



MODERN FORMS OF AUDITING AND DIRECTIONS FOR IMPROVEMENT OF INTERNAL CONTROL

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ABSTRACT	KEY WORDS
This article describes the modern forms of audit and gives brief information about the internal control system in our country. Recommendations for improving the internal control system are also mentioned.	Accounting system, internal control system, internal standards of audit organizations, synthetic account, analytical account, importance in audit, audit risk.

Introduction

In recent years, a number of documents of the President of our country have been adopted regarding the further improvement of state financial control, the further improvement of the efficiency of state budget expenditures and the improvement of the activities of state financial control bodies.

Within the framework of these documents, it was determined to further strengthen vertical control over the execution of state finances, to organize control measures mainly on the basis of preliminary identified risk-analyses.

In particular, the Law of the Republic of Uzbekistan “On Auditing Activities” was adopted on February 25, 2021 in order to eliminate contradictions in regulatory legal documents in the audit and control system and to ensure a single regulatory legal framework, and relations in the field of auditing activities were regulated with it. The adoption of this law serves as the basis for institutional reforms in the audit system. To conclude an agreement with the International Federation of Accountants to recognize the international standards of auditing activities, to translate the text of the international standards of auditing into the national language, to discuss these standards with auditors, experts and other users of these standards, representatives of the scientific community, the text of the international standards of auditing in the national language of the international standards of auditing, the procedure for consideration of the compliance with the English text by the commission and the tasks of decision-making on the introduction of international auditing standards in the territory of the Republic of Uzbekistan were determined.

Also, the Regulation on the procedure for recognizing international audit standards for use in the territory of the Republic of Uzbekistan was developed, and in the practical implementation of these international standards, the expediency of ensuring the implementation of the Decision of the Cabinet of Ministers dated May 5, 2021 “On measures to improve the system of training employees of the internal audit service” was determined.

In this regard, a number of tasks were defined in the Decision of the President of the Republic of Uzbekistan dated August 4, 2021 “On additional measures to improve the auditor certification system” in order to train the employees of the internal audit service in international standards and issue them certificates in the prescribed manner.

Analysis and discussion of results

Based on the advanced experience of developed countries, the procedure for issuing, reissuing, extending and terminating the auditor’s qualification certificate, approval in agreement with the Ministry of Finance, organization and structure of qualification exams, recommended materials and training programs for preparation for qualification exams, it was also decided that information on the results of qualification exams will be posted on the official website of public associations of auditors, and the database of auditors with auditor qualification certificates will be maintained by public associations of auditors.

The implemented reforms are aimed at ensuring the implementation of the tasks defined in the state program for the implementation of the Strategy of Actions on the five priority directions of the development of the Republic of Uzbekistan in the “Year of supporting youth and strengthening the health of the population” in 2017-2021 and the Decree of the President of the Republic of Uzbekistan “On measures to further improve the state financial control system” dated August 7, 2021 was approved for the purpose of improving the state financial control system over the effective management of state financial resources and the targeted and rational use of budget funds.

According to the decree, in addition to the forms and types of control implemented from January 1, 2022, the following types of audits were introduced.

