

## **INTERNAL AUDIT AND ITS DEVELOPMENT PROSPECTS**

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### **Abstract**

*In the recent years of development economic sectors of Uzbekistan have increased with high rates. On this way, the way of development covers sub-sectors of economics with the major ones. The article deals with internal audit, as one of the key processes of control with analytical analyses, at all. Moreover, auditing and other relative fields of economy with methodology and theory of study cover outcomes and shortcomings of investigation in the case of Uzbekistan. The study concludes that internal audit standards are considered to be well-developed and implemented throughout Uzbekistan within sectors and subsectors of economics. Last but not least, at the regulative level, this will increase the responsibility and thus the quality of internal audit services, and also simplify the work of the external auditors.*

*Keywords: Internal Audit, Management, Control, Efficiency Management System, Internal Control, Development of Internal Audit, Internal Audit Service*

### **INTRODUCTION**

The development of economy in Uzbekistan has been enhancing significantly. Furthermore, the way of advancement in audit has already emerged since the beginning of market reforms, development of foreign trade relations. On this basis, investment attractiveness of this regions with the foreign capital were possible with the guarantee of return, and, consequently, independent evaluation of business structures. Hence, the usual way of obtaining reliable information - is an independent examination - audit. Thus, the need for auditing has become an objective reality (Asgarov et al,n.d. ; Kuziev, 2011).

At first, audit activity in Uzbekistan began its legislative formation from 1992, when the Act "On Auditing" was passed. National Standards on Auditing (NSA) were developed which

was based on ISA. Out of more than 30 existing ISA, 21 NSA are enacted in Uzbekistan. Given that the ISA changes are periodically made - NSA contain outdated provisions than ISA.

NSA is one of the elements of regulation of audit activities, the basis for the development of internal standards of audit firms and auditing methodology.

In Uzbekistan, there is a gradual reform of the audit activities. The main reformer and regulator of the audit activities is the Ministry of Finance of the Republic of Uzbekistan in cooperation with the Chamber of Auditors of Uzbekistan and the National Association of Accountants and Auditors (Nematovich, 2016).

As far as it is concerned, the field of economy and the importance of audit is vital while making administrative regulations and decisions. Besides this, the basis of many economic decisions that are related to the audit, are strictly regulated in all countries. This process interferes with the state, especially in European states, by setting norms, standards of audit, by carrying out registration of auditors and audit firms and control over their activities. In other countries (US, UK), this process is regulated by a public professional auditing organizations (Tursunova, 2011). On this way, the Process of firm management and appropriately organized system of internal control cannot be separated from each other, while not violating the effectiveness of the entire management system. Hence, there is a need in the permanent and effective element, which is included in the internal control system and is its integral part. Thus, as an effective mechanism that helps to ensure that the owners and managers the necessary information on the functioning of all its sub-systems is internal audit (Abdukarimov B. A, 2013).

It is noticeable that the regulation of auditing in the Republic of Uzbekistan, with more and more attention, is carried out in accordance with international rules of audit activities. Associations to regulate internal audit in the Republic of Uzbekistan began to form on the initiative of the state, auditors and the companies themselves, for development of the securities market and improving the effectiveness of corporate management in the companies.

Education in the organization of internal audit services and regulatory control now is urgent, complicated, but at the same time is an interesting question. Internal audit is necessary in the first place to prevent the loss of resources, stabilization of accounting and to organize the necessary changes within the organization. The peculiarity of the internal audit can be called and that it is carried out at the time of compilation and documentation of business transactions. This allows time to detect all the defects in the work and take the necessary measures to prevent them.

Resolution of the Cabinet of Ministers dated 16.10.2006 for №215 approved the Regulation on the internal audit at the enterprises, which is the first regulatory document, regulating the activities of internal audit and the internal auditors. International Institute of

Internal Auditors reveals the following definition of internal auditing: “Internal auditing is an activity to provide independent and objective assurance and consulting activity designed to improve the organization”.

