



IMPROVING THE COST AUDIT IN THE PUBLIC SECTOR OF UZBEKISTAN

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Abstract

The article discusses the features of improving the cost audit in the public sector in the Republic of Uzbekistan and theoretical issues of using international experience.

Keywords: Financial control, cost audit, audit in the public sector, audit standards, expenditures.

Introduction

Currently there are about 30 thousand budget entities and state-owned enterprises in Uzbekistan, and it takes a lot of time and money to study them on site. That is why the “Remote Control Center” has been launched at the Accounts Chamber. The President of the Republic of Uzbekistan emphasized the need to improve 36 risk analysis criteria and indicators in reliance upon the advanced foreign experience

The cost audit helps budget entities ensure efficient operations by highlighting cost control methods, identifying inefficiencies, as well as enhancing financial transparency.

Moreover, the cost audit provides evidence that records and reporting on expenditures, and accounts meet legal requirements and fairly reflect the financial results of an enterprise. This verifies that the recorded expenditures are in compliance with widely-used industry standards and internal company policies. The cost audit is not only an internal audit of finances, but also a matter of legality and regulation in many areas.



The cost audit goes beyond just determining legal compliance and allows an entity to better understand the cost structure. The cost audit allow for inefficiencies to be identified and resource utilization to be analyzed internally so that any operating costs are optimally allocated when identified.

Literature Review

The study of the research papers and statutory acts demonstrates that there are various definitions and opinions on the concept of costs (expenditures).

Costs are considered one of the basic indicators characterizing the financial condition of business entities and shaping profits. At the same time, the “cost” is an object of accounting. Article 7 of the Law of the Republic of Uzbekistan “On Accounting” (April 13, 2016) is entitled “Objects of Accounting”, and it defines an object as follows: “Assets, liabilities, equity, reserves, income, expenses (costs), profits, losses, and economic transactions related to their movement are the objects of accounting” [1].

Article 3 of the Budget Code of the Republic of Uzbekistan (2025) divides expenses into the following groups:

Expenses of the budget system budgets by economic characteristics include the following groups of expenditures:

the first group - wages, pensions, allowances, scholarships, compensation payments and financial assistance to low-income families;

the second group - allocations for social needs;

the third group - capital investments (in accordance with clearly targeted lists provided for in state development programs);

the fourth group - other expenses [2].

In IFRS № 2 “Inventories”, when calculating production costs and prime-cost of the goods manufactured, they are divided into two groups - product costs (referring to the prime-costs) and period costs [3].

According to the Regulation “On the composition of expenses of production and sale of products (works, services) and the procedure for developing financial results”, approved by the Resolution of the Cabinet of Ministers № 54 of February 5, 1999, expenses are divided into costs included in the prime-cost of products (works, services) and period costs” [4].



International Financial Reporting Standards (IFRS) do not contain a separate standard for accounting for and distributing expenses. Therefore, expenses are considered according to several international accounting standards, including: IFRS №2 “Inventories”, IFRS №16 “Fixed assets”, IFRS №19 “Employee income”. In IFRS №2 “Inventories,” when calculating production costs and prime-cost of the goods manufactured, they are divided into two groups - product costs (referring to the prime-costs) and period costs” [5].

Chapter 44 of the Tax Code of the Republic of Uzbekistan is called “Expenses”, and Article 305 reflects expenses as follows: “For the purposes of determining the tax base of legal entities, expenses are recognized as expenses incurred (made) by the taxpayer during the reporting (tax) period, both in the Republic of Uzbekistan and outside its territory, justified and confirmed by documents”[6].

The cost audit is a systematic process of examining and verifying records and reporting of expenditures to ensure accuracy, compliance and cost effectiveness in an entity. This practice helps identify cost inefficiencies, ensure optimal use of financial resources, and align operations with business objectives. By focusing on direct and indirect costs, the cost audits help with strategic planning and competitive pricing [7].

According to David Hill (2024), “Transparency in the use of resources in the public sector, especially in internal audit, is essential for stakeholder confidence, effective governance and operational excellence. Providing detailed financial metrics related to internal audit costs – both planned and actual – is essential. This not only enhances accountability and trust, but also supports strategic investments in audit effectiveness and efficiency” [David Hill,8].

3. Research Methodology

Our research is devoted to the issues of improving the cost audit in the public sector. In the research process conclusions and proposals have been developed using methods such as summarization of theoretical materials, comparison of practical materials and statistics.



4. Analysis and Discussion of Results

Statements of estimates of expenses, statements of estimates of income and expenses, staffing tables, as well as consolidated statements of estimates and staffing tables, are developed and are valid for one fiscal year, and for entities formed seasonally or throughout the year, for the period of their activities in the given fiscal year.

The limited amounts of funds allocated from the republican budget of the Republic of Uzbekistan to the first-tier budget allocators for 2025 are presented in Table 1.

