

Improving The Methodology For Evaluating The Internal Control System In The Audit Process Based On International Standards

Ilkhamov Shavkat Islamovich

DSc., professor at Tashkent state university of economics, Tashkent city, Republic of Uzbekistan

E-mail: shavkat.i@mail.ru

Abstract: In this article methodological aspects are exposed as evaluated by the internal checking system in the process of public accountant verifications. Essence and necessity of internal control are reasonable, and also formed recommendations on perfection of methodological bases of estimation of internal control on grounds to the international standards.

Keywords: Internal control, internal control system, audit process, management functions, accounting, financial reporting, management entity, control action.

I. INTRODUCTION

In world practice, the regulation of the internal control system is enshrined in law. The adoption of the "Sarbynes Oxley"[1] law in 2002 is of great importance in regulating corporate governance issues of the US government agencies. This Law provides for the creation of an internal control system in joint-stock companies that meets international requirements. The methodological basis for organizing the internal control system in business entities and evaluating the internal control system in the audit process is improved based on the requirements of international financial organizations and international audit standards. An effective internal control system and internal audit service will help to improve the efficiency of production and business processes, as well as the formation of reliable financial statements.

Currently, in many developed countries of the world, especially in the corporate governance system, special attention is paid to research on improving the theoretical and methodological foundations of internal control and internal audit in accordance with the requirements of international standards. In this regard, in particular, extensive use of the internal control system's capabilities in the organization of internal control and internal audit in accordance with international requirements, reducing costs, increasing economic potential, improving financial performance, attracting investment by increasing competitiveness, developing the securities market and making effective management decisions, special attention is paid to scientific research, aimed at improving the internal control system and evaluating the effectiveness of internal audit activities in accordance with the requirements of international audit standards.

In the program adopted in 2017-2021 on the basis of the Strategy of Actions of development of Respublika of Uzbekistan it is set that "introduction of modern standards and methods of corporate governance, the role of shareholders in strategic management of enterprises" [2] and "... specific tasks are set out in the framework of" publishing information on financial reporting and information on the basis of international standard"[3]. In order to ensure the effective implementation of these tasks, it is planned to carry out scientific research in the field of development of the regulatory system regulating audit activities on the basis of international standards, create a General concept of strategic management of enterprises based on the requirements of the time, improve the principles of internal control organization, unify the accounting and audit system to international standards, and further reform the methodological basis for evaluating the internal control system.

II. LITERATURE REVIEW

A necessary condition for the scientific organization of internal control and the theoretical and methodological basis for evaluating this system is the disclosure of the essence of the concepts of "internal control", "internal control system". In our opinion, the existence of internal control depends on how this concept is described.

In the scientific literature, there are several interpretations of the concept of "control". The complexity of describing control in General is determined by the variety of its forms and scales. The issues of classification of the concept of "control" on a theoretical basis include the scientist-economist M.M. Tulakhodzhayeva of a special place is given to the work. In his opinion, the forms associated with the time of implementation of control behavior: primary, current and next, will be divided into control. Primary control is used for making reasonable management decisions at the stage of forecasting, planning and designing, before conducting business or financial operations.

Current control is an integral part of internal economic control, an integral part of the process of operational management and regulation of production and financial activities of the entire enterprise and its internal divisions. Current control involves effective planning of the production process and close interaction of the Executive power, carried out using the method of rapid statistics and accounting.

The next control is carried out after carrying out economic and financial operations and is characterized by a deep study of the documents being checked and the entire financial condition of the enterprise " [4, p. 19). This opinion was expressed by the Russian scientist V. I. Podolsky [5, p. 17] can Also be found in his works. Also, as a confirmation of the above, the following can be cited: "control is allocated to a separate system. At the same time, according to the

classification of various features as part of the control system, control is divided into: initial, current, regular; constant, periodic, random; documentary, real; closed, selective” [6].

