every two years
Library collections	Once every five years
Intangible assets	At least once every two years
Inventory	At least once a year
Fuels and lubricants, food products	Once a quarter
Cash, cash documents, assets and forms on a fixed account	Once a month

Organizations of the road system can conduct a full inventory on a planned basis before preparing the annual financial statements, having established it in the accounting policy. In addition to the plan, when renting, buying, selling property, revaluing fixed assets and marketable assets, when changing financially responsible persons, theft or abuse, natural disasters, fires, catastrophes or emergency situations, when terminating (reorganizing) the activities of organizations of the road system before preparing the liquidation (separation) balance sheet and in other cases provided for by law.

In the process of forming the accounting policy, the standard of budgetary accounting of the Republic of Uzbekistan (SBU No. 1) "Accounting Policy" was used (registered by the Ministry of Justice of the Republic of Uzbekistan under registration number 2853 dated December 27, 2017). The accounting policy is approved by the order of the chairman of the committee and the heads of its territorial divisions and is consistently applied from year to year. The accounting policy ensures that the financial statements are prepared on the basis of all applicable standards of budgetary accounting. Financial statements, in the absence of special requirements:

- a) must be relevant - information that meets the needs of its users;
- b) be reliable - objectively reflect all the results and financial status of the activities of the committee and its territorial divisions, reflect the economic essence of events and operations;
- c) be impartial and non-binding;
- g) be complete (finished) - the committee and its territorial divisions must fully reflect all facts of economic activity.

Accounting in the committee and its territorial divisions is maintained electronically in the UzASBO software package and financial statements are generated. Business transactions related to the reporting period, if the documents confirming their implementation have not been received, a corresponding primary document is drawn up and reflected in the accounting records.

<sup>9</sup> Issue 19, entitled "Organization and Transfer of Inventory," was prepared by the author based on the National Accounting Standards.



The procedure and terms for conducting an inventory in the committee and its territorial divisions are carried out in accordance with the national accounting standard of the Republic of Uzbekistan (NAS No. 19) "Organization and transfer of inventory". The main objectives of the inventory are as follows:

determining the actual availability of property;

comparing existing property with accounting data in reality;

verifying the correctness of reflecting liabilities on the account.

In the following cases, the transfer of inventory is mandatory:

upon leasing, purchasing, selling property, as well as in cases stipulated by law, during the transformation of the center (denationalization);

before drawing up the annual financial report.

The number of inventories in the reporting year, the date of their transfer, the list of assets and liabilities are determined by the chairman of the committee and the heads of territorial departments.

In budgetary organizations in the road committee system, which is considered as the object of the study, there are a number of problematic situations related to the accounting and internal control system.

These problems are related to the specifics of the industry, funding areas, parallel functioning of business entities with budgetary organizations in the system, the manifestation of system organizations simultaneously as a budget employee, a distributor of budgetary funds, a budget organization and a recipient of funds from the budget.

In order to positively resolve the above-mentioned controversial circumstances, improve the accounting and internal control system in budgetary organizations in the road committee system, it is necessary to carry out the following set of works.

First of all, it is necessary to transfer the funds of the development fund that were unused during the financial year by the committee and its territorial divisions, without redistributing the funds for their intended purpose until the beginning of the next financial year. Thus, this serves to ensure that during the financial year the committee and its territorial divisions purposefully use the funds of the development fund within the framework of the income and expenditure estimate. Secondly, it is necessary to implement in practice a standard accounting policy in the committee and its territorial divisions, which summarizes the rules for organizing and maintaining accounting of financial and economic activities and preparing financial statements. The implementation of this accounting policy in practice in the committee and its territorial divisions serves to strictly follow the job descriptions of the accounting service employees, accurately determine the procedure and timing of the inventory, simplify the process of summarizing data by confirming the content of synthetic and analytical accounts, and ensure internal control.

Thirdly, it is necessary to develop a standard regulation on the internal control system of the committee and its territorial divisions. The implementation of this standard regulation in practice in the committee and its territorial divisions makes it possible to properly store assets, economically and effectively use material and financial resources, comply with the requirements of current legislation and internal documents, fulfill established plans, ensure the completeness and correctness of accounting documents, financial reporting and management information, identify risks when they arise, analyze and make the necessary decisions. Fourthly, it is advisable to formulate job descriptions for the employees of the accounting service of the committee and its territorial departments. As a result, this serves to accurately define the duties of the employees of the accounting service of the committee and its territorial departments within the framework of the positions they hold, to ensure accountability and

responsibility of the accounting staff, to increase the reliability of accounting information and financial reporting.

## CONCLUSIONS

As a result of the study of the accounting and internal control system in budget organizations, the following important conclusions and proposals were formulated:

1. It is important to form a standard accounting policy in the Committee for Highways and its territorial divisions, which summarizes the rules for organizing and maintaining accounting of financial and economic activities and preparing financial statements. The standard accounting policy serves to strictly follow the job descriptions of the accounting service employees of the Committee and its territorial divisions, accurately determine the procedure and timing of inventory, simplify the process of data summarization by confirming the content of synthetic and analytical accounts, ensure internal control and reporting based on approved data.
2. The Committee for Highways and its territorial divisions intend to develop a standard regulation on the internal control system. This standard regulation provides for the correct storage of assets by the structural divisions of the committee and its territorial departments, economical and effective use of material and financial resources, compliance with the requirements of current legislation and internal documents, implementation of established plans, ensuring the completeness and correctness of accounting documents, financial reporting and information management, identifying risks in the event of risks, analysis and decision-making.
3. In the accounting policy of the road committee and its territorial departments, it is necessary to extend the established daily standards by 15 days in order to determine the balances at the end of the financial year for agricultural and office supplies. Due to this, the committee and its territorial departments create the possibility of planning and targeted financing at the expense of budgetary and extra-budgetary funds based on the amount of the expense item "Business and office supplies".
4. In the road committee and its territorial departments, it is necessary to take into account business and office supplies received at the expense of budgetary extra-budgetary funds in separate working accounting accounts. Thanks to this, the committee and its territorial divisions create the opportunity to generate analytical accounting information on the movement of business and office supplies by funding sources.

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