

RESEARCH ARTICLE

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# FINANCIAL CONTROL AS A NECESSARY ELEMENT OF THE MECHANISM FOR ENSURING THE ECONOMIC SECURITY OF THE STATE

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## Abstract

In this article, the author examines some aspects of the fight against economic crimes and their prevention committed by economic entities. Some aspects of national legislative activity in this area are considered. And also, on the basis of scientific research by foreign authors, scientific and practical approaches to countering crimes in the financial sphere are being investigated. Based on the analysis, the authors consider questions on some amendments to legislative acts. Thus, in the sphere of public financial management, a special area of relations between the state and a person outside the management system authors consider that relations should be relevant to the constitutional right of citizens to receive information from relevant structures affecting their rights and legitimate interests, information that is in the possession of various state bodies and organizations. Currently, there is an urgent need to legislate the obligation to publish open information by state bodies, the procedure and procedures for providing such information at the request of citizens and organizations.

**Keywords** Crimes, fraud, auditor, financial accounting, corporate governance, rights, law.

## INTRODUCTION

A free market economy is the basis of progressive economic development, but it is not yet a guarantee of the well-being of citizens and the economic security of the state. The market needs to be controlled and managed so that it benefits society. It is unacceptable to present market processes as a kind of synergetic mechanism, self-organizing and self-regulating. Confirmation of this conclusion is the socio-political and economic changes that took place in Uzbekistan in the early 90s of the twentieth century. The active role of the state in the administration of the economy and finance does not mean the totalitarianism of this management. It

is necessary for the opposite purpose – to ensure the rights and freedoms of man and citizen.

The spontaneous laws of the market direct all the forces and means of the economy to where it is easiest and fastest to make a profit and justify the invested funds. Where the demand for goods, works and services is created, their supply arises there, and financial flows rush there. This is the basic law and the main benefit of a market economy. Their essence is that the market is able to self-regulate. But in this regard, the question arises of how nationally significant, but non-profitable areas, areas with increased economic risk or those that can bring profit only in the long term will be

financed and, consequently, implemented. These areas of public interest are vital for everyone: these are social support of the population, culture, ecology, law enforcement, prevention and liquidation of emergency situations and many others. They do not fit into the framework of the market law of the "invisible hand", but to let the solution of these issues take its course is disastrous for society.

The global market, striving for globalization, does not ensure the economic security of Uzbekistan. Only the state can solve these issues in the conditions of modern civilization with the help of its power institutions.

At the present stage of the development of the national economy, the fight against offenses in the financial sphere is one of the important problems that need special research. At this stage, its relevance is increasing significantly every day, so there is an urgent need to use new approaches in the methodology of forensic examinations and identify priority areas for their development. Current trends are such that financial, credit, tax and other legal relations require not just in-depth, but also scientifically based research.

In turn, law enforcement agencies need a comprehensive analysis of the financial and economic activities of the organization in which the crime was committed. The need to study business transactions or economic indicators leads law enforcement agencies to the help of expert accountants, since accounting as an information system provides an opportunity to form objective information about an economic entity and provides users with information about the real model of financial and economic activity of economic entities. And we support the statement moved by Sh.Ergasheva that entities may have to make a number of judgments when reporting the movement of cash. and cash equivalents for the period in the statement of cash flows.

#### Problem analysis and methodology

This paper uses a methodology for analyzing statistical data on crimes committed in the financial sphere, as well as a comparative analysis of regulatory documents in the field of financial

regulation. Financial control in accordance with financial law is a system of institutions, tools and methods for verifying the legality and expediency of actions in the field of education, distribution and use of state and local self-government funds, one of the forms of state control that contributes to ensuring legality, property protection, proper efficient and economical use of budgetary, borrowed and own funds, which helps to uncover violations of financial discipline. As a result of the study, the authors formulated an approach to the concept of financial control as, on the one hand, part of national control on the one hand, it is part of the national control, on the other – an important element of the financial sector management mechanism. But the evaluation of the activity of a certain system acquires an object character if it is carried out by subjects outside of it. From this point of view, financial control is divided into state, internal and independent audit and is defined as the activity of the state carried out by its bodies and consisting in checking the legality of actions in the field of finance.

According to I. V. Egarmina, financial reporting fraud is by no means unique, but it is possible to learn about it from the media only when it comes to international industrial giants or well-known banks. Despite the constantly changing legislation in the economic and financial sphere, despite new standards and requirements, the topic of manipulations with reporting is as relevant as it was decades ago, and it concerns not only large companies, but also more modest businesses. She also states that according to statistics, economic crimes are committed mainly by middle managers (47% in Russia and 37% in the world).

