ECONOMIC SCIENCES

ISSUES OF INCREASING THE EFFICIENCY OF INTERNAL AUDIT IN THE REPUBLIC OF UZBEKISTAN

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Abstract

In developed countries, corporations pay great attention to improving the efficiency of corporate governance and risk management. In this process, the importance of identifying cases of fraud and eliminating them through the effective organization of the internal audit service in corporate structures increases. In particular, “the internal audit service in regions of the world identified from 11% to 23% of fraud cases” [7]. Therefore, it is necessary to pay special attention to internal audit and eliminate its problems in theoretical, methodological and practical aspects, widely use digital technologies, achieve the unification of internal audit standards and their implementation throughout the world.

In various countries of the world, special attention is paid to scientific research aimed at improving the methodological foundations of internal audit in the context of economic globalization. This study addresses the issues of planning internal audit inspections in joint stock companies, identifying risks associated with fraud, improving the quality of internal audit inspections, and drawing up internal audit reports. It should be recognized that in the field of research, improvements have been simultaneously achieved in the process of identifying and eliminating cases of fraud in internal audit, the use of analytical procedures in internal audit audits, and assessing the effectiveness of the internal control system. However, pressing issues related to the organization of internal audit methodology in joint-stock companies at the level of international standards have not yet been fully resolved.

Keywords: internal audit, corporate governance, risk-oriented internal audit, internal audit effectiveness, IPSIA, risk management.

1. Introduction.

In modern conditions of a market economy, investors prefer to invest in efficiently managed companies that respond to emerging risks in a timely manner. Internal audit plays a significant role in the successful organization of risk management processes and corporate governance systems by management. In the case of effective organization of activities, internal audit actively assists in assessing risks and finding countermeasures. In this article we will consider the areas of effectiveness of internal audit in the Republic of Uzbekistan.

In the Republic of Uzbekistan, in order to increase the efficiency of corporate governance, a number of measures have been developed to improve the work of the internal audit service. In particular, much attention is paid to improving the professional training and level of knowledge of employees of the internal audit service. In particular, the definition of the task “Creating a system for advanced training and certification of internal audit service personnel” [5] requires the organization of an internal audit service in joint-stock companies based on international standards. These tasks determine the importance of improving the internal audit methodology in joint-stock companies, organizing a certification system for internal auditors based on international requirements, reducing risks associated with cases of fraud, increasing the efficiency of internal audit by redistributing the risks of control tools among responsibility centers, and using internal and external benchmarking methods in the process of collecting evidence.

To a certain extent, this study serves to implement the tasks defined in decrees of the President of the Republic of Uzbekistan dated January 28, 2022 No PD-60 "On the Development Strategy of New Uzbekistan for 2022-2026", No PD-4720 "On measures to introduce modern corporate governance methods in joint-stock Companies", resolutions of the President of the Republic of Uzbekistan dated February 24 2020 No PD-4611 "On additional measures for the transition to International Financial Reporting Standards", Dated September 19, 2018, No PO-3946 "On measures for the further development of auditing activities in the Republic of Uzbekistan", Resolution No 280 dated May 5, 2021 "On measures to improve the training system for employees of the internal Audit service", as well as other regulatory legal acts related to this area.

“Based on the results of the first half of 2021, the volume of services provided in the digital economy amounted to seven trillion 200 billion sums, exports of computer programming services amounted to 17 million 500 thousand dollars. Until 2022, it is planned to implement 268 projects in Uzbekistan aimed at developing the Electronic Government system, telecommunications, the Technology Park of software products and information technologies, as well as the introduction of digital technologies in other industries” [6].

Literature review

In conditions of active development of economic relations, the role of internal audit is increasing both in government agencies and in commercial enterprises. Since internal audit is a means of successful enterprise management, the quality of this system serves to increase the efficiency of the business entity. Internal audit (IA) is a complex process consisting of various aspects, and a number of domestic and foreign scientists have conducted scientific research in this area. A risk-oriented IA is organized with the aim of effectively organizing this service. Also, in an effective organization of IA, the main role is played by its organization on the basis of International Professional Standards for Internal Auditing (IPSIA). The task of the head of the internal audit service is to organize and conduct a risk-based audit based on the IPPF, which meets the ethical and qualification requirements of the IPSIA “The International Professional Standards of Internal Auditing (Standards) are one of the components of the International Framework for the Professional Practice of Internal Auditing (IFPPIA) developed by International Institute of Internal Auditors” [8], which internal auditors around the world have used in their daily work since 1947. IPPF is the basis of interstate legislative and regulatory acts in the field of internal audit; on the basis of IPPF, relevant recommendations of industry regulators in many countries of the world are formed.

