



## IMPROVING THE ASSESSMENT OF THE INTERNAL CONTROL SYSTEM OF INSURANCE ORGANIZATIONS

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**Abstract:** This article provides the basis for the establishment and evaluation of an internal control system in order to ensure the effective management of insurance companies and data transparency.

Also, the three-stage model-analysis methodology used in the internal control system to assess the financial stability of financial institutions, increase the transparency of financial statements and the impact on it, the risk assessment factors of the internal control system organized by regions, SWOT- Through the analysis, the internal control system of insurance companies was studied and the possibilities were shown.

In addition, on the basis of the reporting data of the insurance organization, the analyses is carried out and the placement of assets, the state of capital and liabilities, the proportion of placement are given. It is also mentioned what factors are most important to consider when setting up an effective internal control system in insurance companies.

Based on the requirements of international standards, the problems associated with the formation of their management infrastructure, control system have been resolved. In this regard, the adoption of a number of normative documents on insurance market reform in recent years, the organization of internal control of the insurance system, its form, method and management system decisions and the choice of financial reporting audit system, but there are still specific problems in shaping internal control. existence is mentioned. In particular, there is a broad discussion on the legal and methodological framework and methodological support for the organization of internal control in insurance companies.

It is also necessary to improve the assessment of the internal control system of insurance companies, continuous compliance with the legislation, attract highly qualified specialists to the divisions of the organization through internal control, introduction of advanced technologies and methods of work, evaluation of results, formation of a reliable source for internal

*audit. suggestions and recommendations for development and efficiency improvement are formed.*

**Introduction.** In many organizations around the world, the management system suffers from: inefficient use of labor, financial, material resources, lack of information needed to make the right decisions, misrepresentation of reports, direct fraud of employees and managers. The solution of such problems is mainly entrusted to the internal control introduced in the organization, the effective functioning of which has a direct impact on the financial condition of the organization.

In accordance with the requirements of international standards, the problems associated with the formation of their management infrastructure, control system are being addressed. In this regard, a number of normative documents on the reform of the insurance market have been adopted in recent years. In this regard, much attention is paid to the organization of internal control of the insurance system, the choice of its form, method and method of management system decisions and financial reporting audit system, but still there are specific problems in the formation of internal control, including so far. the legal and methodological framework for the organization of internal control in insurance companies is not fully developed and methodological support is overly centralized [1].

In such circumstances, it will not be possible to ensure the effectiveness and sustainability of the internal control system, aimed at transforming its activities into a means of control and management, improving its theoretical, methodological and organizational framework in accordance

**Keywords:** *insurance organization, financial control, international standard, three-stage model-analysis, SWOT analysis, horizontal analysis, COSO model.*

with international standards. Financial control, on the one hand, enables the effective management of financial flows, and on the other hand, regulates the process of execution of decisions. It should be noted that these aspects apply in a consistent, interconnected, and continuous manner in the management process.

The need for an internal control service is also important in terms of controlling cost reductions, including issues related to coverage efficiency in large insurance companies. The heads of the insurance organization determine and develop the work schedule. However, employees do not follow the established procedure or do not understand it correctly for various reasons. They do not have the time to constantly monitor this process by managers. Therefore, they are not able to identify shortcomings in a timely manner in the territorial divisions. Internal control staff assists managers in preventing various mistakes and abuses in the work process. Identifies areas where risk may occur, strengthens the lame aspects of the system, and provides directions for resolving imbalances in the management system. It also makes recommendations to higher management bodies that define the directions of internal control. Internal control plays an important role, especially in organizations where insurance companies are widespread in the region, multi-sectoral, have structural units in all regions of the country and make independent decisions. In such cases, in providing the necessary information to the centralized management apparatus and monitoring the

implementation of decisions, the governing bodies use internal control as an additional resource in improving the management system of the organization.

