



ORGANIZATIONAL ISSUES OF AUDIT IN UZBEKISTAN

Nazarova Kamola Sattorali qizi

Independent Researcher of Tashkent State University of Economics

G-mail: nazarovakamola1128@gmail.com,

UDK: 657.6-048.32(575.1)

A B S T R A C T	K E Y W O R D S
<p>This article is devoted to the issues of improving the organization of audit in the practice of Uzbekistan. The introductory part of the article reveals the essence of the organization and conduct of audit in the Republic and the relevance of research in this area. It also describes the research methods used to cover the content of the article, a review of the relevant literature, an analysis of the main indicators of audit activity in Uzbekistan, practical problems of organizing audit, organizational stages of audit, and conclusions reached as a result of the research.</p>	<p>Audit inspections, audit service, auditor, audit organization, audit client, audit planning, audit conclusion, summary and evaluation of audit results, final stage of audit.</p>

Introduction

At present, a solid regulatory and legal framework for auditing activities has been established in Uzbekistan, along with a distinctive national market for audit services. Effective economic incentives and tax benefits are being applied to promote its development, while the licensing system for auditing activities has been significantly simplified and liberalized. Despite the positive outcomes of the reforms being implemented, it is noted that "...the national auditing standards are not fully aligned with internationally recognized auditing standards, which prevents foreign investors from developing a proper understanding of the reliability of local enterprises' financial statements..." [1]. As a result of ongoing reforms, important tasks have been defined to address this issue, including "the introduction of international standards in financial reporting and auditing in large state-owned enterprises" [2].

In turn, ensuring the effective implementation of these tasks requires improving the practical and methodological aspects of planning and conducting audit engagements, applying advanced international experience and software tools in audits, and documenting, summarizing, and evaluating audit results in accordance with international standards. However, these issues have not yet been comprehensively and systematically studied. In particular, the lack of in-depth scientific research on improving the planning and execution of audit engagements necessitates further rigorous academic investigation.

In the context of global economic integration, special attention is being paid worldwide to scientific research aimed at improving the methodological foundations for organizing and conducting audit engagements. As a result of such studies, significant progress has been made in enhancing audit planning, determining materiality and audit risk in financial statement audits, summarizing audit results

and forming audit opinions, identifying and preventing fraud in auditing, applying analytical procedures, and assessing the effectiveness of internal control systems. Nevertheless, due to the insufficient volume of research focused on improving the methodology for organizing and performing auditing activities in line with international standards, these pressing issues have not yet been fully resolved.

Review of the Relevant Literature

The development and improvement of the theoretical and methodological foundations of audit engagement procedures have primarily been addressed in the scientific research of foreign economists. Among them are E.A. Arens, J.K. Loebbecke, A.D. Sheremet, and V.P. Suits. In contrast, the works of domestic economists in Uzbekistan—such as textbooks, monographs, and teaching manuals, as well as published scientific articles and theses—have mainly focused on the theoretical aspects of organizing auditing activities. For instance, the studies of R.D. Dusmurotov, N.F. Karimov, Z.T. Mamatov, M.M. Tylakhodjaeva, I.N. Qo‘ziyev, B.Q. Hamdamov, and I.I. Meliev examine issues related to the development of the theoretical foundations of audit planning and execution [3–8].

In particular, the Uzbek economist O. Barakaev emphasizes that audit engagements should be carried out through the following “four stages”:

- Planning and designing the audit engagement;
- Performing tests of controls and substantive testing of transactions;
- Performing analytical procedures and detailed testing of accounts;
- Completing the audit engagement and issuing the audit opinion [9].

Economist I. Avazov, in his research, considers the following procedures to be effective in audit engagements: “...conducting inquiries, verifying records based on supporting documents, observation, scanning, and performing special examinations by engaging specialists in relevant fields” [10]. Another local economist, Z. G‘aniev, emphasizes that primary attention in the audit process should be directed toward the collection of audit evidence. He notes that “...when obtaining audit evidence, analytical procedures should be grouped, the activities of the inventory commission should be examined, confirmations should be obtained from banks, suppliers, customers, and other organizations, information about investors should be collected, and data on audit-related expenditures should be analyzed...” [11].

Among Uzbek economists, I. Choriev argues that the audit process should be carried out by performing analytical procedures based on the following stages:

- Gaining an understanding of the client’s business;
- Identifying misstatements in financial statements through analytical procedures;
- Assessing the going concern of the entity;
- Evaluating the efficiency and economic sustainability of the entity’s operations;
- Preparing audit information for the entity’s management [12].