## METHODOLOGY

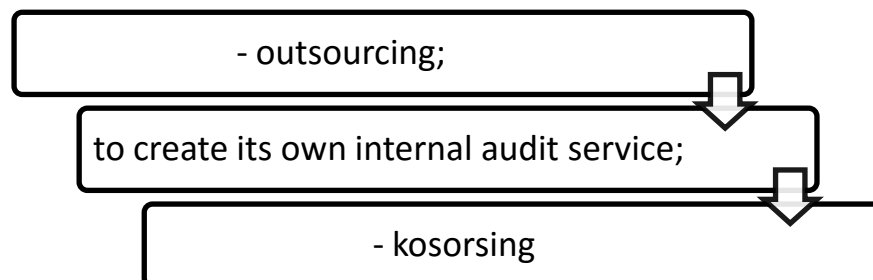
Accordingly, under the internal audit we understand the established internal documents of the company's activities for the control of all the components of the control and the various aspects of the company that made employees a special monitoring body in the process of helping the firm controls within the established limits, in accordance with the economic feasibility for the enterprise, as well as with the established procedure of accounting (Asgarov et al.,n.d.).

Aims and objectives of internal audit in the organization are designated according to the state of the internal control system, including the level of management and the company's staff, as well as the risk management system. As the main purpose of the internal audit acts to provide management of the organization objective, reliable and timely information about the company in connection with the achievement of the general corporate purposes and to comply with the relevant standards of business conduct. In the role of internal audit tasks allocate internal control system, which is an essential component for the implementation of the rights and responsibilities of the governing body and management officials.

The functions of internal auditor perform a dedicated service or a single auditor, who is in the state of a business entity. This audit commission; auditors; internal auditors, who are attracted to the internal audit purposes; external auditors and Group Internal Audit. It should be noted that, depending on the organizational and legal context of the internal audit is exclusive to each business entity (Ames, Brown, Devarajan, Izquierdo, & others, 2001; Salami, Shahnooshi, & Thomson, 2009).

Of great importance is discharged into account the specifics of its financial and economic activity. In the economic literature discusses the following forms of its organization: to create its own internal audit service; Outsourcing; Co-sourcing (Figure 1).

Figure 1: Forms of the Internal Audit Organization



Creating its own internal audit service suggests that the company employees are familiar with the internal structure of the company's business and industry characteristics. A positive aspect is the fact that when the audit tasks are performed by its own staff members, that they have received the skills and experience remain within the company. In addition, the management of entity may use internal audit as a basis for professional growth, the acquisition of certain skills and career development of future managers.

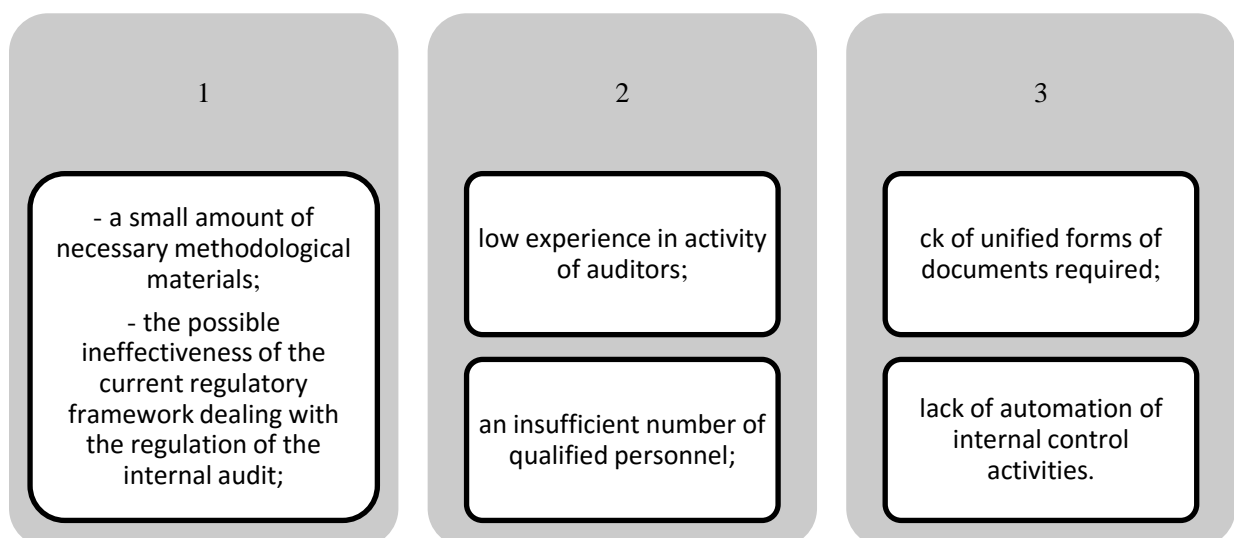
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No less important is the fact that the construction of an internal audit functions, and helps to reduce the expenses of the organization, which are connected with the conduct of the external audit. This is possible in the case when an external auditor will be able to rely on the results obtained in the course of the internal audit, which will further help to reduce the volume of activities carried out by the external auditor.

