



IMPORTANT ISSUES OF USING ANALYTICAL ACTIVITIES IN AUDITING IN THE REPUBLIC OF UZBEKISTAN

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Abstract

This article discusses the theoretical and practical aspects of the application of analytical procedures in order to improve the quality of audit services in a competitive economy in Uzbekistan. According to results application of modern methods of economic analysis by auditing organizations and other types of audit services, evaluation the key performance indicators of the enterprise and identify the risk zones in the financial statements, using the “express analysis” approach to the client business can significantly improve the quality of audit services.

Keywords: competitive economy, auditor, auditing organization, auditing assurance services, financial statements, audit inspection, related services of auditing organizations

INTRODUCTION

With the competitive environment in all areas of the Republic of Uzbekistan, the emergence of competing firms in the audit services market is a pressing issue nowadays. The competitiveness of auditing activities is determined by the quality of services provided and the cost of these services. The use of analytical techniques is important in improving the quality of auditing, reducing its labor and time. By using analytical procedures, the risk of non-identification based on the identification of the risk zones in the financial statements is minimized, the quality of the audit and the cost savings are reduced.

In accordance with International Standards on Auditing No. 520, the auditor should apply analytical procedures both at the planning phase and at the final stage and at other stages of



the audit. At present, the simple audit procedure does not allow to form sufficient opinion about the reliability of financial (accounting) reports. According to this standard, "Analytical Activities" is an assessment of financial information by examining the link between financial and non-financial information. Analytical activities also include the study of detectable deviations and relationships that are fundamentally different from or inferred from other relevant data. Analytical procedures involve the study of significant coefficients and trends, deviations from other relevant data or predefined (predicted) values by analyzing their recent changes and interrelations. Significant deviations in the parameters require detailed study of these substances. In doing so, the auditor focuses on high-risk items and reduces excessive inspections.

Currently, many auditors find that the information obtained through analytical procedures is not reliable and therefore focus their efforts on documenting, verifying, recalculating, confirming and using analytical procedures in the name of credibility. In fact, analytics is very effective and can help detect errors up to 27%.

With the ever-increasing competition in the audit services market, auditors are required to manage and optimize the costs incurred during the audit, and to minimize unjustified costs. It is advisable to use the analytical methods to maximize the cost of collecting audit evidence by auditing organizations, thereby increasing the efficiency of the services.

At the current stage of economic development, much attention is paid to improving audit activities in the Republic of Uzbekistan. In particular, the adoption of the #3946 Decree of the President of the Republic of Uzbekistan on Measures for Further Development of Audit Activity in the Republic of Uzbekistan on September 19, 2018 was another important step in improving the audit activity in the country.

The Resolution states that the regulatory and legal framework for auditing has been established in the country, as well as the simplified and perpetual system of licensing of auditing activities, which has allowed the formation of the audit services market and the access of local audit organizations to the large international networks of audit companies. At the same time, it is noted that a number of problems and shortcomings impede the further development of audit activity, increasing the importance of audit services for management decisions and improving the quality of corporate governance.

In particular, it is noted that the low level of trust in auditing organizations is seen as an unnecessary and burdensome administrative procedure, rather than a guarantee of validity of the financial statements.

The Decree sets out a number of objectives to further improve the conditions for the development of the audit services market and to introduce modern approaches to regulating auditing activities in accordance with international standards.

In today's environment, the most important requirement of users of information is to not only verify the accuracy and reliability of auditing financial statements of business entities, but also to assess the continuity of their activities, the reliable evaluation of assets, capital and liabilities, the efficiency and financial status of their business. Satisfaction with such requests of information users requires audit organizations to use analytical activities in their activities. One of the main requirements of the current legal acts on auditing activities in the country is the widespread use of analytical methods in improving the effectiveness of auditing activities in modern conditions.

LITERATURE REVIEW

The use of analytical procedures in audits has been reflected in the work of many Uzbek and foreign scientists. However, their research does not address the use of analytical practices in auditing activities as a separate research area.

According to Arens and Lobbeck (2003), analytical activities are an assessment of financial information based on a study of possible relationships between financial and nonfinancial information, including comparing financial reporting data with expected indicators identified by the auditor.

