



## **METHODOLOGY OF AUDITING IN UZBEKISTAN**

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ORCID: 0000-0002-0976-7406 **Abstract.** This article is devoted to the issues of improvement of auditing in the practice of Uzbekistan, and its introduction reveals the importance of organizing and conducting audits in the Republic, conducting research in this field. In the "discussion" part of the article, the opinions expressed by the economists who conducted scientific research on this topic, their scientific views and the aspects of their opinions different from the author's scientific ideas are highlighted on the basis of theoretical opinions. In this, the sources reflecting the ideas of each economist who conducted research on the topic of the article are reflected in detail. Also, what kind of research methods were used in the coverage of the content of the article, the essence of the decisions that can be made based on the indicators analyzed on the topic and the achieved scientific results are revealed. According to the results of the research, the structure of the steps of the system of normative regulation of the audit activity of the Republic of Uzbekistan, the content of the stages that ensure the quality of audit inspections, the model structure of the audit group participating in the audit inspection and the tasks performed by each member of the inspection, the methodological basis of the organization and conduct of audit inspections, economic The steps recommended by the author and the actions performed in them, which ensure the quality implementation of audits in the operating entities, are described on the basis of the author's scientific research.

**Keywords.** Audit inspections, audit service, auditor, audit organization, audit client, audit conclusion, audit results

### **INTRODUCTION**

Today, in our country, a strong normative and legal framework of auditing activities and a unique national auditing services market have been formed, effective economic factors and tax incentives are used for its development, the licensing system of auditing activities has been seriously simplified and liberalized. Despite the positive results of the implemented reforms, "...national standards of auditing activities do not fully correspond to the generally recognized international auditing standards, which does not provide the formation of the ability of foreign



investors to understand the truthfulness of financial reports of local enterprises ..." [1]. As a result of the ongoing reforms, as a solution to this problem, important tasks such as " introduction of international standards in financial reporting and auditing in large state enterprises " [2] were defined. In turn, in order to ensure the execution of the above tasks, issues such as improving the practical and methodological aspects of planning and conducting audits, using advanced foreign experience and software tools in audits, documenting, summarizing and evaluating the results of audits based on international standards have not been comprehensively studied in detail, in particular, the planning of audits and requires deep scientific research on the improvement of transfer.

In recent years, when the audit market is developing steadily in Uzbekistan, special attention is paid to the processes of modernization and diversification of the economy. After all, the need for audit services is increasing year by year. Therefore, development of this activity in Uzbekistan and organization based on international standards is becoming a demand of the times. The current stage of the development of auditing activities and improvement of the accounting system brought the issues of compatibility of national and international standards to the fore, and their relevance required the implementation of these two standards (international standards of auditing and international standards of financial reporting).

According to the Ministry of Economy and Finance of the Republic of Uzbekistan, in 2023, 136 audit organizations were operating in our republic, and they conducted mandatory audits of 8,191 economic entities. However, it cannot be said that all the conducted audits were conducted in full compliance with the requirements of the applicable audit legislation and international audit standards. Because the norms of international standards of auditing in our republic have not been fully adopted by all auditors and economic entities, in addition, the additions and changes made to the current legislation on auditing in this field have not been fully implemented in the auditing activity, which are considered to be factors that have a negative impact on this process.

## **LITERATURE REVIEW**

Mainly foreign economists have conducted scientific researches on creation of theoretical and methodical basis of auditing methodology and its improvement. E. A. Arens, Dj. K. Lobbek, A. D. Sheremet and V. P. Suyts can be included among them. Economists of our republic have studied only the theoretical aspects of auditing activities in textbooks, monographs and training manuals, as well as published scientific articles and theses. For example, in the works of R. D. Dismuratov, N. F. Karimov, Z. T. Mamatov, M. M. Tolaho'jaeva, I. N. Koziev, B. Q. Hamdamov and I. I. Meliev, the theory of planning and conducting an audit problems of the development of the foundations have been studied [3-8].



