



## **PROSPECTS FOR THE DEVELOPMENT OF A MULTILATERAL AUDITING SYSTEM IN CASE OF UZBEKISTAN**

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### **Abstract**

*A multilateral auditing system is one of the vital factor for the improvement world economy, including Uzbekistan. In this article, it has been reviewed the importance and significance of the audit activity in the Republic of Uzbekistan in its regulatory legal acts. It has been shown the development ways of audit system in the future. Additionally, the mandatory and voluntary auditor's responsibilities and statistical data are analyzed and conclusions and recommendations on the development of auditing activities are provided.*

*Keywords: Auditor, audit activity, auditing organization, mandatory audit, voluntary audit*

### **INTRODUCTION**

Today, in the development world economy the audit system plays important role all over the world. Nowadays, the dynamic development of our economy and the development of auditor activity at the same time creating an investment environment will serve as a key factor in the development of our country's economy.

In The Strategy for Action for the Development of the Republic of Uzbekistan in five priority areas for 2017-2021, "Continuation of implementation of well-considered external debt policy through the development of international economic cooperation, including the expansion of relations with leading international and foreign financial institutions, effectively attracting foreign investments and loans" mission indicates establishing cooperation with international financial institutions and auditing organizations as one of the topical issues. Mandatory Audit is a validity of the financial, accounting and tax reporting, as well as the legality of the activities of



the undertakings, the state-specific audit. The initiator of compulsory audit is a state that is interested in examining the financial performance of certain categories of market entities.

## LITERATURE REVIEWS

According to the studies, the literature reviews reveal that in the Republic of Uzbekistan some research works on auditing activities have already been done. In particular, according to M. Tulakhodjaeva, "audit is a statement which is carried out by independent professional specialists at the purpose of making a conclusion about the degree of conformity of the financial report or related financial information of an organization to the law or other normative documents. The Economist N.S. Sanayev claims that "auditing activity is an entrepreneurial movement of an individual or legal entity who is legally qualified as an auditor, to provide auditing detection and audit consultation. The Economist H.N. Musayev remarks that, "audit is the provision of assessment and objective conclusion by individuals who are granted certain powers, that's, in a way of checking the conformity of all entrepreneurial activities of business entities to laws accepted by the Republic of Uzbekistan. Besides, auditing activities include launching new business, providing consulting services in fulfilling finance-credit and accounting activities, training specialists and re-training them, developing educational and methodological recommendations in auditing. The Economist Azizov Sh.U argues that, "external audit is an activity that includes auditing financial statements by verifying the validity of the transactions carried out by a business entity on a contractual basis and by providing an objective conclusion on the results of the audit".

## RESEARCH METHODOLOGY

This research is focused on the measures aimed at improving the development of information technologies in the enterprises. Such research method as comparative analysis of the practical data, statistic tables and other relevant data have been widely used in the research. Basing on the research results appropriate proposals and recommendations have been developed.

## ANALYSIS AND RESULTS

Today, in Uzbekistan, like other sectors of the economy, auditing activities could gain a special attention and, normative acts which regulate auditing activities are being improved year by year. In Republic of Uzbekistan, the audit activity is regulated by the subsequent normative-legal acts:

1. The Law "On auditing activities"
2. Decrees and Orders of the President of the Republic of Uzbekistan

3. Resolutions and Orders of the Cabinet of Ministers of the Republic of Uzbekistan
4. National standards of auditing activities
5. Charters, instructions and rules

According to Article No 10 of the Law “On auditing activities”, in the Republic of Uzbekistan, the followings economic entities should be monitored by mandatory audits.

- Joint-stock companies;
- Banks and other credit organizations;
- Insurance companies;
- Investment funds and, other funds accumulating the capital of legal entities and individuals and the trusted regulators of their investment assets;
- Charitable funds and other social funds, which are voluntarily contributed by legal entities and individuals;
- Off-budget funds of obligatory deductions of individuals and legal entities, the source of which is envisaged by legislation.
- Business entities and state-owned unitary enterprises with a state-owned share in the equity fund.
- Stock and commodity exchanges.