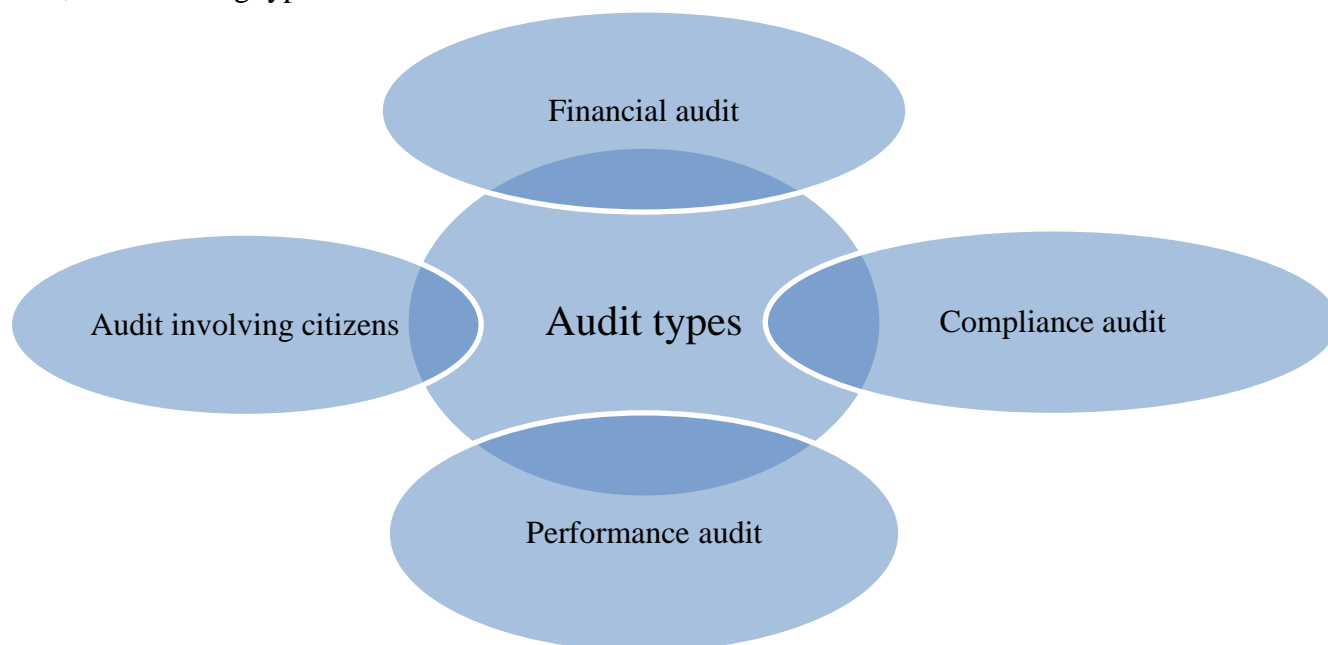


Figure 1. Audit types introduced from January 1, 2022¹

In particular, a financial audit was introduced, which provides for the assessment of accounting (budget) accounting, the truthfulness of financial reports, the purposeful and legal use of financial resources and the completeness of income, as well as the legality of financial transactions.

¹ Compiled by the author based on the data.

The general objectives of the financial audit can be classified as follows:

- obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and, based on that, express an opinion that the financial statements have been prepared in all material respects in accordance with applicable procedures;
- reporting on the results of the financial audit and informing the relevant authorities about the circumstances identified in the audit.

Conducting a financial audit is based on the following conditions:

- that the financial reporting system used in the preparation of the financial report is considered acceptable by the responsible employee;
- understand and recognize that the management of the organization is responsible for:
- to prepare the financial report in accordance with the applied financial reporting system, as well as to present it in a fair manner;
- to the internal control system considered necessary for preparation of financial statements without significant misstatements;
- to allow the responsible employee unrestricted use of all information known to him and related to the preparation of financial statements.

The financial audit report should state who is responsible for preparing the financial statements. All financial audits must clearly define the basis for preparing financial statements. A financial statement audit should aim to provide reasonable assurance.

Compliance audits have been introduced, which provide for the verification and assessment of the compliance with the requirements of regulatory legal documents and their compliance with state programs in the use of consolidated and attracted budget funds, in the implementation of state procurement, as well as in ensuring the completeness of revenues and business processes.