N. F. Karimov approached the concept of “control” as follows: “...under control, it is necessary to understand the harmony of theoretical knowledge and practical experience, expressed primarily in accounting, finance, management, economic analysis, and computer science in various fields of science” [7, p.131]. According to the definition provided by Khoshimov, “control serves the purpose of timely correction and prevention of errors and shortcomings in the activities of the enterprise and its structural divisions” [8, p.27]. M. F. Ovsiichuk offers a definition in which “control – a comprehensive study of the organization and its structural divisions, economic efficiency and legal implementation of business operations, reliability of accounting and accounting information, the state of the object of control” [9, p. 7]. S. Norkobilov, U.Abdusalomov define that “control is an important element of a market economy. It has state, administrative and independent control systems that provide vital information to the management bodies” [10, p. 29]. F. G. Gulomova noted that “Control is, first of all, a process that allows you to determine the implementation of economic indicators outlined in the business plan” [11, p. 49]. Sh. Ilkhamov describes that “Control is the study of activities of economic entities, identification of existing internal capabilities, identify gaps, and develop recommendations for improvement activities” [12, p. 27]. O.Bobojonov and K. Jumaniyazov state that “Control is the final process of planning and analyzing the activity of the subject, aimed at performing predetermined tasks, allowing you to open and prevent emerging deviations” [13, p. 39]. Sh. Ilkhamov interpret control as follows: “Control is the task of management. Any type of management will not be uncontrolled... Control allows you to systematically determine the actual state of financial and economic activity of economic entities, including identifying various levels of complexity and violations in the economic system” [14, p. 14].

Having studied the experience of developed foreign countries in this direction, critically analyzing and summarizing the opinions of scientists, a new definition was formulated: “Internal control as one of the functions of management - the legitimacy of economic operations for accounting, financial, statistical and other reporting, the reliability of the reflected data, ensuring the safety of assets and records, preventing errors, management consists of organizational measures, organized and implemented by the head of the subject in order to identify and eliminate violations and regularly conducted control actions”

Research Methodology

A number of studies are being conducted to improve the legal, theoretical, organizational and methodological foundations of internal control and internal audit on a global scale, including the following priority areas: improving methods for evaluating the effectiveness of the internal control system in the audit process based on international standards; identification of reserves for effective use of material and labor resources based on the use of an effective internal control and internal audit mechanism, search for ways to achieve financial stability and increase competitiveness by reducing the cost of production; wide involvement of foreign investors.

III. ANALYSIS AND THE RESULTS

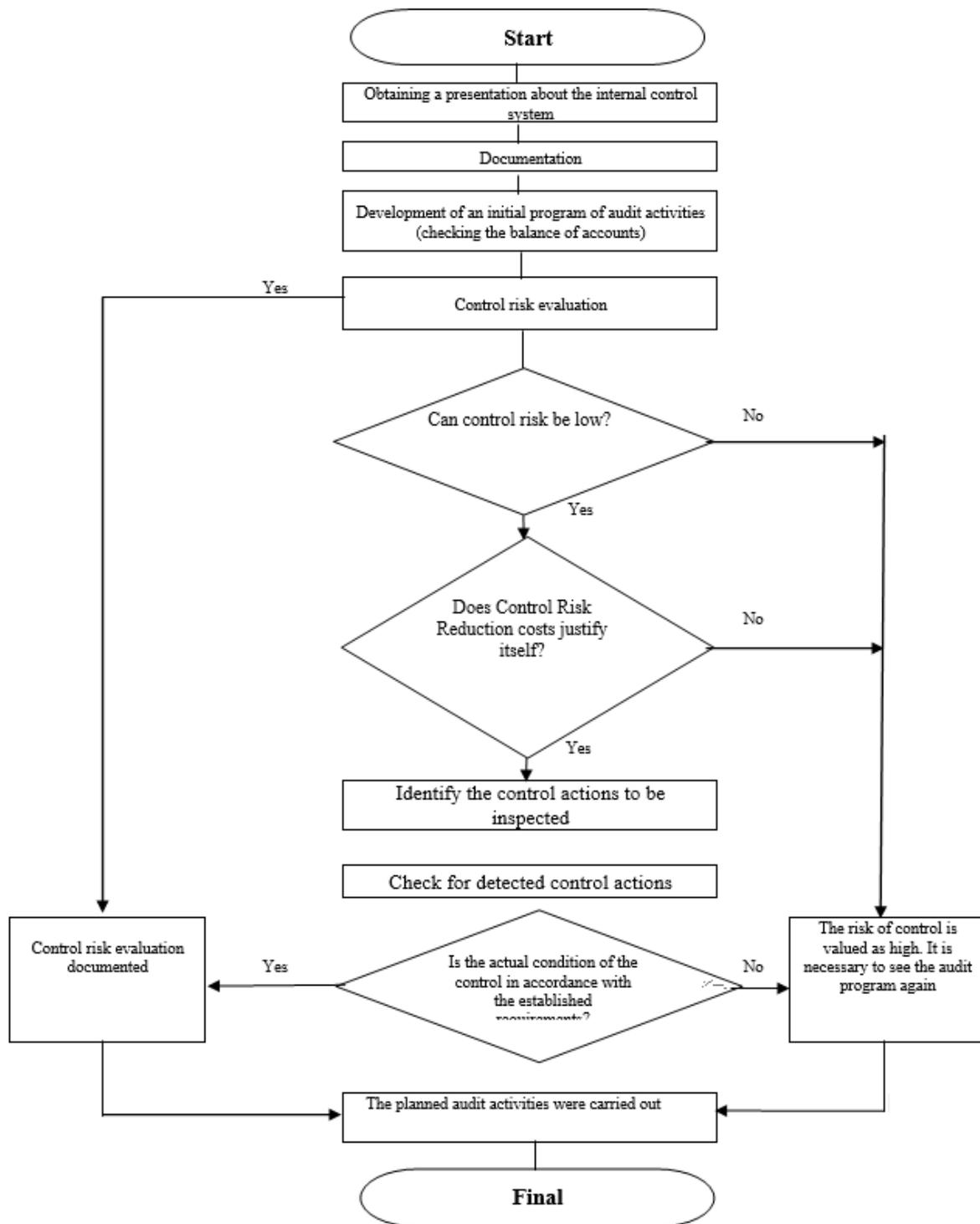
According to the foreign scientist, “In the process of studying the internal control system, the stages of research, evaluation and testing should be highlighted” [15, p. 146]. The model of the evaluation stages of this system is shown in figure 1.