In a market economy, it is important to approach internal control as a necessary element, which is an integral part of governance, in order for the insurance industry to play a significant role in the country's economy. Indeed, internal control is a great help in assessing the financial condition of insurance companies and the quality of services they provide, identifying market needs and thus creating an effective competitive environment in the market to increase their efficiency[2].

Most homeowners are interested in having an internal control system, as they need the most optimal means to make a profit in the business process, to achieve the optimal trajectory of economic entities.

The need and advantages of improving the internal control activities for the management system in insurance companies are explained by:

- a reliable source for internal audit;
- guarantee of constant observance of the legislation;
- Involvement of highly qualified specialists in the organization's departments through internal control;
- is a system that promotes the introduction of advanced technologies and methods of work.

In the context of market relations, the internal control system must perform two different functions depending on the direction and method.

- Evaluation of results:
- Evaluation of performance.

The inspection in this direction is carried out by the method of evaluation of business transactions. The task of internal

control in this area is to assess the reliability and stability of the insurance company, the return on equity of owners, as well as the targeted and systematic use of the audit, taking into account the insurance risks.

The second direction is to evaluate the effectiveness of this activity, which in turn is divided into:

Analysis and assessment of the economic environment in which the insurance organization operates. The analysis pays special attention to defining the goals and methods of the audit, assessing the financial condition and implementation of development programs.

Assessment of management activities Management functions and assessment of the quality of management of the organization and proposals for its improvement are prepared. It also aims to expand and improve control methods, further develop relative and automatic methods of control.

A well-developed control strategy in the field of organization of control activities and assessment of the level of approach to management, democratization of the control system is aimed at strict regulation of activities at the organizational level, quality control of departments.

The main task of internal control is to analyze the accuracy of financial statements submitted by management in insurance companies and the relationship of risks with the level of profitability, to legally check the quality of software products to improve the efficiency of insurance and submit proposals for improvement.

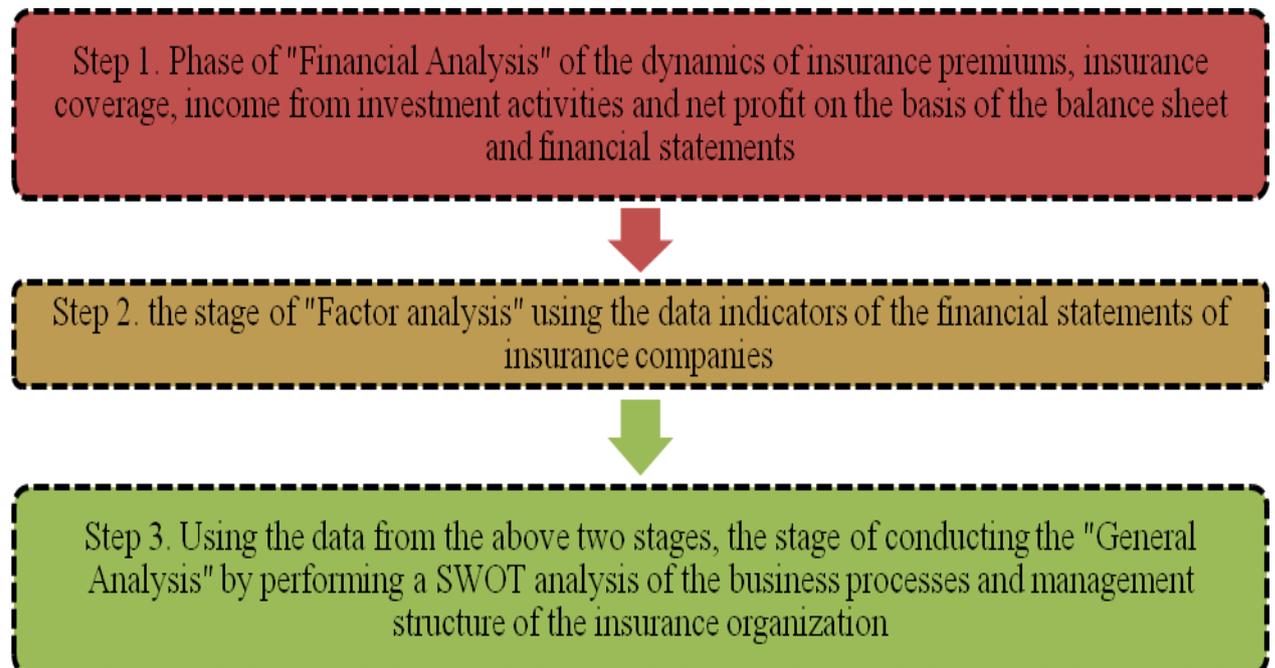
Proper organization of the internal control system introduced in insurance companies affects the level of protection against various risks, its effectiveness. The more improved the internal control system

