

IMPLEMENTATION OF FINANCIAL CONTROL IN THE MANAGEMENT SYSTEM OF JOINT STOCK COMPANIES OPERATING IN UZBEKISTAN

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Abstract - This article examines the implementation of financial control in the management systems of joint stock companies operating in Uzbekistan. It highlights the significance of financial control, the unique challenges faced, and best practices for effective implementation. Key components of financial control, such as internal controls, budgeting, and financial reporting, are analyzed in detail. Furthermore, the article offers recommendations for enhancing financial control within joint stock companies in Uzbekistan, providing important conclusions and suggestions aimed at ensuring financial stability and improving corporate governance.

Keywords: Financial Control, Joint Stock Companies, Management System, Uzbekistan, Internal Controls, Budgeting, Financial Reporting, Corporate Governance.

INTRODUCTION

The mechanism of effective profit management of a joint-stock company should be based on its careful controlling. The creation of a profit controlling model is a necessary objective process, since it reflects the growth of the scale of JSC activities, the complication of the corporate structure and the need to stimulate the

financial results of the divisions. It is controlling that ensures the flexibility and adaptability of profit management, as well as the dynamic nature of this process. All this indicates the relevance of the study. Joint stock companies play a crucial role in Uzbekistan's economic development. Effective financial control systems are vital for ensuring transparency in operations and building investor trust. This article explores the implementation of financial control in Uzbekistan's joint stock companies, highlighting existing challenges, successful examples, and recommendations for improvement.

MATERIALS AND METHODS

Economist P. Horvat defines the goal of controlling as achieving the financial result of an organization: controlling should provide the management of organizations with information and set it up for coordination and adaptation to internal and external conditions [5].

According to I.A. Blank, controlling is a system of internal control that ensures the concentration of control actions on the most priority areas of formation and use of the organization's profit, timely detection of deviations of actual results from those envisaged and the adoption of operational management decisions on the implementation of established tasks. The economist emphasizes that internal control over profit is the process of checking and ensuring the implementation of all management decisions in the area of its formation, distribution and use [1].

Importance of Financial Control

Financial control is essential for joint stock companies for several reasons:

1. **Ensuring Transparency:** Clear and accessible financial information is critical for shareholders and investors, enabling them to make informed decisions.
2. **Risk Management:** Robust financial control systems help identify and mitigate potential financial risks, protecting the company's assets and reputation.
3. **Enhancing Competitiveness:** By analyzing financial reports, companies can improve their strategies and operational efficiency.

Financial Control Framework in Uzbekistan

The Uzbek government has made significant strides in enhancing financial control mechanisms through various laws and regulations. For instance, the "Corporate Governance" law encourages joint stock companies to strengthen their internal control systems.

Example: In 2023, "Uzbekneftgaz," one of Uzbekistan's largest joint stock companies, took significant steps to improve its internal control framework. By establishing an internal audit department, they enhanced the transparency and reliability of their financial reporting, which led to better investor confidence and corporate governance.

Current Challenges

Despite these advancements, several challenges hinder the effective implementation of financial control in joint stock companies in Uzbekistan:

1. **Lack of Training and Awareness:** Many employees are not adequately trained in financial control processes, leading to inefficiencies and potential errors in financial reporting.
2. **Social Pressures:** Some companies may resist changing their internal control systems due to external pressures or fears of disrupting established practices.
3. **Corruption:** Corruption remains a significant issue that can undermine financial control systems, eroding trust among stakeholders and impacting overall company performance.

Key Components of Financial Control

To effectively implement financial control, joint stock companies in Uzbekistan should focus on several key components:

1. **Internal Controls:** Establishing robust internal control mechanisms, such as segregation of duties, regular reconciliations, and approval processes, is essential to minimize the risk of fraud and errors.
2. **Budgeting and Forecasting:** Developing realistic budgets and financial forecasts allows companies to align their financial strategies with operational goals, ensuring more accurate financial planning.

3. **Financial Reporting:** Regular and transparent financial reporting to stakeholders is crucial. This includes timely disclosure of financial statements and ensuring compliance with regulatory requirements.

4. **Auditing:** Conducting regular internal and external audits helps identify areas for improvement and ensures adherence to established policies and procedures.

Best Practices for Implementation

To enhance financial control systems, joint stock companies in Uzbekistan should consider the following best practices:

1. **Training and Development:** Implementing ongoing training programs for employees on financial control processes can significantly improve their skills and awareness.