Burykin (2003) acknowledged that analytical activities are one of the types of audits that are used to identify, evaluate and analyze the relationships between financial and economic performance of an enterprise.

According to Melnik and Kogdenko (2007), economic analysis in the audit is an assessment of the accuracy of financial reporting, an analysis of the current state of the enterprise in order to assess the continuity and effectiveness of management, as well as the development of the enterprise's financial, production and market conditions.

ANALYSIS AND RESULTS

The results of the research show that the majority of auditing organizations operating in the Republic today are slow to use the analytical methods in their audits. Many existing auditing firms are still using obsolete traditional methods of auditing, with the emphasis being only on the accuracy and reliability of the financial statements.

As stated in the Decree of the President of the Republic of Uzbekistan "On Measures for Further Development of Audit Activity in the Republic of Uzbekistan", "... the existing system of special training and retraining of auditors is superficial and providing the necessary level of professional training and audit services fail to meet international auditing standards, which results in a reduction in the prestige of the audit profession"

The use of analytical procedures in auditing audits not only provides reliable audit evidence, but also identifies risk zones, but also allows the auditor to evaluate the continuity and effectiveness of the client's business, as well as to make recommendations based on the company's management. To this end, the auditor may use different methods of economic analysis during the audit process (Figure 1).

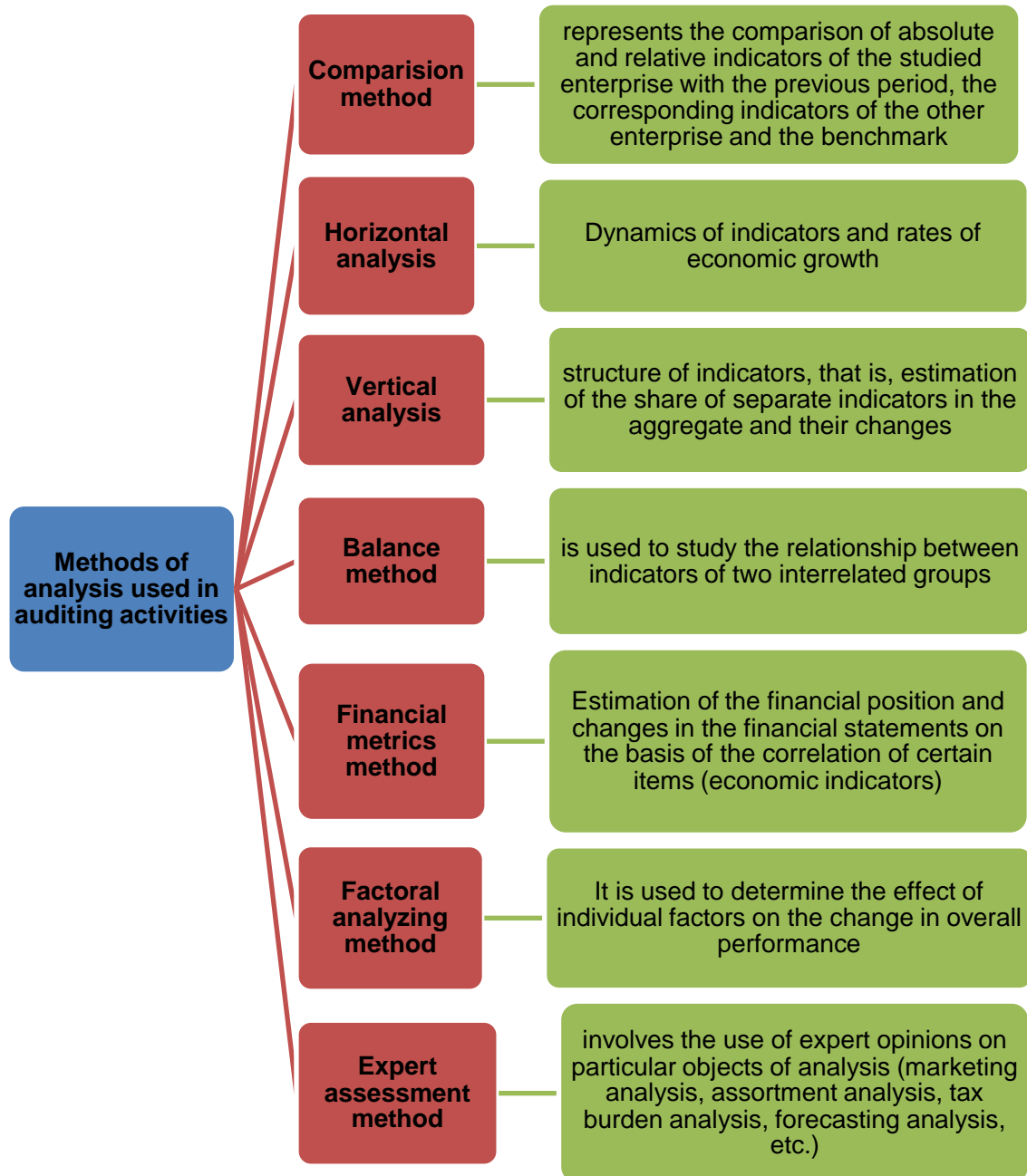


Figure 1. Methods of analysis used in auditing activities

Source: Author's compilation

Applying analytical procedures enables the auditor to better understand the client when planning an audit and to determine the level of audit risk by checking the balance sheets, reducing the number and size of other audit procedures. It also acts as a systematic review of the presence of financial problems that may be identified by the audit areas that require additional audit procedures.