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**RESULTS AND DISCUSSION**

Among the crimes, special attention should be paid to financial crimes, such as corruption, bribery and others. Among all types of crimes, crimes against the foundations of the economy are committed most often. Thus, crime in this area is 61.19%, which exceeds the frequency of other crimes by 2-3 times.

According to statistics, crimes in the economic sphere were committed in the amount of 4052 (and this is only for embezzlement by appropriation and embezzlement). On February 24, 2020, the President of Uzbekistan signed the Resolution "On additional measures for the transition to international Financial Reporting Standards" No. PP-4611. According to the decree, since 2021, insurance organizations, commercial banks, joint-stock companies and legal entities belonging to large taxpayers are required to keep accounting under IFRS. And, starting from the results of 2021, to form financial statements according to international standards. According to this legal act, the purpose of IFRS is to improve the quality and comparability of financial information in reports and to reduce the possibility of interpreting the information presented in different ways. IFRS allow investors, lenders and borrowers to evaluate and compare the results of an organization's financial and economic activities, including at the international level, in a more detailed and efficient manner.

As is known, the International Standard on Auditing (ISA) establishes the auditor's responsibilities in relation to events after the reporting date when conducting an audit of financial statements, namely, "Identification and assessment of risks of material misstatement by examining the organization and its environment" and "Audit procedures in response to assessed risks". According to experts in this field, misstatements in the financial statements may arise either as a result of unfair actions or as a result of an error. The decisive factor that makes it possible to distinguish unfair actions from errors is the intentional or unintentional nature of those actions that eventually led to the distortion of financial statements.

Despite the fact that unfair actions are a broad legal concept, for the purposes of International Auditing Standards, such unfair actions that lead to material misstatement in the financial statements concern the auditor. Two types of intentional misstatements are significant for the auditor - misstatements due to unfair preparation of financial statements and misstatements due to misappropriation of assets. Despite the fact that the auditor may suspect or, in rare cases, detect the presence of unfair actions, he does not determine from a legal point of view whether unfair actions actually took place. Prior to coming to light, Enron was internally fabricating financial records and falsifying the success of its company. Though the entity did achieve operational success during the 1990s, the company's misdeeds were finally exposed in 2001. Many external parties learned to know Enron's fraudulent practices, but their financial involvement with the company likely caused them to not intervene. Arthur Andersen, Enron's accounting firm, received many jobs and financial compensation in return for their service. Investment bankers collected fees from Enron's financial deals. Buy-side analysts were often compensated to promote specific ratings in exchange for stronger relationships between Enron and those institutions.

Problems or unusual relationship between the auditor and management, including:

- denial of access to documents, objects, the possibility of direct interaction with certain employees, consumers, suppliers or other persons from whom audit evidence could be obtained;
- inappropriate pressure coming from the management on the timing of resolving complex or controversial issues;
- complaints from management about the audit or intimidation of members of the audit team, especially in connection with the auditor's critical assessment of audit evidence or when resolving possible disagreements with management;
- unusual delays in the provision of requested information by the organization;

- unwillingness to facilitate the organization of the auditor's access to key electronic files for testing using automated audit methods;
- denial of access to key employees and facilities of the information technology department, including personnel involved in security, operational activities and system development;
- unwillingness to supplement or revise the disclosures in the financial statements to make them more complete and understandable;
- unwillingness to eliminate identified deficiencies in the internal control system in a timely manner.

The history of Enron has served as a lesson to many companies and even authorities. After the collapse of the corporation, the Sarbanes-Oxley Law was passed, which is still in force today. It imposes strict requirements on securities issuers to control and disclose financial statements.

The National Commission on Fraudulent Financial Reporting, an initiative sponsored by the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), The Institute of Internal Auditors (IIA), and the National Association of Accountants (now the Institute of Management Accountants, IMA), studied the causal factors that can lead to fraudulent financial reporting and were concerning to identify steps and provide recommendations to help reducing the incidence of fraudulent financial reporting. It organized the Committee of Sponsoring Organizations (COSO) in 1985 in order to develop internal control frameworks providing criteria for evaluation of internal control systems. The first document was released in 1992, Internal Control—Integrated Framework, known as COSO 1. It attributes the responsibility for internal control to the board of directors, directors and employees that should assure: (a) efficacy and efficiency on operations; (b) accountability on financial reports; and (c) compliance to legal and rules.