In our view, although the above-mentioned studies approach the audit process from a theoretical perspective, they do not present a clearly defined practical procedure for conducting audits, that is, they lack guidance on practical implementation during audit engagements. It should be noted that existing international standards also indicate that auditors should conduct audits based on professional judgment, relying on their knowledge and competence. Likewise, the International Standards on Auditing do not provide a single, comprehensive standard that fully and holistically describes the entire

procedure for conducting audit engagements, nor do they consolidate all audit processes within one standard. The considerations presented above demonstrate that the processes of conducting audit engagements have not yet been fully studied to date, highlighting the relevance and necessity of further research in this area.

Research Methodology

During the course of the study, both theoretical and practical methods were effectively employed, including a systems-based approach, grouping, comparative analysis, observation, statistical analysis, and factor analysis. Based on the conducted research, the study is aimed at improving the system of indicators that reflect the performance efficiency of audit organizations and clients of audit services, their classification, and the methods for their identification and analysis. Furthermore, the research focuses on developing approaches to assess the quality and efficiency of audit engagements, calculating the impact of various groups of factors influencing performance indicators, identifying internal reserves for improving these indicators, and formulating procedures for making informed managerial decisions.

Results and Discussion

In our view, one of the key issues in contemporary auditing practice is the methodology according to which audit engagements are conducted—namely, the sequence of audit tasks, the audit methods applied, the procedures and rules governing the conduct of the audit, and the substantive content of audit procedures performed during the engagement. With regard to this issue, diverse opinions and approaches exist in both international and national auditing practice.

We believe that the audit process should employ such a methodology that ensures cost-effectiveness and minimal labor intensity for audit firms, provides solutions that satisfy both the audited entity and the audit organization, and enables a comprehensive and reliable assessment of the credibility of the audited entity’s financial statements. Table 1 below presents an analysis of key indicators of auditing activity in Uzbekistan for the period up to 2023. The data in the table demonstrate the progressive development of auditing activity in the country (as official data for the period after 2023 have not yet been published).

Table 1 Analysis of the Main Indicators of Auditing Activity in Uzbekistan¹

Indicators	2019	2020	2021	2022	2023
Number of audit firms	96	99	96	126	138
Number of auditors	558	572	651	881	1003
Revenue of audit firms (billion UZS)	130.0	206.3	321.2	437.8	506.0
Number of audited business entities	5,467	5,098	6,344	6,102	8,191
Share of unqualified audit opinions (%)	92.4	89.4	85.3	85.0	87.9
Share of adverse audit opinions (%)	2.4	2.7	2.8	2.0	1.7
Share of qualified audit opinions (%)	4.9	7.7	11.8	10.0	10.3
Share of disclaimers of opinion (%)	0.3	0.2	0.1	3.0	0.1

¹Prepared by the author based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

In particular, the data presented in Table 1 show that although a declining trend in the number of audit firms was observed in 2021, by 2023 this indicator increased by 30.5 percent, or 42 firms, compared to 2019. The research results also reveal significant changes in the number of practicing auditors during the period 2019–2023. Notably, in 2022 the number of auditors increased by 323 persons compared to 2019 (an increase of 36.7 percent), while in 2023 this growth reached 445 persons, or 44.4 percent.

During the same period, the revenues of audit firms demonstrated a steady upward trend. In particular, a significant increase in revenues was observed in 2022 and 2023. Compared to 2019, the revenues of audit firms in 2023 increased by 376 billion UZS, or 74.3 percent. Furthermore, while in 2019–2022 audit firms were mainly analyzed based on their participation in international networks, in 2023 it was revealed that four audit firms in the republic obtained membership in international associations, and 23 audit firms became members of international audit organizations.

The analysis also indicates a year-by-year increase in the number of audited business entities. Specifically, in 2023 this indicator increased by 33.3 percent, or 2,724 entities, compared to 2019. In 2023, the number of business entities subject to mandatory audit increased by 13 percent compared to 2022. In addition, the findings show that in 2023 audit engagements were mainly conducted in wholesale and retail trade organizations, and audits were carried out in both mandatory and voluntary (initiative-based) forms. It is also noteworthy that out of 6,614 audit opinions issued in 2023, 1,238 opinions were provided on financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Moreover, the research results demonstrate that the effectiveness of audit engagements largely depends on the extent to which existing practical problems in the audit process are addressed and resolved (Table 2).