Table 1 Limited amounts of the funds allocated to the distributors of the 1-st level budgetary funds from the republican budget of the Republic of Uzbekistan for 2025¹

		million UZS
№	Indicators	Amount
	Funds allocated from the republican budget, total	281 623 626,8
	including:	
	current expenditures	203 131 892,2
	of which:	
	expenditure on development programs	31 113 073,9
	capital investments for the design, construction (reconstruction) and equipment of facilities	11 552 552,0
	transfers to the public targeted funds	33 303 731,9
	regulatory transfers allocated from the republican budget of the Republic of Uzbekistan to the budget of the Republic of Karakalpakstan, local budgets of regions and Tashkent city	18 462 200,0
	funds subject to redistribution	15 173 250,6

As the data demonstrates, in 2025 expenses are scheduled in the amount of 281 623 626.8 mln. UZS, of which current expenses constitute 203 131 892,2 mln. UZS.

¹Law of the Republic of Uzbekistan №LRUZ-1011 “On the State Budget of the Republic of Uzbekistan for 2025” dated December 12, 2024.2025.



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Budgetary entities, recipients of budget funds, allocators of budget funds and centralized financial and accounting services connected to the “UzASBO” software package form and compile statements of estimates of expense, statements of estimates of income and expenses, temporary cost estimates, staffing tables, consolidated statements of estimates, consolidated statements of estimates of income and expenses, consolidated temporary statements of estimates and consolidated staffing tables in the software package.

The statements of estimates of expenses, statements of estimates of income and expenses, temporary statements of estimates, staffing tables, consolidated statements of estimates of expenses, consolidated statements of estimates of income and expenses, consolidated temporary statements of estimates and consolidated staffing tables are regularly worked out and compiled in the software package are approved in compliance with the requirements of the Regulation “On approval of the Regulation on the procedure for drawing up, approving and registering cost estimates and staffing tables of budget entities and recipients of budget funds” and are registered in the software package by inserting unique “QR” codes for each of them.

Approval of statements of estimates and staff lists of budget entities and recipients of budget funds, as well as consolidated statements of estimates and staff lists of budget fund allocators, shall be carried out no later than January 20 of the current financial year, and registration with economic and financial authorities in the established manner shall be carried out by January 25 of the current year.

The main way to determine the effective use of the expenses in the public sector is the audit of expenditures.

Peculiar indicators and methods can be used to determine other expenditures according to the economic classification of budgets of the budget system and their validity is checked by the allocators of the relevant budget funds and the economic and financial authorities, who register the statements of estimates.

The Accounts Chamber of the Republic of Uzbekistan provided additional revenues to the budget of 3.7 trillion UZS from new sources in 2024. Ineffective expenditures of ministries and departments worth 9.2 trillion UZS were rationalized, and financial shortcomings worth 2.3 trillion UZS were prevented.



In 2024, the State Financial Control Inspectorate of the Ministry of Economy and Finance audited the formation and spending of expenditures during supervisory activities.

As a result of the audit, it has been determined that 2.4 trillion UZS of unjustified expenditures were formed during the control measures carried out by the allocators of the budget funds on the correct formation of estimated expenses, and 2.3 trillion UZS were approved and directed to redistribution.

As a result of the cost audit, the following facts have been determined:

expenses of groups I and II accounted for 2295.8 billion UZS, expenses for group III constituted 829.3 billion UZS, and expenses for group IV amounted to 1 077.4 billion UZS.

In particular, inappropriate expenses in the amount of 314.3 billion UZS were prevented in the Ministry of water resources management, in the Ministry of Healthcare this indicator constituted 238,4 billion UZS, in the Ministry of transport the amount of inappropriate expenditures accounted for 257,4 billion UZS, in the Ministry of construction and public utilities this figure was equal to 146,5 billion UZS, in the Ministry of agriculture the amount of inappropriate expenditures amounted to 123,8 billion UZS, in the Ministry of culture this indicator was 117,6 billion UZS, inappropriate expenditures in the Ministry of investments, industry and trade accounted for 196,0 billion UZS, and in the regional departments of other ministries the amount of prevented inappropriate expenses constituted 713,2 billion UZS.

In addition, it should be noted that inappropriate expenses in the amount of 241,7 billion UZS were prevented due to the correct allocation of additional funds to budget institutions financed from the local budgets of the Republic of Karakalpakstan, regions and Tashkent city, districts and cities, and the accurate allocation of additional resources.

In particular, there have been prevented motiveless allocations of funds worth 155.1 billion UZS due to changes in the statements of cost estimates aimed at reducing the revenues of the relevant budget or increasing its expenses, which will result in a disruption in the balance of local budgets, over-planned expenses on food worth 37.1 billion UZS, 29.6 billion UZS due to the allocation of incorrectly formed (excess) additional resources in local budgets to expenses,



and groundless transfers of the amount of 19.9 billion UZS from one entity to another one.

The indicators of these optimized amounts are the following: 48,7 billion UZS in the Republic of Karakalpakstan, 48,7 billion UZS – in Kashkadarya, 38,3 billion UZS – in Jizzakh, 35 billion UZS – in Samarkand, 18,7 billion UZS – in Ferghana, 14,6 billion UZS – in Surkhandarya, and 42,6 billion UZS in other regions.

Conclusion and Proposals:

We believe that it is appropriate to abolish the procedure for preparing interim statements of estimates of expenses starting in 2026.

The main way to determine the efficient use of expenditures in the public sector is through the cost audit.

In reliance upon on the investigation of advanced foreign experience, the use of digitized software products is effective in order to improve the cost audit in budget entities.

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