2. **Adopting Technology:** Utilizing financial management software can streamline financial processes, improve data accuracy, and facilitate real-time reporting.

3. **Engaging Stakeholders:** Involving stakeholders in the financial control process fosters a culture of transparency and accountability, encouraging better governance practices.

4. **Regular Review and Adaptation:** Continually assessing and updating the financial control system ensures that it remains effective and relevant in a changing economic environment.

RESULTS AND DISCUSSION

The distinctive features of controlling are considered to be the following:

— transforms the content of conventional control, turning it from control over the implementation of events into systematic control over results. It is necessary to structure control indicators so that it is possible both to evaluate the final result and to detect causal relationships of the deviation that has arisen (factor analysis of profit

and profitability indicators based on the sequential decomposition of the value of the resulting indicator);

— is focused on the implementation of certain goals (operational, strategic), put forward by the development of a specific joint-stock company (JSC);

— is aimed at the future, at choosing the most attractive directions of development and early detection of risks in the development process, which is ensured by drawing up long-term and operational plans (optimal, developed taking into account all alternative options);

— implies coordination of the activities of all divisions in achieving strategic and operational goals;

— is focused on management accounting.

Obviously, the controlling model has two blocks - strategic and operational.

There should be a relationship between strategic and operational controlling and the individual divisions implementing them.

Solving strategic tasks arising from the analysis of the factors of growth of the market value of JSC, which form the basis of strategic planning, determines the creation of an information base for collecting macroeconomic indicators, assessing the dynamics of assets and liabilities of JSC, as well as forecasting their levels for the coming periods, organizing and optimizing information flows. Solving operational tasks involves:

— collecting relevant information (on the factors of profitability of JSC, the liquidity of its balance sheet, types, level, factors of expenses, the dynamics of income and expenses, assets and liabilities, cost of products, etc.);

— developing forms, terms and procedures for submitting information to JSC managers and specific employees.

Analysis in strategic controlling is aimed at studying the external environment, deviations of actual indicators from forecast ones for timely detection of negative trends, effectiveness of anti-crisis measures. Operational analysis is a diagnostic study of all areas of JSC activity or its individual aspects, including:

- assessment of the state and financial results of JSC activity at the time of the analysis;
- identification of problems facing JSC;
- determination of possible risks that may prevent JSC from successfully solving problems;
- comparison of the state and financial results of JSC activity for the selected period with planned indicators;
- comparison of financial results of JSC activity with corresponding indicators of other JSC;
- generalization of the analysis results and preparation of recommendations for making management decisions aimed at improving JSC activity.

The following principles should underlie the organization of the controlling process.

1. Consistency with the overall strategy and specific circumstances. The focus of the controlling system on the implementation of the profit management strategy developed in the organization predetermines the targeted limitation of controlled operations.

2. Objectivity. Controlling should extend to the entire business, the information base.

3. Significance - materiality for each type of economic activity and the JSC as a whole.

4. Apperception - the ability to explain the process and results of controlling.

5. Flexibility - quick accounting of changing data volumes without additional involvement of qualified specialists.

6. Timeliness - complete and timely presentation of information on the technologies and procedures by which controlling is carried out.

7. Justification - the possible means of controlling used should be implemented taking into account the current conditions of the JSC functioning, compliance with established requirements and standards.

8. Impartiality — employees perform their work without bias, interference, avoiding conflicts of interest.

9. Constructiveness — focus on final results, pragmatism, reasonableness and rationality of relations.

10. Periodicity allows to timely record negative trends in the JSC business, take necessary neutralization measures. Determined by its significance for the corresponding area of activity, information system.

11. Effectiveness — implementation of the best methods of organizing control work, certification according to formal criteria of the “circle” of professionals who make a professional judgment regarding the quality of the controlling system.

12. Expediency — ensuring the optimal level of costs, providing for the minimization of expenses for conducting controlling. It is advisable to develop and implement a controlling model through algorithms, which allows for a schematic representation of the stages of the process — the main stage-by-stage implementation of the proposed procedures. Moreover, each of the identified stages must simultaneously meet the following requirements:

— consistency — impossibility of moving to the next stage without the complete implementation of the previous one, since the reflection of the results of the subsequent ones contains the results of the previous ones;

— logic;

— continuity of stages both individually and within the framework of the entire controlling process, implying the unity of the goals being implemented, completeness, integrity of the achieved results;

— the importance of the results obtained during the implementation of the stages, the possibility of their application at subsequent steps.