The standards are set out as principles and provide a framework for conducting IA. The structure of the standards consists of quality standards and performance standards. The standards also specify the mission of internal audit. Several studies were reviewed and the authors concluded that internal audit effectiveness is related to compliance with standards.

Khaled Ali Endaya and Mustafa Mohd Hanefah, in their scientific studies, also determined the effectiveness of the IA service in complying with the IPSIA. The author also argues that the effectiveness of internal audit can only be achieved when the activities of both internal audit department and its auditors are supported by members of the organization. This support includes the allocation of appropriate human and material resources to internal audit, as well as the overall tone in the acceptance and evaluation of the internal audit department and its auditors, as well as the implementation of the recommendations of the internal audit department [13].

Aaron Cohen & Gabriel Sayag, as a result of scientific research, identified the principle of independence as the main link in the effective organization of the internal audit service [9].

As a result of their research, Douglas F. Prawittm, Jason L. Smith, David A. Wood concluded that the measure of overall internal audit quality is based on auditing standards, which provide guidance to external auditors in assessing the extent to which they can rely on the work of internal audit services. According to the authors, internal audit performance plays an important role in the quality of externally reported financial performance, an essentially untapped but potentially promising area for future research[11].

Research by Maric Arena and Giovanni Azzone examines the organizational determinants of internal audit effectiveness in the “mission” of internal audit and its central role in corporate governance. Based on data from 153 Italian companies, the authors concluded that internal audit effectiveness is influenced by: characteristics of the internal audit team, audit processes and activities, and organizational relationships. The effectiveness of internal audit increases, in particular, when the ratio between the number of internal auditors and the staff increases, the chief audit manager joins the institute of internal auditors, the company adopts control risk self-assessment methods, and the audit committee participates in the activities of internal auditors” [14].

But in any case, for the effectiveness of internal audit activities, the specification of goals and objectives is required.

2. Materials and Methods

In general, like any other activity, specifying the goals and objectives of internal audit increases the effectiveness of its activities.

Internal audit is an important management tool for assessing the reliability and effectiveness of the internal control system in a joint-stock company, managing enterprise risks, and achieving the goals and objectives set for the joint-stock company.

When organizing internal audit, the regulatory framework, internal regulations of joint-stock companies, job descriptions of employees of the internal audit service, and a program for identifying and assessing fraud in internal audit are important for the effective organization of its activities. In addition, the organizational structure of the internal audit service plays an important role in Improving the quality of internal audit and organizing audit at the international level based on the implementation of professional standards for internal auditing are more closely related to scientific work in this area. Internal audit conducts inspections, collects and analyzes audit evidence in the structural divisions of the joint-stock company in order to conduct an independent assessment and give an opinion on reliability and efficiency.

In the Republic of Uzbekistan, internal audit in joint stock companies is organized on the basis of the following regulatory documents (Table 1).

Table 1

Analysis of regulatory documents regulating the internal audit service in joint-stock companies [17]

No.	Document's name	Issues studied
1.	Law of the Republic of Uzbekistan No. LRU-370 “On joint stock companies and protection of shareholders’ rights”	Requirements for organizing an internal audit service in joint-stock companies, accountability of internal audit, proposed transactions with an affiliate of the company, tasks of internal audit
2.	Regulations on internal audit at enterprises	Main tasks, functions, rights and responsibilities of the internal audit service, requirements for the internal audit service
3.	Regulations on the procedure for certification of an employee of the internal audit service	Qualification requirements for certification, list of documents provided, requirements for exams to obtain a certificate, qualification requirements for obtaining a certificate, registration and issuance of a certificate, conditions for validity and revocation of a certificate
4.	International Standards of Internal Auditing and Auditing Standards	Conducting audits at the level of international requirements, using generally accepted standards
5.	Code of Ethics for Auditors	Professional competence, reliability, independence, integrity, objectivity, principle of confidentiality, etc.

In the corporate governance system, internal audit implements risk-oriented internal audit in order to facilitate the adoption of effective management decisions as a result of the application of internal audit methods and processes by collecting information from the structural divisions of the company to ensure its independence.

In studies by Matyjewicz & D'Arcangelo, 2004; Beasley et al., 2005; Jackson, 2005, examines the role of internal audit in risk management and argues that through its links to risk management, internal audit helps managers understand what may prevent them from achieving their expected goals.