of insurance companies, the higher the effectiveness of the implementation of decisions made by management. Delays in this system have a direct negative impact on the financial condition of the organization.

**Materials and Method.** Comparative analysis, three-stage model analysis, SWOT analysis, risk assessment, application of COSO model and other similar methods as a result of step-by-step economic reforms in the use of international standards in the assessment of the internal control system in insurance companies. used.

In general, the above ideas and methods of analysis used to improve the content and quality of this article, play an important role in the development of scientifically based proposals and practical recommendations on the topic.

**Results.** In order to increase the transparency of financial statements in insurance companies and the level of risk that affects it, it is recommended to conduct a three-stage model-analysis in assessing financial stability on the basis of part of the internal control system in the following stages.



**Figure 2. Methodology of three-stage model-analysis<sup>1</sup>**

<sup>1</sup> Developed by the authors as a result of research.

Each stage is unique and analytical. The data provided are also summarized and a SWOT view of the analysis is performed.

In performing the SWOT analysis, it is important to identify the risk area.

It should be noted that the internal control system is a risk assessment system.

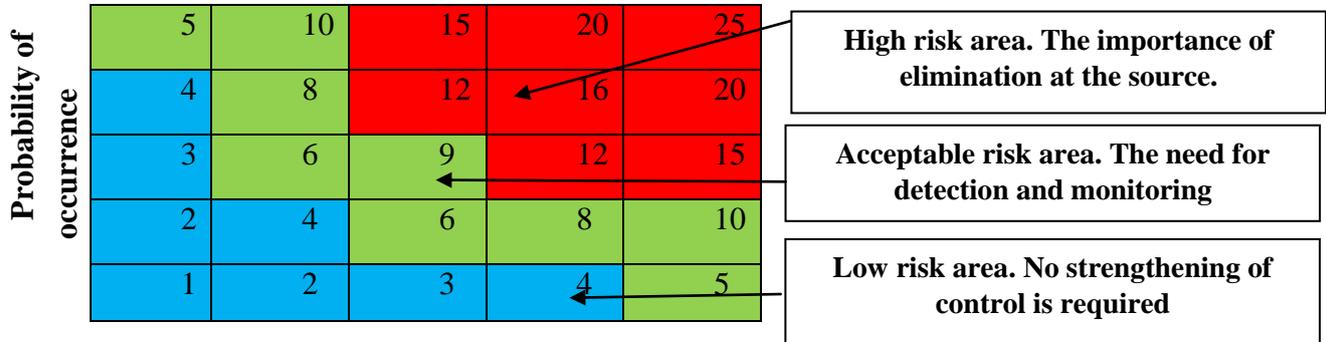


Figure 3. Regional risk assessment map[3]

If we look at the map, the level of risk is lower in branches and subsidiaries than in the parent organization. This is due to the fact that the more extensive the activity, and the internal control system covers all departments. This map is more efficient and allows the assessment of the most important risks.

One of the main objectives of the internal control system in all enterprises, organizations and institutions operating in the country is to monitor the accuracy of the organization's financial statements and compliance with the law in the conduct of daily operations at the enterprise.