Table 2 Practical Problems in Organizing Audit Engagements

№	Content of the Problem
1	Due to the diversity of scientific and practical approaches or scholars' views on the stages of conducting an audit, audits are carried out based on different procedures or approaches.
2	The audit client lacks complete and accurate information about their business activities or the auditor does not fully understand the client's operations.
3	Incorrect assessment and segmentation of risks.
4	Insufficient application of audit methods and procedures during audits.
5	Audit process and results are documented incorrectly in terms of content and format.
6	Insufficient open and clear communication with the audit client.
7	Poor quality of audit planning processes or non-compliance with International Standards on Auditing (ISA) No. 300 "Planning an Audit," or the general audit plan and program are not utilized in practice according to standard requirements.
8	Failure of audit organizations to use internationally accepted "audit schedules," resulting in employees being unprepared for audits, including managing leave or business trips, work allocation, or conducting audits under various conditions (remote audits, use of software, limited resources).
9	Limited access for auditors to the client's accounting system or information due to information security or other restrictions imposed by the client.
10	Excessive use of auditors' services beyond allocated time norms, without accounting for the consequences.
11	Audit clients do not provide auditors in a timely and complete manner with draft financial statements prepared according to IFRS, previous audit results, all calculations, explanatory letters, transformation or consolidation files.
12	Insufficient use of ISA 570 "Going Concern" leads to inadequate assessment of the client's ability to meet future obligations and of financial, operational, and legal indicators of the company.
13	Inadequate evaluation of detected fraud, misstatements, and errors, and failure to develop measures or recommendations with management to prevent recurrence.
14	Insufficient use of standards including ISA 260, 265, 320, 330, 505, 510, 560, 570, 580, 610, 705, 706, 710, and HAAI 1000 during audits.
15	Lack of use of professional audit software widely applied globally (AuditNET, IT AUDIT:Auditor, AUDIT XP "Kompleks Audit," "Ekspress audit:PROF," "Teams," "LEAP") and client's accounting software, affecting audit outcomes.

It is well known that nowadays audits are conducted in both remote and traditional forms (the traditional form being carried out on-site at the client's location together with the responsible representatives of the economic entity). In our view, a remote audit refers to the process of conducting an audit from a distance due to certain circumstances, such as a pandemic or other contagious disease, the client's location being far away, or other requirements of the client.

We believe that, in order to ensure the quality and effectiveness of an audit, the auditor should sequentially perform the following audit procedures:

Agreeing on the terms of the audit engagement with the client;

Identifying and assessing existing risks in the client's economic (business) activities;

Performing preliminary analytical procedures and audit methods to examine the legality of the entity's activities and the reliability of financial statement indicators;

Evaluating the audit risk and materiality level for the audited entity's activities;

Assessing the operation of the entity's internal control system and identifying factors that reduce internal control risk;

Conducting questionnaires, surveys, and testing procedures to verify the legality of the entity's operations and the reliability of its financial statements;

Examining the legality of transactions and whether they are properly aggregated in the financial statements;

Assessing the existence of deviations or misstatements in the financial statement indicators and determining the causes of such discrepancies;

Verifying the existence of balances in the entity's accounting records and ensuring that transactions are accurately and timely reflected in the accounts;

Summarizing the collected evidence and preparing audit working papers (interim and overall audit documentation);

Evaluating the significance of identified deficiencies (their impact on the entity's financial results);

Preparing the overall audit report and the audit opinion based on the audit findings;

Presenting the audit opinion and findings to the client and taking other necessary actions.

The above audit tasks are carried out based on audit methods and procedures. In our view, an audit method refers to the set of tasks and analytical procedures performed in the process of studying auditing as a science and providing auditing services as an activity. Audit procedures, on the other hand, refer to the individual actions (smaller, short-term tasks) carried out within these methods.

Currently, in practice, audit methods include documentation, inventory, valuation, calculation, statistical analysis, inspection, reconciliation or comparison, hypothesis and forecasting, testing or conducting surveys and questionnaires, expert examination, preparation of alternative balances, systematic inspection, observation, verification of actual conditions, confirmation, analytical procedures, and inquiries. The implementation of each audit method involves performing the corresponding audit procedures.

In our opinion, the main issue in current auditing practice is the methodology of conducting audits—specifically, the sequence of audit tasks, the audit methods applied, the procedures and rules for conducting audits, and the content of audit procedures performed. To date, the regulatory and legal documents and available educational literature have not fully revealed the methodology of audits, i.e., the sequence of audit tasks, the description of applied audit methods and procedures, and the rules and procedures for conducting audits from both theoretical and practical perspectives.

We believe that to ensure the quality and effectiveness of an audit, this process should be organized according to the following stages (Figure 1).