Currently, audit companies play a significant role in the economy of the Republic of Uzbekistan. Relying on the Statistical data, it can be observed the changes in the dynamics of the number of audit firms in Uzbekistan, in recent years. In fact, the following diagram represents yearly changes in the number of audit firms and auditors:

Figure 1. Number of audit firms and auditors (yearly changes)

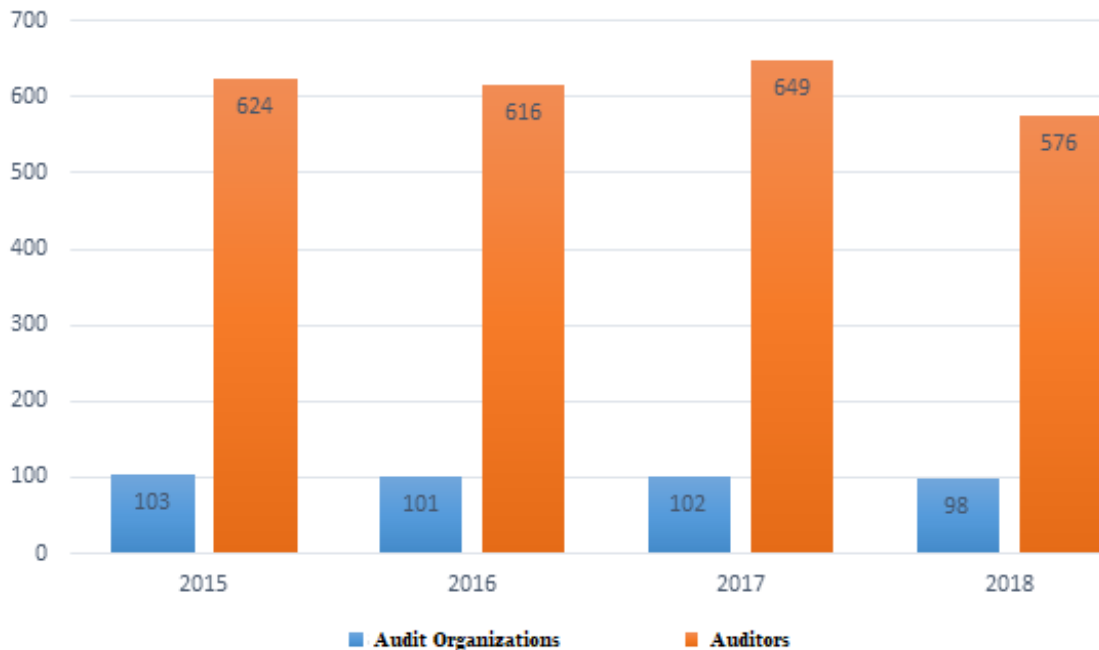


Figure 1 reveals that during 2015-2018 years, there was a slight fluctuation in the number of audit firms. Yet, in general view, their number has dropped. If we pay attention to the number of auditors operating during the same years, their number has decreased significantly. In fact, in 2018 their number has dropped by 73 comparing to 2017.

The Article No 11 of the Law “On Audit Activities” is referred to as “Initiative Type of Audit” and it states that, “An audit procedure may be conducted in the manner prescribed by law, by the decision of the business entity or by the request (for auditing) of other parties. The subject, period and other terms of an “initiative-type” audit engagement are set out in the auditor's report on audits between the auditor and the client.

Table 1. Dynamics of revenues of audit organizations

Years	2015	2016	2017	2018
<b>Rendered services- total, million. UZS</b>	47108.1	60386.6	65705.1	139173.8

From the data provided in Table 1 it can be observed that between 2015 and 2018 years the revenues of audit organizations have significantly increased. To prove, in 2018 their revenues has totaled 2.1 times more comparing to 2017.

Table 2. Distribution of auditors' conclusions on mandatory audits

	Share of Total Numbers of Auditors' Conclusions,%			
	2015	2016	2017	2018
Auditors' Conclusions – Total	100,0	100,0	100,0	100,0
In particular, the findings of the mandatory audits	51,8	53,1	54,9	57,2
The share in total number of conclusions on mandatory audits	100,0	100,0	100,0	100,0
Joint-stock companies	25,5	28,7	27,7	30,6
Banks and other credit institutions	2,7	2,6	3,0	3,4
Insurance companies	1,1	1,0	1,9	1,4
Investment funds and other funds accumulating the capital of legal entities and individuals and the trusted regulators of their investment assets	1,1	0,3	0,8	1,3
Charitable funds and other social funds, which are voluntarily contributed by legal entities and individuals	12,5	11,5	12,1	11,0
Off-budget funds of obligatory deductions of individuals and legal entities, the source of which is envisaged by legislation	1,1	2,9	2,6	1,3
Business entities and state-owned unitary enterprises with a state-owned share in the equity fund.	54,8	51,9	51,8	50,7
Stock and commodity exchanges	1,2	1,1	0,1	0,3
<b>Conclusions based on the results of an initiative-type audit</b>	<b>48,2</b>	<b>46,9</b>	<b>45,1</b>	<b>42,8</b>