Great importance to improve the efficiency of the company can be achieved through the integration of internal audit management accounting, which together should form a system through which is possible to search for and mobilization of all possible reserves to conserve resources, to streamline processes, to reduce the cost of goods manufactured, works and services and improve the competitiveness of the company (Raballand, Kunth, & Auty, 2005; Tursunova, 2011).

However, we should not forget the time, which is associated with the development of the necessary internal audit methodologies, working documents for the stabilization of the service activity. Figure 2 shows the most common problematic aspects of the internal audit.

Figure 2: Problematic Aspects of Internal Audit



These problems can lead to problems related not only to the internal audit organization, but also to problems in theory and practice. With the organization of the internal audit, the company has a number of advantages, which are primarily associated with the identification of reserve funds and the sources of the necessary enterprise.

No less important is the development of recommendations regarding the improvement of accounting systems and internal controls, or at least evaluate the use of existing enterprise information software. These benefits will ultimately lead to an increase of interests of different investors to such enterprises. Great importance in determining the objectivity of the internal audit conducted discharged its degree of independence from the other components of the management structure. This requirement should be guaranteed by obedience and duty of reporting only a particular group of people, who appointed this activity, that is, the management of an economic entity or its owners. Due to the fact that managers are not always able to accurately assess the situation, they should use that information, which is fully owned by the internal audit. It is this instrument, which serves, as comprehensive information on all aspects of the company's activity will help to analyze and improve the effectiveness of decision-making management service. It is because of the internal audit, the manager manages to take a fresh look at things and assess the quality of management decisions (Akimov & Dollery, 2009; Brunner, Rudolph, & Schmid, n.d.).

## CONCLUSION

The role of internal audit is determined by the Supervisory Board of the enterprise. Internal audit is part of the company. The activities of the internal audit service, regardless of its degree of independence and objectivity cannot achieve the degree of independence required from the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the use of the results of the internal audit service. All judgments in relation to the audited financial statements are made by the external auditor.

The most effective prospects to create an internal audit service for organizations consist firstly in the fact that it will allow the company's management to establish effective control over the structural units of the organization. Secondly, the internal auditor's carried out testing and analysis will help identify the reserves and production of the most promising directions of development. Thirdly, internal auditors can perform and advisory functions with regard to officials of financial, economic, accounting and other services in the organization. Summing up it should be noted that in the modern conditions of formation and development of market relations provided a great opportunity to demonstrate their internal audit capabilities and prove their need

for both the owners and management of the organization. The organization of the internal audit department at the management of the companies there is a powerful tool with which you can improve business performance and achieve new heights.

To conclude with internal audit standards are considered to be well-developed and implemented throughout Uzbekistan within sectors and subsectors of economics. Last but not least, at the regulative level, this will increase the responsibility and thus the quality of internal audit services, and also simplify the work of the external auditors.

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