A modern independent audit service plays an important role in evaluating the financial statements of insurance companies on the basis of efficiency and effectiveness indicators, as well as sound advice on problematic issues related to the management and financial activities of

enterprises, as well as guidance. This is of great importance in the development of the sector of the national economy, including the support and strengthening of insurance companies and the financial relations that arise between them.

Based on this information, we consider the potential of an insurance company in a market economy by conducting a SWOT analysis:

**Table 1**

**SWOT-analysis of the insurance organization of JSC "Uzagrosugurta"<sup>2</sup>**

		Strengths	Weaknesses
<b>Internal factors</b>		<ol style="list-style-type: none"> <li>1. Multiple branches (coverage);</li> <li>2. High share of the state (94.0%);</li> <li>3. Addressing of insurance products;</li> <li>4. The presence of originality and image in the organizational structure;</li> <li>5. Low staff turnover;</li> <li>6. Effective management methods were used (KPI-key indicators);</li> <li>7. Has an international rating (Fitch Ratings BB-).</li> </ol>	<ol style="list-style-type: none"> <li>1. Weakness of underwriting activity;</li> <li>2. Existence of dependency;</li> <li>3. Lack of financial resources to implement significant changes in the strategy;</li> <li>4. Lack of insurance products that meet international standards.</li> <li>5. Preservation of classical insurance products;</li> <li>6. Low dividend interest rates</li> </ol>
		Opportunities	Threats
<b>External factors</b>		<ol style="list-style-type: none"> <li>1. Absence of competitors;</li> <li>2. High access to new markets and international markets;</li> <li>3. Expanding customer service based on the digital economy;</li> <li>4. Extensive use of opportunities;</li> <li>5. The breadth of opportunities to participate in the securities market (IPO).</li> </ol>	<ol style="list-style-type: none"> <li>1. Unbalanced insurance portfolio;</li> <li>2. High tax liabilities;</li> <li>3. Changes in market conditions;</li> <li>4. International methodologies for risk assessment have not been developed;</li> <li>5. Economic and political risks;</li> <li>6. Introduction of new insurance products by competitors</li> </ol>

<sup>2</sup> Developed by the authors as a result of research.

By applying SWOT-analysis in insurance companies, it is possible to increase the share of all insurance companies in GDP in the future.

Below we analyze the activities of JSC "Uzagrosugurta" on the basis of balance data for 2019 (Table 2).

**Table 2**

**Horizontal analysis of assets and liabilities on the basis of balance sheet data (in thousand soums, 2019-2020 yy)<sup>3</sup>**

Active	Symbol	Period beginning	Period end	Difference	Growth
Long-term assets	LTA	47691271,80	48802641,70	1111369,9	102,33
Current assets	CA	129765233,10	140964831,30	11199598,2	108,63
Including:					
Commodity inventories	CI	2455594,80	2295359,10	160235,7	103,47
Accounts receivable	AR	54342746,10	66058499,10	11715753	102,56
Cash	C	6110342,0	13278880,10	7168538,1	17,32
Active total	AT	236106406,10	247645346,30	11538940,2	4,89
<b>Passive</b>					
Source of own funds	SOOF	64359923,90	66607782,30	2247858,4	3,49
Liabilities	L	53037382,70	60196762,70	7159380	13,50
Including:					
Long-term	LTL	0.00	0.00	0.00	0.00
Current	CL	53000863,70	60162755,90	7161892,2	13,50
Accounts payable	AP	36519,0	34006,80	-2512,2	3,12
Passive total	PT	236106406,10	247645346,30	11538940,2	4,89

<sup>3</sup> Developed by the author on the basis of www.agros.uz.

The total assets of the insurance company increased by 11538940.2 thousand soums or 4.89% compared to the beginning of the period. This can be positively assessed. The increase in assets was mainly due to an increase in current assets by 11199598.2 thousand soums or 8.63%. Long-term assets also increased by 1111369.9 thousand soums or 2.33%. Accounts receivable increased by 11715753 thousand soums or 21.56%, which can be negatively assessed. If this continues, the insurance organization will slow down the turnover of working capital, leading to a deterioration in solvency.