Let us consider the highlighted stages.

Stage 1. Implementation of strategic controlling — the strategic nature of controlling reflects the main priorities in the formation, distribution and use of profit.

Stage 2. Implementation of operational controlling is aimed at ensuring the optimization of income, costs and financial results both in the JSC as a whole and at the level of financial responsibility centers (FRC), products. During the 2nd stage, the following factors are of particular importance:

- integration and coordination of management activities to achieve the set goals, coordination of the profit management system;
- forecasting and planning the financial results of JSC for the near future;
- ensuring the profitability of JSC at various levels, including the CFO, products.

Of particular importance is the coordination of the target settings of the JSC's activities and their implementation in its corresponding plans, which is carried out by determining the ratio in the priorities of the JSC's activities: profitability, liquidity, risk. At the same time, the target settings may concern the priorities in the development of individual products, dominance in a certain market segment. In the target settings regarding increasing profitability, priorities and specific tasks are established: achieving a given level of profit, ensuring the stability of the financial result, a certain level of profitability of the CFO assets, and product costs. Coordination of profit management of JSC presupposes reflection of the corresponding target setting in various management subsystems [2]:

- in JSC as a whole,
- in the subsystems of income and expense management,
- forecasting, planning, information, simulation, risk management, analysis and evaluation.

The objectives of operational controlling are recorded in the documents of the JSC, determining the direction and specifics of its development [3]:

- accounting, information, tax policies;
- income and expense management policy, risks, etc.

In these documents, the objectives are formulated and specified in the limits and standards of the JSC, profitability indicators in general for the JSC, the financial center, products, as well as coefficients characterizing the risk level of the JSC.

Organization of management accounting of costs and financial results at the level of the financial center, products involves [4]:

- collection of information based on intra-corporate information flows, including for managing the profitability of the JSC at various levels;
- accounting of costs associated with the use of resources in the context of the financial center, in the accounting subsystem;
- development of forms, terms and procedure for providing information for managing the profit of the JSC at all levels.

Organizations must independently develop concise forms of management information:

- reflecting the content of the information provided in dynamics;
- corresponding to its nature and target orientation;
- ensuring the implementation of controlling with different levels of detail depending on the type of users.

Controlling the achievement of operational goals is [6]:

- 1) control over compliance with limits;
- 2) control over the level of planned CFO income, expenses, profit, cost price and profitability of products;
- 3) identification of "bottlenecks" in the process of managing income, expenses, cost price and profitability of CFO, products;
- 4) control over the implementation of operational financial plans of different levels, their adjustment;
- 5) control over the current position of JSC in the market of products and services.

Stage 3. Organization of operational controlling at the level of the Central Federal District includes [7]:

- setting up management accounting of expenses and income of the Central Federal District;
- defining the goals of the Central Federal District that contribute to maximizing the financial result;
- planning the budget of business units, transfer prices; choosing the transfer pricing method;
- analysis and assessment of the financial result by business units;
- development of forms, terms, and procedure for providing information on the financial result of the Central Federal District.

Stage 4. Operational controlling of products is aimed at ensuring control over the level and structure of expenses of the relevant products and services, assessing their profitability and the reasonableness of the price of the product, which creates the basis for profit management at the micro level. Controlling the cost of products and services is carried out in areas that allow identifying negative trends and shortcomings in the activities of the JSC in order to take measures to eliminate them.

Recommendations for Future Improvements

To further enhance financial control in joint stock companies in Uzbekistan, the following recommendations can be made [9]:

1. **Strengthening Regulatory Frameworks:** The government should continue to develop and enforce regulations that promote transparency and accountability in financial reporting.
2. **Public Awareness Campaigns:** Increasing awareness about the importance of financial control among shareholders and the general public can foster greater demand for transparency and better practices.
3. **Collaboration with International Auditors:** Engaging reputable international auditing firms can bring best practices and insights, helping local companies to improve their financial control systems.

4. **Fostering a Culture of Integrity:** Companies should prioritize ethical practices and encourage employees to report suspicious activities without fear of retribution.

CONCLUSION

The effective implementation of financial control in joint stock companies in Uzbekistan is crucial for promoting economic stability and enhancing investor confidence. By focusing on key components of financial control and adopting best practices, these companies can overcome existing challenges and create a robust financial environment. As Uzbekistan continues to develop its economic landscape, the significance of sound financial control practices will only increase, positioning joint stock companies for long-term success and sustainable growth.

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