In particular, many studies conducted on the audit of financial statements have focused on the stages of its implementation. However, in many studies, only the name of the audit stages is given, and its content is not covered in detail. Another Uzbek economist, N. Khajimuratov, in his scientific works, emphasized the feasibility of performing the financial statement audit in four stages, i.e. the stages called "planning, evaluation of the internal control system, verification of financial statement items, and completion of the financial statement audit" [9].

It should be noted that in the scientific works of the above-mentioned economists, not much attention was paid to the study of the methodology of auditing, and the fact that the current regulatory legal documents are changing in accordance with the conditions of modernization and diversification of the economy indicates the need to conduct deep scientific research in this field. However, the systematic and methodological aspect of conducting audits in the audit organization, organizing and implementing audit audits has not been thoroughly researched and conceptual directions for its improvement have not been developed. From this point of view, solving the problem from a theoretical and practical point of view determines the relevance of the topic of the article .

The Law of the Republic of Uzbekistan "On Auditing Activities" created favorable conditions for the application of international auditing standards. In order to legally regulate the wide implementation of international standards of auditing in Uzbekistan, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated April 11, 2022 "On approval of the regulation on the procedure for recognizing international standards of auditing for use in the territory of the Republic of Uzbekistan" No. 171 was developed and dated April 1, 2020 Since January, auditing organizations have been performing auditing activities based on the international standards of auditing published by the International Federation of Accountants. However, research conducted by scientists shows that there are still problems that need to be solved in organizing and conducting audits based on advanced foreign experience and international standards.

## **METHODOLOGY**

The methods of theoretical and practical study, systematic approach, grouping, comparative analysis, observation, statistical analysis, and factor analysis were effectively used during the research. On the basis of the conducted research, the system of indicators representing the effectiveness of the activities of audit organizations and clients of audit services, improvement of their classification, identification and analysis methods, development of ways of calculating the influence of the quality and efficiency of audit inspections and other group of factors affecting performance indicators, and improvement of these indicators aimed at identifying internal opportunities and developing a procedure for making management decisions.

## ANALYSIS AND RESULTS

Despite the fact that many legal documents have been created in our republic in order to create a strong normative legal framework for audit activity, there is still no official normative document approved by the legislative or executive bodies of the state that regulates some aspects of the auditing profession, including the ethical standards of the auditing profession. In this regard, only on August 26, 2005, the National Association of Accountants and Auditors of Uzbekistan and the Chamber of Auditors of Uzbekistan developed the "Professional Code of Ethics of Auditors of Uzbekistan". As a result of the analyzes carried out in the republic's audit organizations, this Code is not sufficiently observed in practice due to the fact that this Code has a recommendatory nature, the essence of ethical standards is not fully disclosed in the Code and it is not approved as a strictly observed document by state bodies.

In our opinion, it is necessary to develop a specific normative legal document, officially approved by the legislative or executive bodies of the state, which regulates the standards of professional behavior of auditors. In this regard, we believe that it is necessary to develop the improved Code of Ethics of Uzbekistan's auditors, using the concept of "Basics of Professional Ethics" of the American Institute of Chartered Accountants (AICPA). In today's practice of Uzbekistan, the system of normative regulation of audit activities consists of the following four levels, the composition of these levels is presented in Table 1 below.

**Table 1**

### Regulatory regulation of auditing activities of the Republic of Uzbekistan

#### the composition of system steps<sup>1</sup>

Number of steps	The name of the steps	Normative legal documents that are part of Pogona
<b>I step</b>	Law on auditor activity	Law of the Republic of Uzbekistan No. ORQ-677 of February 25, 2021 "On Auditing Activities"
<b>II stage</b>	Legal documents on auditor activity	Decision No. PQ-5210 of the President of the Republic of Uzbekistan dated August 4, 2021 "On additional measures to improve the system of auditor certification", PQ-3946 of the President of the Republic of Uzbekistan dated September 19, 2018 "On measures to further develop auditor activity in the Republic of Uzbekistan" Resolution No. 171 of the Cabinet of Ministers of the Republic of Uzbekistan dated April 11, 2022 " On the approval of the regulation on the procedure for