From the analysis of capital and liabilities, it can be concluded that the total amount of liabilities increased by 11538940.2 thousand soums or 4.89% compared to the beginning of the period. We can assess this situation as positive, but we need to determine at what expense it was. That is, at the expense of own funds or borrowed funds. Here the sources of own funds increased by 2247858.4 thousand soums or 3.49%. This situation can be assessed as positive. Liabilities of the insurance organization decreased by 7159380 thousand soums or 13.50%. To overcome the above disadvantages, we offer the following solutions, and through this solution can make a significant contribution to the efficiency of the insurance organization:

1. It is necessary to solve the disproportion in the placement of assets:
  - Inventories share in total assets;
  - High level of liabilities.
2. The situation with the ratio of capital to liabilities is disproportionate in the financing of assets. The increase in liabilities is disproportionate to the change in long-term assets;

3. The situation with short-term loans can be seen in the level of impact on the increase in current assets. That is, here, too, the state of asymmetry was sharply affected;

4. It should be noted that the differences in the assessment of the financial position of the insurance organization in relation to the absolute amount of changes in property, capital and liabilities do not guarantee positive changes in subsequent periods.

The results of the current analysis show that the internal control system is an important and perfect indicator for the insurance organization, providing financial and economic information for users and employees of the insurance organization. It should also be noted that leadership plays an important role in the internal control system. Therefore, in order to establish and maintain an internal control system in the activities of the insurance company, the management of the insurance company:

First, to define the goals and objectives of the insurance organization and departments, to pay attention to the management by the heads of departments;

Second, to achieve the goal, to develop the charter of the internal control system in accordance with the charter of the enterprise and apply it to the process of operation of the insurance organization;

Third, it must monitor the outcome, because even if the above work is done and their control is not established, the insurance company will not be able to achieve its stated goal.

Nowadays, the internal control system is much improved, and as it is known, as it is improved, it is possible to introduce many concepts related to the internal control system. Ethical rules of the internal control system, risk identification, management

efficiency of the insurance organization - is an important factor in increasing investment activity and includes several components, which include:

First, the internal structure or internal environment of the organization, which includes the organization's code of ethics, management style, decision-making process, distribution of powers, acceptance of responsibilities, employee qualifications, and their relationship to the internal control system established in the organization;

Second, day-to-day control includes their consolidation in separate accounts and reports, management of the insurance organization's assets, and monitoring in the organization;

Third, the establishment of a department to identify and analyze the risks that may be encountered in the insurance organization;

Fourth, it is an information access system that allows the organization's data to be used only by persons related to the service and the insurance organization, as well as by third parties (tax and statistical authorities, investors and banks);

Fifth, in order to increase the effectiveness of the internal control system of the insurance organization, to maintain a strong system of control over internal control. The control system is a structural organization with a solid foundation, responsibility within the competence, accountability to senior management, separation of critical functions, ability to adapt quickly to changes in internal and external factors, strict definition of roles and responsibilities of each department, proper control over their activities and their it is possible to understand the periodic evaluation of the work.

Based on the above steps, it is appropriate to cite three main functions of the internal control system, which are:

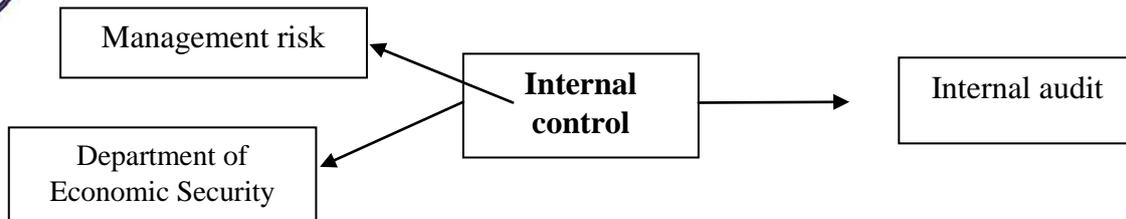
1. Monitoring the effectiveness of the internal control system. The formation of an accounting system and internal control system, as well as management, includes the responsibility to constantly monitor the operation of these systems, monitor their effective operation, as well as make recommendations for improvement;