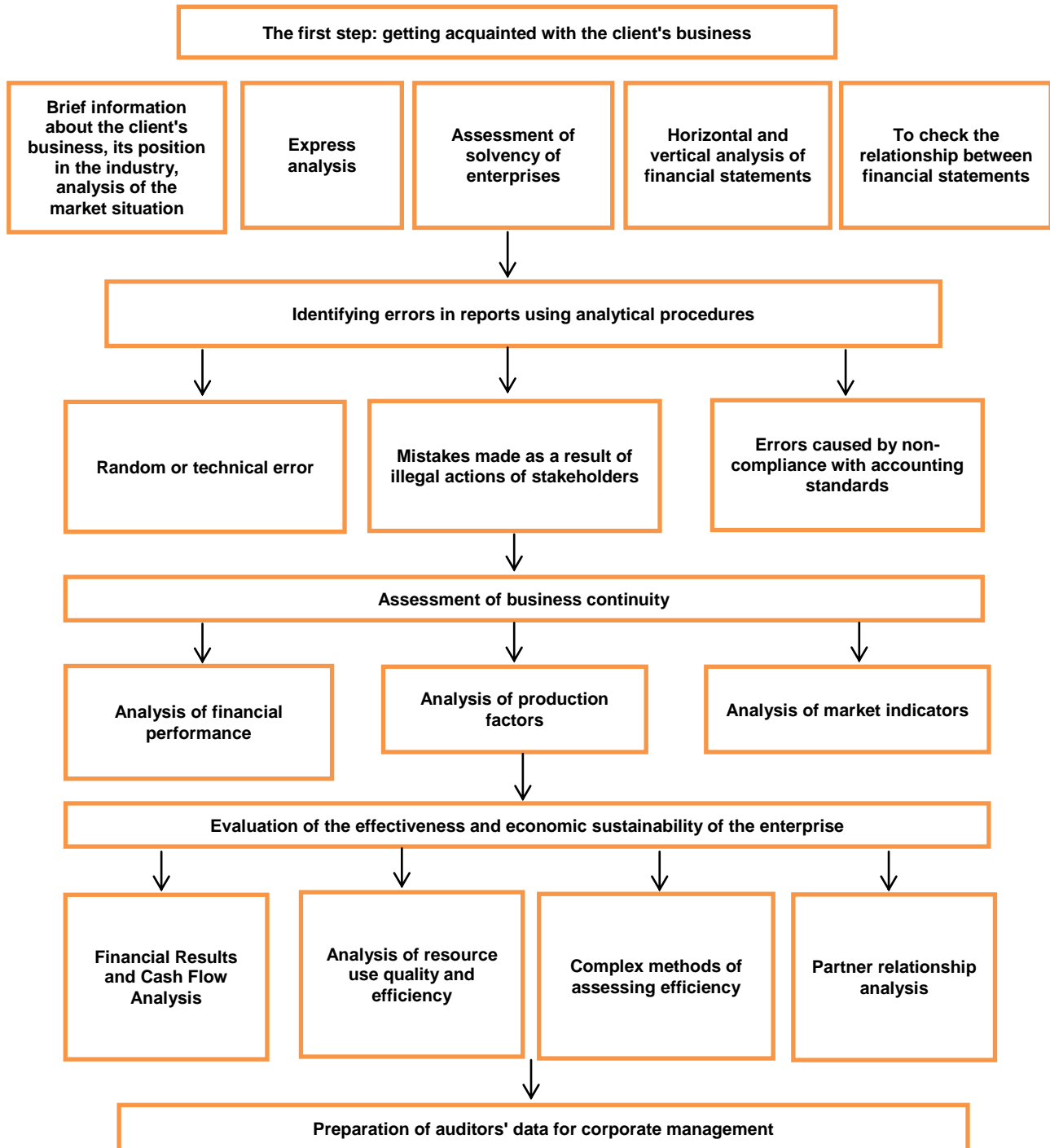


Figure 2. Scheme of using analytical actions in audit

Source: Author's compilation

As Figure 2 shows, analytical activities can be used for a variety of purposes:

1. Get to know your client's business.
2. Identify reporting errors using analytical procedures.
3. Evaluation of business continuity.
4. Evaluation of the effectiveness and economic sustainability of the enterprise. Analytical procedures also play an important role in the audit risk assessment.

Two important considerations must be taken in determining the authenticity of the financial statements of the audit organizations. First, the financial statements should be prepared in accordance with the requirements of the statutory documents for accounting and reporting. Second, the information presented in the financial statements needs to be realistic and reflect objective information. Violation of the requirements of statutory documents on accounting and preparation of reports occurs in two cases:

1. Non-reflection of the fact that information reflected in accounting as a result of non-compliance with accounting standards. For example, the value of assets (property, equipment, intangible assets, inventories, etc.) reflected in the financial statements may differ from its current market value. At the same time, the financial statements are considered to be accurate from the point of view of accounting. The auditor may detect such errors by analyzing the nature of the entity's business, accounting policies, and evaluating the effect of the accounting system's misstatement on its financial statements.
2. Violations in the financial statements as a result of the wrong actions of the stakeholders are allowed. Examples include lower prices for products or fixed assets, higher prices for raw materials and materials to avoid taxation and write-off of assets. Attracting high bank loans, such as overstating the value of fixed assets in the financial statements in order to increase the amount of collateral is also an illegal act. In addition, the uncertainties in the financial statements may also be due to the inadequate qualifications of the accounting staff and poor knowledge of the statutory documents for the organization and maintenance of accounting, as well as technical errors.