As for now, there were introduced to the Law of the

republic of Uzbekistan “On amendments and additions to some legislative acts of the republic of Uzbekistan in connection with further improvement of the corporate governance system”. According to the above mentioned law, the following principle of governance is taking to the account, that the supervisory board of a company whose shares are included in the stock exchange quotation list, as well as a company with a state share of more than 50 percent in the authorized fund (authorized capital) must include at least one independent member.

At the same time, candidates for independent members of the Supervisory Board, unless otherwise provided by the company's charter, are nominated by the Supervisory Board of the company for consideration by the general meeting of shareholders, as a rule, on a competitive basis. An independent member of the Supervisory Board cannot be:

- a person who has worked in the company and (or) affiliated persons of the company for the last three years;
- a shareholder (directly and (or) through affiliated persons) owning five or more percent of the company's voting shares;
- a person who has civil relations with a major client and (or) a major supplier of the company and (or) an affiliated person of the company.
- a large client and a large supplier are recognized as persons with whom there is a valid contract in the amount of more than two thousand basic calculated values;
- an employee of an audit organization who has provided audit services to the company and (or) affiliated persons of the company over the past three years;

a person who has been a member of the supervisory board of the company for six consecutive years.

To date, credit institutions of the Republic of Uzbekistan have already begun the process of bringing their activities in line with the requirements of international institutions,



especially when developing their internal control rules, which also reflect the FATF recommendations. The main directions and measures to counteract the legalization of criminal proceeds and the financing of terrorism have been developed taking into account the requirements of regulatory legal acts of the Republic of Uzbekistan, as well as international acts to counteract the legalization of criminal proceeds and the financing of terrorism. With the application of IFRS, there is also the problem of assigning and conducting forensic accounting examinations. Now, one of the most controversial issues in the development of forensic examination is the improvement of methodological foundations, in particular, the methodological form of conducting certain types of forensic examination. Currently, in spite of the presence of a large number of examination methodologies and methodological recommendations on conducting various types of forensic examinations, one of the pressing problems of examination practice is the lack of a general (single) methodological approach to their conduct. Using intelligent digital identification associated with devices, location, personalities and lifestyle, it is possible to fully rethink the value of risks. It can be used for:

identify transactions

identify potentially suspicious behavior in seconds

conduct near-real-time analysis using automated workflows.

In the Republic of Uzbekistan, forensic expert activities are carried out by forensic expert institutions and divisions of various ministries and departments. Among them, the Ministry of Justice, Ministry of Internal Affairs, Ministry of Health,

The Ministry of Defense, the State Customs Committee and State security services.

Often, when appointing a comprehensive or commission examination, its production can be assigned to various departments. In this connection, there are questions of compliance with the deadlines for the production of forensic examination, the mechanism of its implementation.

Although the new rules are aimed at opening up electronic information, they have been adopted

most of the decisions are related to the adoption of digital evidence during the trial causing problems. Surprisingly, the acceptance of digital evidence most of the related decisions made are related to the affairs of the state. Digital evidence before disclosure in court, the barriers to evidence, their collection, restoration, analysis how serious is it to be done with ineffective methods of making and presenting should assess whether it leads to problems.

So, along with high achievements in the informatization of our lives, we are increasingly faced with negative phenomena associated with the use of the computer environment in the commission of illegal activities, with new manifestations of "cybercrime". In such conditions, an important source of evidence in the investigation of crimes in which information and communication technologies were used is both electronic digital information itself and electronic storage of this information, namely: computer servers, blocks, laptops, servers, hard drives, memory cards, flash cards, etc. Despite this, few of the investigative workers, prosecutors and judges in the course of individual investigative actions think about the legal mechanism, methods and tactics of detection, seizure, fixation, research of electronic media and recognition of the information contained on them in writing or any other evidence.

## **CONCLUSION**

In the practice of advanced foreign countries, the practice of AML/CFT compliance (Anti – money laundering compliance) attracts special attention. The key element of effective compliance with the set requirements, which can solve the problem of low productivity, reduce the number of tasks performed manually and prevent fraud, is intelligent digital identification, which makes it possible to more accurately identify hazards and can even give a competitive advantage to the first users.

Today, Uzbekistan is taking all appropriate measures to bring national laws closer to international standards. And in conclusion, I would like to note that the Law on the Implementation of International Standards should be revised to

prevent many economic crimes.

Summing up, it should be noted that the problems we are considering are multidimensional in nature, and the regulation of related relations is carried out by several branches of law: administrative, financial, informational. However, the organizational and legal foundations of public administration, the legal personality of state bodies and officials, and many other relations in this area are exclusively the subject of administrative law.

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