2. Verification of financial and management information. This function includes reading information on the balance sheet and its items, collecting some information on the components, reviewing the tools used;

3. Economic control, evaluation of efficiency and effectiveness, as well as control of non-financial means of the entity.

If the internal control system is not well established, first of all, there may be a strong risk in the enterprise, which will be related to the information. Internal control is the task of identifying and solving serious problems and efficient use of organizational resources. An internal control system must justify its presence within the organization, and in an elegant system, the amount of profit will also be high.

While internal control provides risk management and security activities on the one hand, on the other hand, internal control is linked to internal audit. It can be expressed in the following picture:



**Figure 4. The relationship of internal control with risk, economic security and internal audit[4]**

Thus, it is emphasized that we should operate a model of internal control of COSO (Committee of Sponsoring Organization of the Treadway Commission) in order to ensure the prospects. The following algorithm for the formation of the internal control system on the conceptual basis of the COSO model was proposed:

- identify the main business processes of the insurance organization and review the nature of the control system;
- Defining the responsibilities of employees responsible for work processes, approval of business processes;
- identify and assess the level of risk that is common in any business process;
- identification and evaluation of important controls in business processes;
- development of a list of possible control procedures to minimize significant risks;
- assessment of the risk of uncertainty and the introduction of a control environment based on the results;
- determine the costs of the insurance organization and compare the ability to cover costs;
- control over the insurance company's overhead costs.

In short, the main way to increase the efficiency of the management system of the insurance company is to make qualitative changes in the management system and increase the investment activity of the

organization, which is to improve the internal control system. The ineffectiveness of the internal control system in the insurance company can lead to:

1. Uncertainty to ensure the safety of investors and the investments they make, to prevent the negative consequences of the insurance organization, as well as the inability to identify internal resources and mobilize them in a targeted manner and provide management with timely information to make effective management decisions;
2. In a competitive environment, there are no real requirements for the successful implementation of plans and programs developed by the insurance organization.

To verify the effectiveness of the internal control system in insurance companies, it is advisable to analyze the following data.

**Discussion.** According to economist L. Paramonova, "one of the functions of business management is to monitor the objects and processes of accounting to verify compliance with applicable laws and regulations"[5].

According to the research of A.V Evdokimova and I N Pashkina, "internal control is a system of control applied within the organization, which is responsible for the proper conduct of accounting and internal audit"[6].

According to B.Hasanov, "the

requirements for evaluating the system of internal control activities are another important step in the development of auditing practice, which an economic entity uses to limit the likelihood of errors in financial statements, and it is based on the evaluation of control procedures"[7].

According to K.B Ahmedjanov, "internal control is an integral element of the control stage in each management process, it is formed as a separate system that shows how well it goes at other stages and ensures the transparency of information. The system of internal control covers all activities of economic entities, ie the production process, the activities of sections and shops, as well as general legislation governing economic activities and internal documents that form the economic regulatory framework of economic entities, as well as production technology. its effective operation has a direct impact on the financial reporting results"[8].

In the Western economic literature, foreign economists such as Ch.T.Horngren and Dj Foster view "internal control as a complex of accounting and management controls that help ensure that decisions made in an organization are properly implemented in practice"[9]. In our opinion, it is expedient to understand control as a combination of theoretical knowledge and practical experience expressed in accounting, finance, economic analysis, management, computer science in different fields.