Consideration of the internal control system: representation of a control structure; documentation of audits and developing the initial plan; at the evaluation stage – evaluation of control risk, costs are calculated on the reducing the regulatory risk; in the test phase – define executable actions and control their execution.

In the regulatory incentive, auditors are tasked with evaluating the internal control system at least at the cellular stage. In particular: “1) systematic acquaintance with the internal control system; 2) preliminary assessment of the reliability of the internal control system; 3) confirmation of the reliability of the assessment of the internal control system.

However, audit organizations may decide to use more stages of internal control evaluation in their activities” [16].

Unfortunately, the reflection of the internal control system evaluation recommendations in various standards does not help to form a single methodology for the internal control system evaluation for auditing organizations, while by, the need for the development of the internal standards framework for the evaluation of this system arises. For Shy reason, in the research process based on the International and national standard of auditing, stages of internal control evaluation have been developed.



The evaluation of the overall results of the examination of the state of internal control can be expressed in voluntary form.

In our opinion, examination of the internal control system the analytical part of the audit report should include: 1) information on the internal control system, ensuring the accuracy of its financial statements and compliance activities of the entity; 2) Description of significant inconsistencies in the scope and nature of the activities of the entity.

As a result of our research, it is assumed that the content of the audit opinions will also be included in the special requirements for the overall results of the examination of the state of internal control. In particular, 1) that during the audit there is obvious evidence that can lead to the conclusion that the internal control system of an economic entity does not correspond to the scope and nature of its activities; 2) that during the audit there is obvious evidence that the internal control system of an economic entity does not correspond to the scope and nature of its activities;; 3) the management of an economic entity is responsible for the fact that it has prepared financial statements in accordance with the accounting law and is responsible for their reliability, as well as for the internal control system.

It is known that control is one of the management functions. Therefore, the organization and implementation of the internal control system is a means of assisting the Manager in the effective management of this business entity. Therefore, the law stipulates that “the accounting entity shall make and exercise internal control” [17]. The internal control system used in this system must meet the requirements of the nature, scope, and accounting policy of the business entity, and must be applied consistently and effectively.

There is a case, they are considered non-interrelated if the functions of the employees, if their incarnation in a single person leads to accidental or intentional error, as well as difficulty in identifying errors and omissions. To ensure the effectiveness of the internal control system, a number of functions are distributed among different individuals (Figure 2).