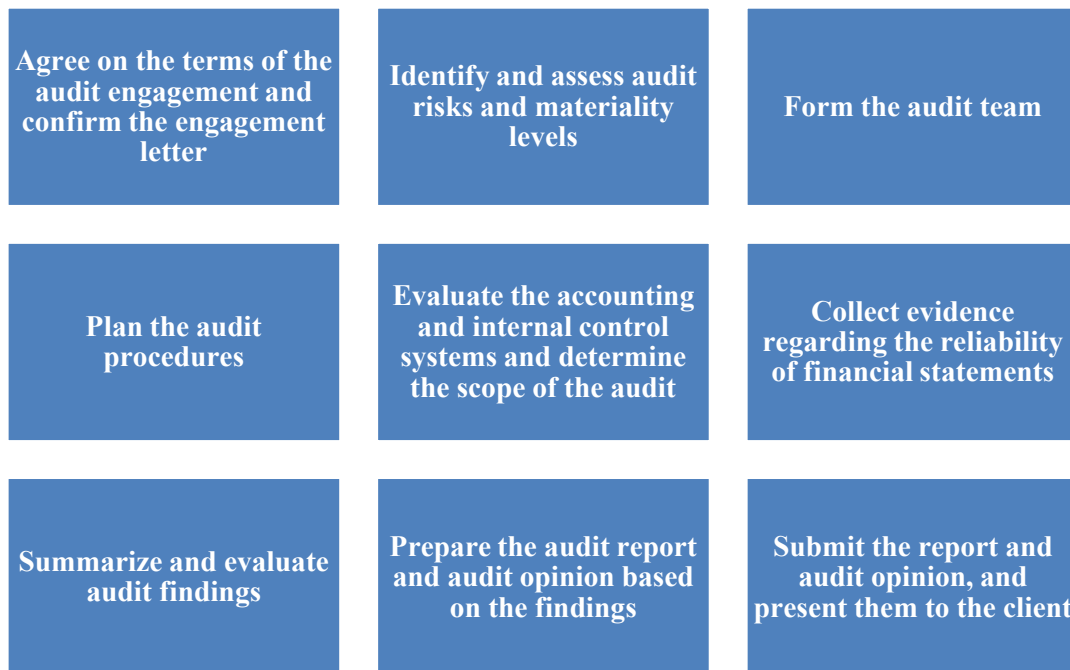


Figure 1. Organizational Stages of the Audit Process³

Likewise, conducting the audit procedures outlined in Figure 1 above based on the analytical actions specified in the International Standards on Auditing ensures the quality and effectiveness of the audit process. As can be seen, in modern audit practice, addressing a number of existing issues during the planning, execution, and summarization of audit engagements, as well as improving their theoretical and methodological foundations, remains one of the pressing scientific problems.

Conclusion and Recommendations

The research results indicate that auditing activities in Uzbekistan are developing both quantitatively and qualitatively. In particular, the number of auditors, auditing organizations, and economic entities subject to audit is increasing. Advanced foreign experience and the standards of the International Standards on Auditing (ISA) are being widely applied in auditing practice. Notably, in the current auditing practice of Uzbekistan, the eight regulatory legal documents governing auditing activities, as well as the adoption of the updated main law on auditing in 2021 and the implementation of the Cabinet of Ministers' special decree in 2022 aimed at introducing ISAs into practice, have contributed to the qualitative improvement of this activity.

The study shows that although the current normative-legal framework in Uzbekistan and scientific research generally address the organization and conduct of audits, there are still some challenges in applying the audit steps and procedures according to advanced foreign practices and ISAs. Addressing these challenges and further developing research to improve auditing practice is necessary. To clarify

³Prepared by the author.

these issues, the article recommends conducting audits through nine defined stages, each comprising specific audit procedures.

Although numerous regulatory and legal documents and literature have been developed to govern the organization and conduct of auditing activities, they mostly approach the organization and execution of audits in general terms. The audit steps and procedures are not fully or explicitly elaborated. Currently, auditors' incomplete mastery of ISA requirements and the recent establishment of ISAs as a formal standard in the country result in audits being conducted differently in certain cases, which can affect the reliability of financial statement indicators.

In our view, to ensure the timely and high-quality conduct of audits and the reliability of financial statements, it is necessary to implement advanced auditing software widely used in developed countries, such as AuditNET, ITAUDIT:Auditor, AUDITXP "Kompleks Audit," "Ekspress audit:PROF," Auditsoft, Leap, Audit Sampling, and First-Audit, along with establishing a systematic training program for their practical application.

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