Table 1 Differences of audit types²

MUTUAL DIFFERENCES OF AUDIT TYPES <i>(Financial Audit, Compliance Audit)</i>		
The most important factor that unites compliance and financial audits is that they often focus on the use of resources rather than on the results themselves. When a financial audit is conducted, a compliance audit is usually an integral part of it.		
Differences between compliance and financial audit:		
Aspects	Compliance audit	Financial audit (audit of financial statements)
Purpose	Assessment of compliance with legal requirements.	Assessing the correctness and reliability of financial statements.
Center of attention	Facility activity, financial transactions, information.	Accounting and related information of the enterprise presented in the form of financial statements.
Regulatory documents	Any laws and regulations governing the subject matter of the audit.	Laws and regulations that directly and materially affect accounting reporting.
General principles (framework)	Compatibility only.	Compliance with the principles of financial reporting and reliability.
Necessary evidence	Inconsistency.	Significant errors, inconsistencies in financial statements.
Audit forms	Direct report audit, attestation audit.	Attestation review.

² Compiled by the author based on the data.

The figure above analyzes the differences between compliance and financial audits in 6 aspects.

Also, the features of the compliance audit can be explained as follows:

- compliance audit is carried out by independent assessment of the compliance of the activity of the audit object, financial transactions and information with the requirements of the documents regulating the activity of the audit object;
- compliance audits are concerned with legality (adherence to formal criteria such as relevant laws, regulations and agreements) or propriety (adherence to general principles governing sound financial management and the ethics of public officials);
- “legality” is studied as the main focus of the compliance audit, and “correctness” can be additionally studied in the public sector, such as financial management, ethics of officials and leadership potential;
- information on the results of audits is considered important information that serves as a basis for decision-making in the public sector, and it is presented based on appropriate and sufficient audit evidence;
- Compliance audit - is aimed at ensuring reliability and provides reasonable or limited reliability in relation to the information on the audit results.

In recent years, a type of control known as performance control has been widely used in developed countries. In this case, traditional control methods are complemented by new tools such as programmatic assessment, finalization, compliance with the state’s socio-economic policy.

Also, the effectiveness and efficiency of expenses, subsidies, benefits and preferences in the object of control, the economy of the use of allocated funds, the fulfillment of the set target indicators, the feasibility and effectiveness of the projects implemented at the expense of the consolidated budget and attracted funds, as well as the provision of funding sources for state and regional programs implementation of performance audit, which involves evaluation and analysis, was determined.

Table 2 Differences between performance and financial/compliance audit³

MUTUAL DIFFERENCES OF AUDIT TYPES <i>(Performance Audit, Financial Audit and Compliance Audit)</i>		
1. Differences between performance and financial/compliance audit:		
Aspects	Performance audit	Financial and Compliance Audit <i>(if transferred together)</i>
Purpose	Assessing the use of funds in terms of economy, efficiency and effectiveness.	Assessing the legality of financial transactions and the reliability of financial statements.
Center of attention	Sectoral policies, programs, organizations, activities and management systems.	Basic procedures for financial transactions, accounting and reporting and control.
Academic background	Economics, political science, sociology, etc.	Accounting and Law.
Methods	Varies by audit.	Standardized form.
Audit criteria	Open to professional judgment. Specific criteria for each audit.	Not much is open to professional judgment. Standardized criteria for all audits established by legislation and regulations.
Reports	A one-time special report. Change in system and content.	Annual report. More or less standardized.

³ Compiled by the author based on the data.

In this figure given, the differences of performance audit between financial and compliance audit are analyzed in 6 areas.

The purpose of the efficiency audit is to conduct an independent, impartial and reliable audit of the activities, functions, systems, state and regional programs of ministries and agencies using state financial resources to achieve direct or final results, local government bodies and organizations, and is to determine the possibilities of their improvement.