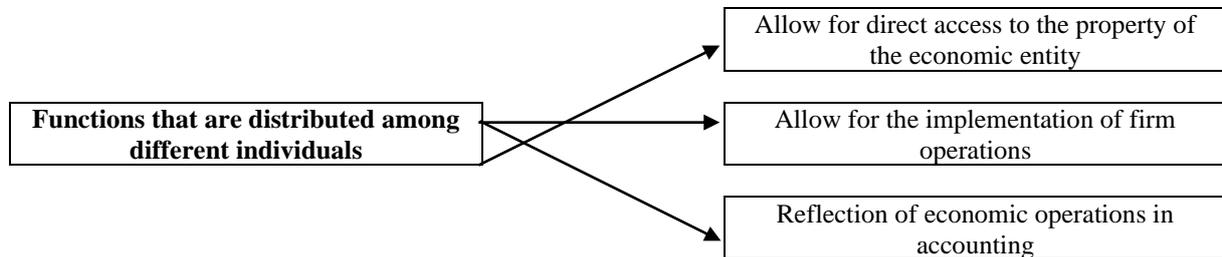


Figure 2. Distributed functions of internal control system

The effective operation of the internal control system also depends on the employees to whom the responsibility for carrying out the relevant activities is attached.

The system of recruitment, promotion, training and retraining of personnel must ensure a high level of qualification of the relevant personnel. In General, the Manager is responsible for organizing an effective internal control system in the business entity, creating a control environment, and informing all relevant personnel about the existing risks faced by the business entity.

A comparative analysis of international and national auditing standards have shown that, in accordance with international standard on auditing initial assessment of the reliability of instruments internal control is carried out in one stage, while the contents of the national standard involves the assessment of all three components of the internal control system – accounting system, control environment and internal control system.

In our opinion, the assessment of the reliability of the internal control system should include two stages: 1) Assessment of the reliability of the control environment; 2) Assessment of the reliability of the internal control environment, including the data processing environment in the computer, including General controls (Fig.3).

Distinctive features of the stages are based on the following: 1) study the control environment is carried out at the initial stage of familiarization with the internal control system, while the assessment of the reliability of the control environment is made on the initial assessment of the reliability of the internal control environment; 2) the so-called “initial evaluation” does not include an assessment of the reliability of the internal control system; 3) at the last stage of the technology-at the stage of validation assessment of internal controls - backed up by an initial evaluation of the reliability of these funds, not the reliability of the control environment during the tests of controls; 4) at the initial evaluation stage evaluate the reliability of the control environment, and is not taken into account when performing tests of internal controls.

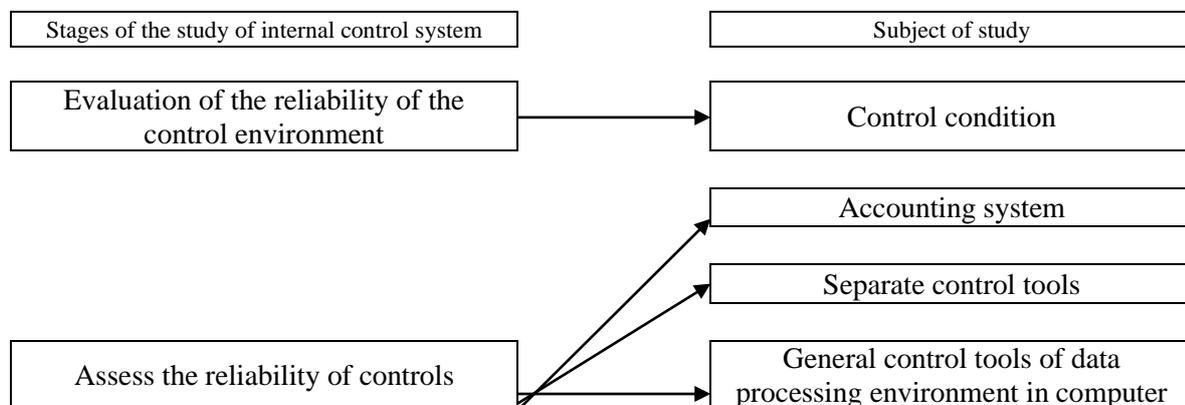


Figure 3. Stages of evaluating the reliability of the internal control system

At the initial evaluation stage of the reliability of the internal control system, it is proposed to analyze the following factors: organizational structure; responsibilities, competence and responsibility system; personnel policy; activities conducted by the internal control service; separate tools of the internal control system aimed at ensuring the integrity of

property, funds; account registers; accounting policy; contractual obligations; control tools in the computer.

For a preliminary evaluation of the reliability of individual control instruments, it is necessary, first of all, to determine the processes of the activity of the subject, which should be studied during the audit, and the composition of the economic operations involved in these processes.