Internal audit in the field of risk management in a joint stock company must carry out the following activities:

- checking the sufficiency and compliance of the elements of the risk management system (goals and objectives, infrastructure, organization of processes, regulation, methodological support, mutual influence of structural units in the risk management system, reports);
- checking the completeness and reliability of risk identification by management at all levels of management;
- checking the effectiveness of control procedures and other risk management measures, including the use of resources allocated for these purposes;
- analysis of risk data (violations identified during internal audit inspections, cases of failure to achieve goals, legal proceedings, etc.).

Based on the results of the risk assessment, internal audit selects methods for managing significant risks (Figure 1).

Figure 1. Risk management methods in internal audit20

As a result of our research, we came to the conclusion that redistributing the risks of controls across responsibility centers reduces the risk of controls and increases the effectiveness and quality of internal audit work in joint-stock companies.

Also, in risk management in joint-stock companies, special attention is required to operational risk. Operational risk is the risk associated with the implementation of business processes of a joint stock company. Operational risk can arise as a result of errors made by employees when implementing business processes, cases of fraud, errors in information systems and technologies, as well as as a result of external events. The following can be identified as operational

[17] Разработано автором по результатам исследований.
[20] Разработано автором по результатам исследований.

risk factors: cases of external and internal fraud; errors in financial reporting, failures in business processes, failures in information and technical systems, damage to material goods and property, industrial accidents, violation of contractual relations with customers, etc.

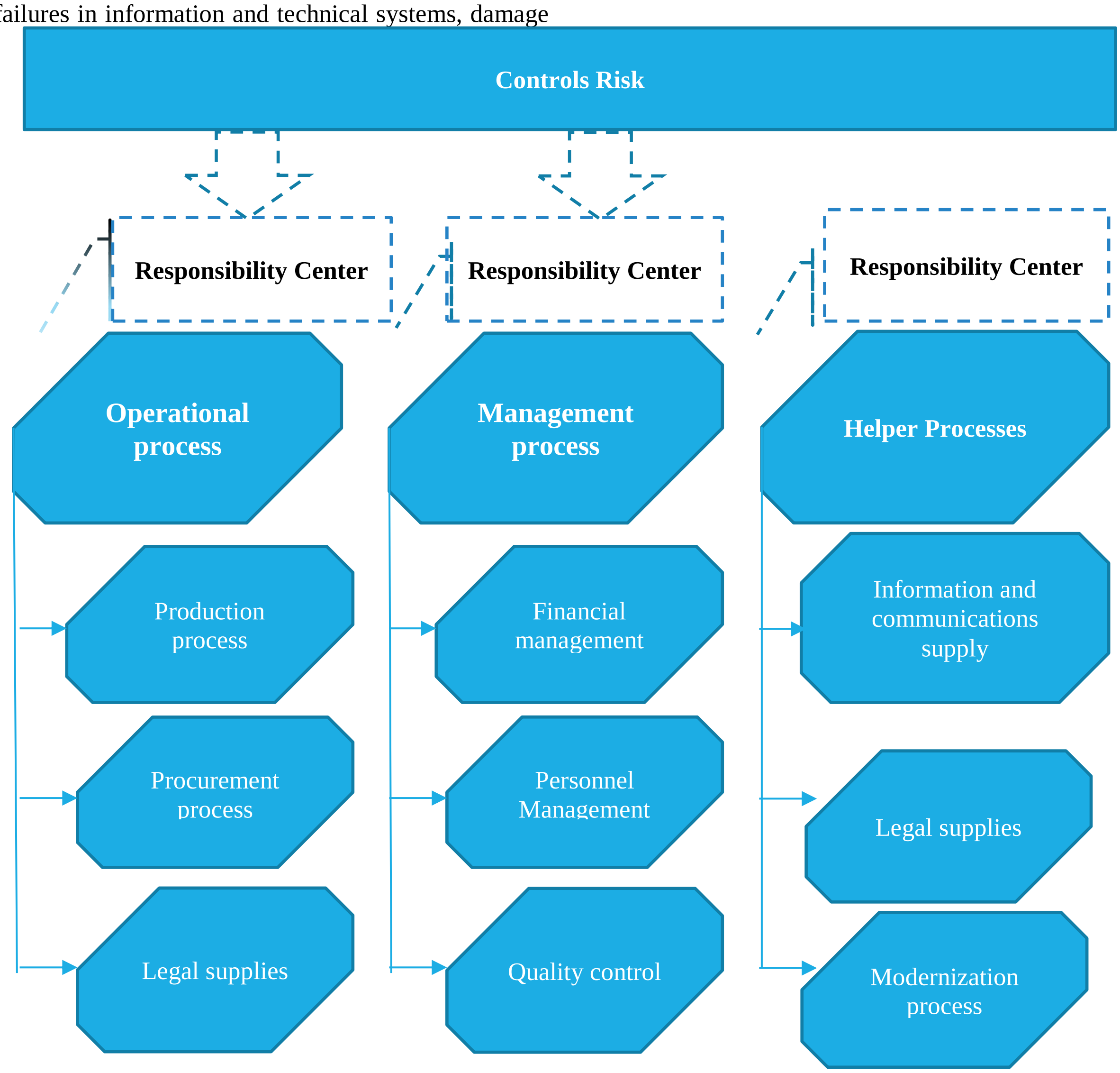

Figure 2. Redistribution of control risk to the center of responsibility.