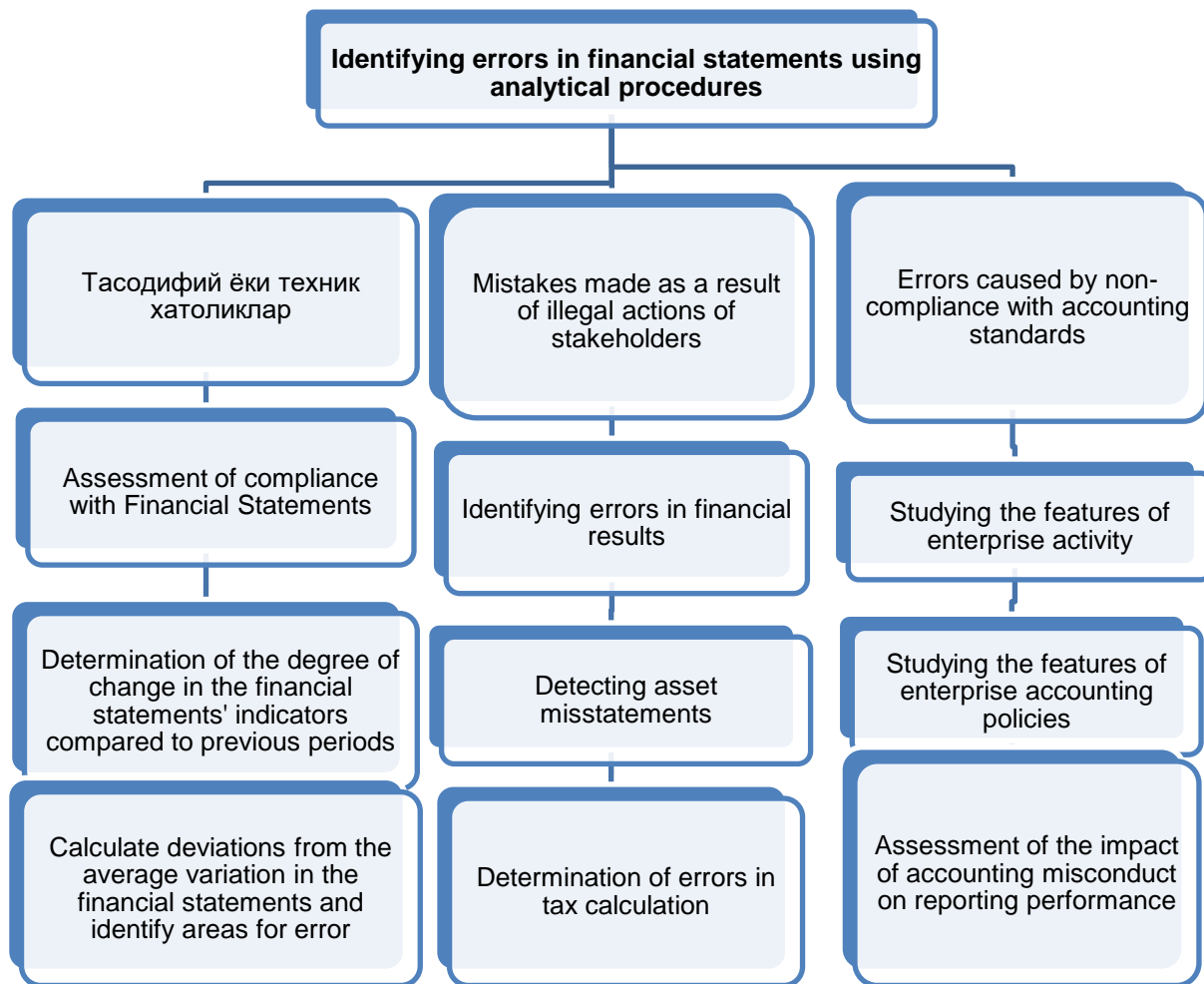


Figure 3. Identifying errors in financial statements using analytical procedures

Source: Author's compilation

Accidental or technical failures occur as a result of fatigue of accounting staff, poor knowledge of certain accounting methods and principles, and technical errors in recording operations. This can be ascertained by arithmetic recalculation of financial reporting elements or by calculating incorrect correlations between related indicators.

The auditor may also identify areas of error by conducting a preliminary assessment of the errors in the financial statements by comparing relevant items in the financial statements, which are a common type of analytical procedures. For example, the first section of Form 1 "Balance Sheet", Form 5 with the "Report on Equity", Form 1 "Balance Sheet" on line 320 of the "Balance Sheet" Form 4 lines 230 and 240 can be compared with the balance at the beginning and end of the year. The discrepancies in these items indicate that the financial statements are in error and the auditor plans to examine these items in detail.

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The auditor may also identify the existing errors by comparing certain financial statements with those measured by the recalculation of other financial statements.

CONCLUSION

To sum up, the work on improving the accounting and auditing activities in the country is an integral part of economic reforms that will further increase the confidence of foreign investors in the economy of our country and provide reliable information to the information users. It also promotes the development of auditing services as a form of business, contributes to the development of auditing services, increases the confidence of business entities, enhances the importance of audit services for management decisions and enhances the quality of corporate governance.

SUGGESTIONS

The following are some suggestions on how to use analytical tools to improve the quality and effectiveness of auditing organizations in the Republic:

1. Application of modern methods of economic analysis by auditing organizations and other types of audit services;
2. Evaluate the key performance indicators of the enterprise and identify the risk zones in the financial statements, using the "express analysis" approach to the client business;
3. Using analytical procedures to identify errors in the financial statements as a result of accidental or technical, unlawful actions by interested parties and failure to comply with accounting standards;
4. Extensive use of analytical techniques to assess the business continuity, efficiency and economic sustainability.
5. Development of recommendations for the management of the client enterprise on the use of analytical methods to improve the efficiency of the enterprise's operations and management.

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