As Table 2 represents, in 2018, while 57.2 % of overall conclusions are made by mandatory auditing, the rest 42.7 % of conclusions are made by voluntary auditing. If we take the conclusions of mandatory auditing as 100 % in case of 2018 year, from that of which 50.7 % - business entities and state-owned unitary enterprises with a state-owned share in the equity fund, 30.6% - joint stock companies, and the other 11 % - charitable funds and other social funds, which are voluntarily contributed by legal entities and individuals were summed up.

Table 3. Structuring the services of audit organizations by service levels

<b>Level number</b>	<b>Service level name</b>	<b>Service name of audit organizations</b>
1	Audit level	- mandatory audit; - initiative audit (complex)
2	Level of attendant services	- related services (survey checks, agreed procedures, compilation of financial information); - initiative thematic audit of the accounting (financial) statements (audit of individual parts of the statements); - tax audit and other services for special tasks (audit of financial statements compiled by special rules)
3	Level of consulting	- accounting consulting; - tax consulting; - Legal advice, representation principal's interests, etc. - statement, restoration, conducting accounting, drawing up the accounting (financial) reporting; - statement, restoration and conducting tax accounting, drawing up tax calculations and declarations; - accounting automation and implementation of information technology
4	Level of analysis and planning	- analysis of financial and economic activities; - economic and financial consulting; - management consulting; - development and analysis of investment projects, drawing up business plans
5	Estimated level Activities	- Valuation
6	Level of scientific educational activities	- research and experimental work in areas related to auditing, and dissemination of their results; - training in areas related to auditing activities

This structure allows to exclude the intersection of certain types of services (in the provision of services by audit organizations) with different purposes (functions), since it clearly reflects the isolation of various types of services, including audit services and other services related to auditing, in the provision of services. The structure of services provided by audit organizations allows us to define related and other services related to auditing activities. Audit-related services are audit services that are different from the audit level, consulting level, outsourcing level, analysis and planning level, assessment level and level of scientific and educational activities associated with the expression in an established form of independent opinion about the organization's information. The performance of other services related to auditing activities is an entrepreneurial activity carried out by auditing organizations in addition to the provision of audit services of audit levels and related services.

## CONCLUSION

A summary of the mandatory audit results is a part of the annual financial statements which is submitted to the tax inspectorate. Thus, mandatory audit which meets the criteria established by laws of the government is a necessary element for the duration of business entities. Voluntary audit is carried out on the initiative of the proprietors of the undertakings (founders, participants, and shareholders). Usually, the primary purpose of voluntary audits is to control the activities of the management unit; assessment of the effectiveness of accounting and tax accounting of business managers (general director, director, board of directors and chief accountant); to look at the real situation of the business entity by third parties (for example, public authorities, potential investors who want to invest in development of production) and to make recommendations aimed at further improving the economic efficiency.

The structure of services provided by audit organizations allows:

- To exclude the intersection of certain types of services (in the provision of services by audit organizations) with different purposes (functions), since this structure clearly reflects the isolation of various types of services, including audit services and other services;
- To identify the newly introduced service by applying the exclusion method;
- To provide definitions for related and other services related to auditing activities.

In our point of view, it will be appropriate if we include the followings to the main objectives of external auditing check:

- Verification of a business entity whether its activities is fully compliance with laws, regulations and other standard documents of the Republic of Uzbekistan;
- Evaluation of management quality and internal control in the business entity;
- The analysis of targeted usage and efficiency of the property of a business entity;

- Regulation over the accuracy of taxes and their complete transfer to the budget;
- Checking the correctness of mutual settlements;
- Objective assessment of the validity, fairness and transparency of the financial statements.

In my opinion, in The Republic of Uzbekistan, it is crucial to increase the quality and quantity of services which aid to ensure the socio-economic impact of external audit, the objective necessity of its development, the deepening of economic reforms, the growing number of private owners and users of economic information and reliability and transparency of information.

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