Also, in risk management in joint-stock companies, special attention is required to operational risk. Operational risk is the risk associated with the implementation of business processes of a joint stock company. Operational risk can arise as a result of errors made by employees when implementing business processes, cases of fraud, errors in information systems and technologies, as well as as a result of external events. The following can be identified as operational risk factors: cases of external and internal fraud; errors in financial reporting, failures in business processes, failures in information and technical systems, damage to material goods and property, industrial accidents, violation of contractual relations with customers, etc.

Minimizing operational risk is one of the methods of its management, and to minimize it in a joint stock company it is necessary to plan, implement and improve measures to establish control over them by analyzing business processes. Therefore, in the research work it was proposed to include control over the reduction of operational risks in joint-stock companies as part of the criteria for internal assessment of the quality of the internal audit service (Figure 3).

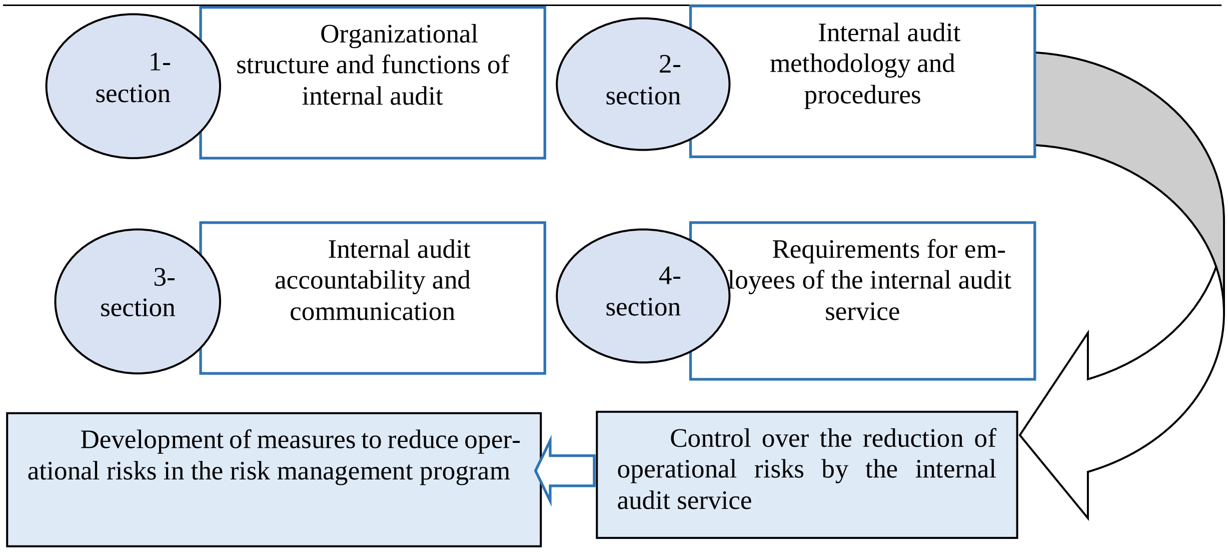

Figure 3. Procedure for assessing the control of the internal audit service over the reduction of operational risk[40]

The inclusion of control over the reduction of operational risks in joint-stock companies in the criteria for internal assessment of the quality of work of the internal audit service helps to assess the quality of the work of internal auditors and reduce operational risks in business processes.

Analysis of the quality of internal audit work in joint-stock companies is an important means of monitoring and managing risks associated with the company's activities. This allows us to determine how effectively internal audit fulfills its tasks and ensures the correct and timely identification of shortcomings and errors in activities. Analysis of the quality of internal audit work also helps to improve risk management processes, which reduces the likelihood of financial losses for joint-stock companies. This gives owners and management a clearer understanding of what risks exist and how they can be effectively managed.