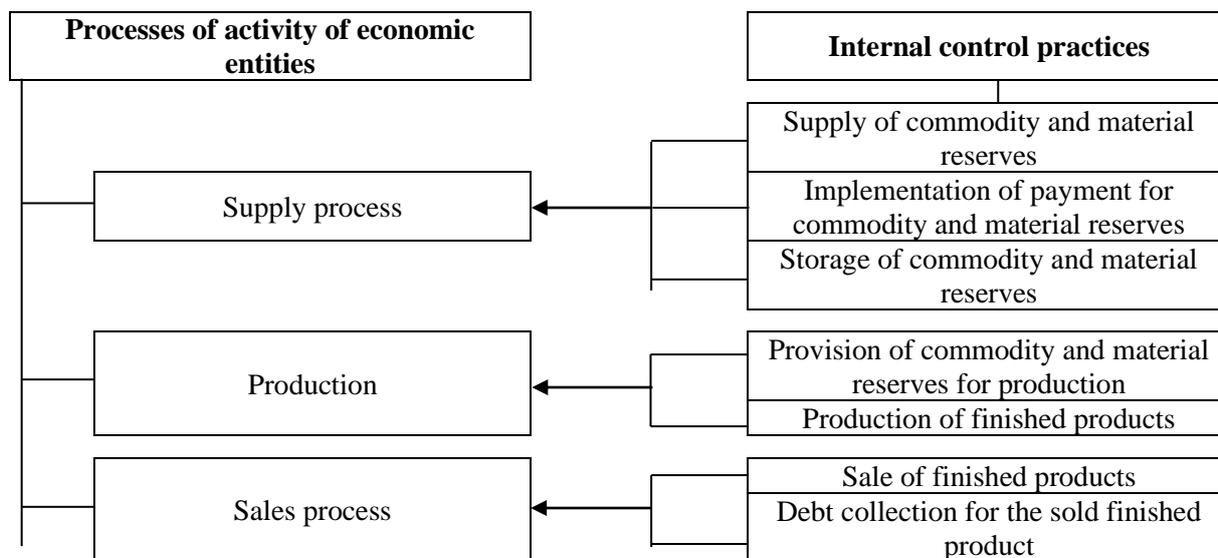


Figure 4. The processes of economic activity and interrelation between internal control practices

The relationship between the processes of economic activity of the entity and the economic operations classified by a certain composition of internal control activities is presented in Figure 4. At the end of the initial evaluation activities, the auditor who has made a decision to believe in the internal control system or individual control instruments, is obliged to carry out an action to confirm the reliability of this system during the audit process.

However, the lower the risk assessment control, the more reliable should be the accounting and internal control systems.

There is a requirement in the international auditing standard that “auditors must have audit evidence through control tests to confirm any assessment of a risk assessment system”. [14].

Thus, control tests are sources of evidence and are used to confirm the reliability of the controls established by the auditee.

IV. CONCLUSIONS

In general, proceeding from the above, we came to the following conclusions:

1. Effective organization of the internal control system in business entities allows to ensure the legality of business operations, reliability of the reflected information, safety of assets and reporting, prevention, detection and elimination of errors in accounting, financial, statistical and other reporting. The use of the internal control model, which is carried out during the audit process, during the initial, current and subsequent control, contributes to the effective achievement of the audit goal, reducing labor and financial costs by 17-20 percent for carrying out control measures and improving the quality of the auditors` work.

2. Using a model that allows you to assess the compatibility of audit risk with the reliability of the internal control system, reduces audit risk as a result of testing of internal control tools, which improves the quality of the audit. The auditor's workload is reduced by 15-17 percent, and its labor efficiency is created to increase in accordance with the volume of work.

3. A study of the system of internal control in the audit process and the allocation of the three elements of this system-the control environment, accounting system and some controls focus on the control environment, the author developed theoretical approaches have enabled you to evaluate the reliability of the control environment, which includes a combination of factors, the more carefully we study the system of internal control, the more clearly are planned auditing activities and the higher is quality of the audit.

4. The amount of controls used in economic entities is not the same. Internal controls are grouped by content, time of implementation, and business processes. A process-oriented approach to the study of their inherent internal control tools is a generally accepted approach. Depending on the type of activity, the approach to separate assessment of their (supply, production and implementation) processes can improve the effectiveness of audits.

Thus, theoretical proposals and practical recommendations aimed at improving the methodology for evaluating the

internal control system in the audit process will serve to improve the quality of the audit, the organization and effective functioning of the internal control system in economic entities.

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