In this type of audit:

performance indicators - standards and indicators that can be accepted based on samples (templates) or practical experience, which are based on the evaluation of performance in the direction of the performance audit;

quantitative indicators of efficiency - indicators measured with specific numbers that allow to assess whether the results have been achieved;

quality indicators of efficiency - indicators reflecting planned activities based on effective and cost-effective results within specified periods;

professional opinion - opinion - formation of a point of view based on knowledge, professional qualifications and experience by the supervisory employee in cases of uncertainties and abstract situations regarding the issues studied in the object of supervision;

audit evidence - evidence - documents and information related to the object of control obtained from all sources;

professional skepticism - critical assessment of audit evidence, including documents and information supporting audit evidence;

users of audit results - bodies and the general public to which documents, references, conclusions and reports are presented regarding audit results are used.

As the principles used in the performance audit:

a) the principle of economy means minimizing the consumption of resources. The used resources must be delivered on time, in the required volume, in good condition and at the most favorable price;

b) the principle of efficiency implies maximum benefit from the spent resources based on the principle of economy. This principle refers to the interdependence of the resources used and the results achieved;

c) the principle of effectiveness means that the set goals and intended results are achieved through the maximum effective use of the resources spent on the basis of the principle of economy.

The audit is organized on the basis of independence in the object of control, and is focused on determining the possibilities of increasing economy, efficiency and effectiveness, effective management, accountability and transparency, as well as improving the activities of the studied directions and areas.

There are also specific types of audit in developed countries. For example, the State Audit of the People's Republic of China is considered not only as a "job", but it is scientifically approached and developed. Scientific institutions and universities also operate under the National Audit Office of the People's Republic of China.

There are specific audits introduced only in China:⁴

In particular, there is a practice of "Real time audit" carried out by the National Audit Office, that is, during the implementation of long-term or large projects.

⁴ <http://www.audit.gov.cn/en/n744/c68251/content.html>

“Real-time audit” is a parallel audit of investments in large infrastructure facilities, from construction planning to commissioning. In this case, it is considered more important to audit the commissioned project, rather than identifying and eliminating its deficiency (because in many cases it may not be possible to eliminate it, or the elimination may lead to additional costs). An interim report is written for each stage of construction (design, contractor selection, construction, commissioning).

“Accountability” audit⁵ — in which the responsibility of the leader (party, ministry, agencies), in addition to the activities of the ministries and agencies under his leadership, in making economic and other decisions, is audited. In this case, not only the fact that the leader abused his authority through a decision, but also why he did not make an appropriate or timely decision when he had the authority, that is, his responsibility and behavior in the performance of official duties as a person are assessed. The ultimate goal of the audit is to protect the interests of the people. Audit processes should be conducted with the aim of “ensuring the rule of law, the welfare of the population, seeking and contributing to reforms and developments”.

The audit office conducts control activities such as energy saving, mineral resource exploration and use, as well as collection and management of appropriate funds, protection of agricultural land.

The experience of advanced foreign countries shows that control over the use of budget funds is profitable. The study of this issue is relevant for the Republic of Uzbekistan. This, in turn, requires a wider and deeper study of the experiences of foreign countries in this regard.

Conclusion and Suggestions

Based on the above, it is advisable to carry out the following works on improving internal control in our country:

- development of a scientifically based method of controlling the spending of budget funds, strengthening the legal and regulatory bases of budget improvement;
- formation of a system of effective monitoring of budget funds spending, strengthening the audit of its effectiveness and efficiency;
- taking into account the possibilities of public control in the use of budget funds;
- it is necessary to improve the internal information systems of ministries and agencies in order to prevent the aimless and ineffective use of budget funds and further reduce the human factor in the distribution of funds;
- it is desirable to identify the risks detected in the remote control center in the internal audit services of all ministries and agencies and to establish the practice of timely prevention of risks.

Proper organization of internal audit activities, including review of internal audit activities, monthly review of their activities, analysis of identified deficiencies, analysis of the financial and economic unit's activities and requests from internal audits, as well as illegal situations detected by all control bodies it is necessary to get acquainted regularly, to ensure their complete elimination within the framework of the system by internal audit, to identify the chain of culprits, existing gaps and take measures.

⁵ <http://www.audit.gov.cn/en/n744/c68251/content.html>

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