In addition, analyzing the quality of internal audit work helps improve the credibility of shareholders, banks, investors and other stakeholders, such as rating agencies. It can serve as an indicator of proper risk assessment and management, as well as an indicator of the effectiveness of internal controls. Thus, it is not an exaggeration to consider that analysis of the quality of internal audit work is an important tool that provides shareholders and managers with objective information about the financial condition of a joint-stock company and helps them make correct and informed decisions. In our opinion, the main directions for analyzing the quality of internal audit work in joint-stock companies should be the following (Table 2).

Table 2

Directions for analyzing the quality of internal audit work [28]

No.	Directions for analyzing the quality of internal audit work	Essence
1.	Full coverage of the quality management system	The internal auditor must use a systematic approach when conducting internal audits
2.	Ensuring compliance of internal audit with legislation and international standards	Internal audit reviews should be conducted in accordance with international and national standards
3.	Risk identification and assessment	Internal audit must have appropriate risk assessment strategies
4.	Documentation	Internal audit documentation should contain detailed records of all procedures undertaken during the audit, from evidence obtained and results to recommendations.
5.	Communication with employees	The internal auditor must be truly communicative in order to treat employees fairly
6.	Analysis of results	The internal auditor must review the audit process and its results
7.	Including economic security issues in internal audit	Internal audit should include issues and requirements of economic security
8.	Development of recommendations for improving activities	The internal audit should lead to the formation of a list of recommendations to improve the quality of work and make economically rational decisions

[40] Разработано автором по результатам исследований.
[28] Разработано автором по результатам исследований.

When analyzing the quality of internal audit work, attention not only to the results of its activities, but also to issues of risk management, economic security, conducting internal audits in accordance with international standards of professional practice when assessing the quality of internal audit work and the implementation of these standards in the practice of the Republic of Uzbekistan helps to improve the efficiency of the service internal audit.

The international standards used and recognized today in the practice of developed countries in organizing internal audit include the following (Figure 4).

International standards for ensuring and improving the quality of internal audit work

- International auditing standards
- International quality control standards
- International Framework for the Professional Practice of Internal Auditing
- COSO Internal Control Model
- Sarbanes-Oxley Act
- ISO 9001:2015. Quality Management System Standards

Figure 4. International standards for ensuring and improving the quality of internal audit work[29]

Organizing internal audit audits based on these standards, helping to ensure and improve the quality of its work, defining in the Regulations “On the Internal Audit Service” of the company the requirements of legislation and standards, procedures and criteria for assessing the quality of internal audit work, allows you to control the quality of internal audit work and improve it over time. by eliminating identified deficiencies.

3. Results

As a result of a study conducted to improve the internal audit methodology in joint stock companies, the following conclusions were made:

1. The internal audit service plays an important role in ensuring the effectiveness of corporate governance in joint-stock companies, protecting the rights of shareholders and achieving the goals of the company. The Internal Audit Service contributes to the development of society by conscientiously, objectively and impartially carrying out the tasks defined in its annual work plan.

2. The implementation of business processes in joint stock companies is always associated with risk. In fact, one of the important features of entrepreneurial activity is its risk-based nature. The internal audit service must also take these aspects into account in its activities. Therefore, it is important to organize a risk-oriented internal audit in joint-stock companies.

3. It is necessary to regularly analyze the financial position and financial results of joint-stock companies, identify missed opportunities and improve areas of business development.

When analyzing performance results, it is advisable to use complex methods, in particular econometric modeling methods. In this study, through econometric modeling, the factors influencing return on assets were studied, and the factors influencing it and the level of their influence were specified.

4. When improving the internal audit methodology in joint-stock companies, it is important to specify the purpose, objectives and organizational foundations of internal audit, the procedure for its implementation, internal audit methods, technology and tools used in the internal audit process. As a result of the study, an improved model for organizing internal audit in joint-stock companies was developed.

5. Organizing internal audit in joint stock companies in a risk-oriented manner helps prevent risks and possible damage as a result of timely identification of risks and the application of measures to eliminate them. As a result of the study, the organization of risk-oriented internal audit in joint-stock companies and a risk management procedure were proposed.

6. It is necessary to analyze the quality of work of the internal audit service. This, in turn, improves the quality of work of the internal audit service. However, the procedure for assessing the quality of internal audit work in joint-stock companies has not been fully developed. During the study, directions for analyzing the quality of internal audit work were developed. Determining directions and effective organization of business processes helps improve the quality of work of the internal audit service.

5. Conclusion

Based on the above, we can conclude that as a result of improving internal audit in the corporate

[29] Разработано автором по результатам исследований.

governance system, optimal organization of business processes and improvement of the legal framework for internal audit, making effective management decisions, as well as organizing internal audit based on international standards creates conditions and opportunities for attracting foreign investors.

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