In her research on the organization of financial control, Prof. M. Tulakhodjaeva noted that "... in the organization of the control system it is very important to determine the boundaries of each body, their rational distribution in order to cover each of the objects of control with financial

control[10]" put forward the idea that the object should be a form of ownership.

According to Professor A. Avlokulov, "the effective organization of the internal control system is a key indicator of the effectiveness of financial results, which is the economic activity of the organization. They provide the basis for the stability of the organization, economic relations with partners, future development strategies. The assessment of financial results allows the management of the organization to determine the prospects for development, to assess the possibility of increasing the return on capital invested to the founders and shareholders, and to ensure that creditors are paid on time. Thus, the financial results of the organization's activities are determined by the amount of profit and the level of profitability. The correctness of the financial result depends on the internal control system in all respects"[11].

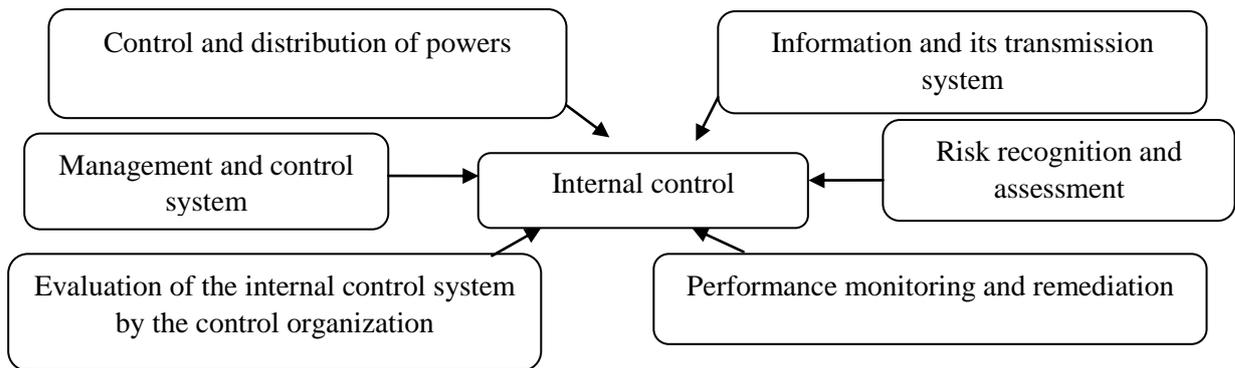
According to PhD M. Khojiyev, "Uzbekistan's export-oriented economy will be strengthened through the introduction of international accounting and reporting practices, which will radically change the system of internal control of large businesses"[12] emphasizes.

According to PhD N Abdiyeva, "the system of internal control in enterprises is the control of personal qualities of employees, the correct and competent distribution of responsibilities among members, compliance with regulations"[13].

Summarizing the above points, we can formulate the following definition of the internal control system. An internal control system of an insurance company is a process by which the management entity distributes responsibilities within the authority of the management entity and organizes communication with the external

environment, which serves as a catalyst to reduce the crisis.

The evaluation of the internal control system can provide information only through insurance decisions for insurance companies, develop a separate procedure for the implementation of management, as well as audit the financial statements, and it is based on the following principles.



**Figure 1. Principles of evaluation of the internal control system[14]**

In order to increase the transparency of financial statements in insurance companies and the level of risk that affects it, it is recommended to conduct a three-stage model-analysis in assessing financial stability on the basis of part of the internal control system in the following stages.

**Conclusion.** One of the main functions of the financial management of insurance companies is financial control, and the demand for it is growing in order to improve the quality of the insurance business. One of the most important forms of financial control is internal control.

Although internal audit and internal control activities are interrelated, the lack of attention paid by insurance companies to the fundamental differences between audit and control hinders the effective use of the specific capabilities of audit in practice. Unfortunately, many managers still view auditing as one of the punitive tools of the command-and-control system. So far, it is clear that the internal audit service is a system that improves the control system of insurance companies and helps to stabilize their financial position

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