<sup>1</sup>Developed by the author.

		recognizing international audit standards for use in the territory of the Republic of Uzbekistan", Resolution No. 171 of the Cabinet of Ministers of the Republic of Uzbekistan dated May 5, 2021 "Improving the system of training of internal audit service personnel Resolution No. 280, dated September 24, 2021, "On approval of the list of international certificates of accountants that serve as a basis for issuing and extending the auditor's qualification certificate without passing a qualification exam", Order No. 56 of the Minister of Economy and Finance of the Republic of Uzbekistan, dated 2018 Order No. 145 of Internal Control Rules for Auditing Organizations on Combating Legalization of Criminal Proceeds, Financing of Terrorism, and Financing of Proliferation of Weapons of Mass Destruction dated November 14, No. 83 of the Minister of Finance of the Republic of Uzbekistan dated September 9, 2013 "Information Form on Auditing Activities and on approval of the rules for its filling "
<b>Level III</b>	Methodological instructions and explanations on auditing standards and regulation of auditing activities	International standards of auditing developed by the International Federation of Accountants (IFAC), standards of the American Institute of Certified Public Accountants (AICPA), standards of the Institute of Internal Auditors, AICPA's Code of Professional Ethics "Fundamentals of Professional Ethics", auditors of Uzbekistan professional code of ethics and other regulatory legal documents related to auditing
<b>IV stage</b>	Internal standards of auditing organizations	Internal standards of auditing organizations

In our opinion, in order to ensure the quality of the audit, it is advisable to carry out the audit control based on the following three stages:

1. Planning stage;
2. Inspection stage;
3. The final stage.

The above-mentioned stages of audit control are determined to be carried out in accordance with the current law of the Republic of Uzbekistan "On Auditing Activities" based on the mandatory requirements set by the international audit standards. On the other hand, in order to ensure the high-quality and effective implementation of the above stages of the audit, it is necessary to improve the methodology of its conduct. In particular, in our opinion, such



methodological issues of the audit today include the fact that the requirements of the current regulatory legal documents on accounting and auditing activities are not applied to the required level in the auditing practice, the methodological aspects of the audit stages are not fully and clearly described in the current regulatory legal documents and scientific researches of our Republic and foreign scientists. , that the process of summarizing, evaluating and presenting audit results in audit work documents does not meet the current requirements, that the methodology for controlling the quality of audit work and evaluating the effectiveness of the audit organization has not been developed at the level of international standards, the requirements of national audit standards, and other regulatory documents regulating audit activity and issues such as non-compliance with the requirements of international standards or advanced foreign experience, non-compliance of the practice of organizing and conducting audits based on international standards in auditing organizations can be included.

In the scientific research carried out in our republic, the issue of eliminating the above problems and improving the audit methodology has not been studied in detail as a whole, integrated scientific work. The expansion of audit activities and the lack of fundamental research in this field necessitates the need to carry out scientifically based research on the improvement of the methodology of planning and conducting audits in the context of modernization and diversification of the economy. In our opinion, in order to ensure high-quality and effective implementation of audits, it is necessary to appoint the employees who perform the audit, that is, to select the composition and number of the audit team, the auditors according to their qualifications and specialties, and to assign them audit tasks in accordance with their experience and qualification levels. In our opinion, first of all, the level of qualification and experience of the employees of the audit organization is determined. In this case, the knowledge and experience of the specialist who heads the audit group is used as a conditional unit of experience. An expert with an auditor qualification certificate and five years of work experience as an auditor can be a team leader. Such a requirement is determined by the need for the group leader to organize the inspection and control the activities of the employees participating in it. Below we will consider in detail the obligations of auditors and other experts participating in the audit. Financial specialists are tasked with financial analysis of the customer enterprise and development of business plan (estimate documents) (or study of implementation of the customer enterprise's financial plan or compliance with it). In our opinion, the results of the work of financial specialists should be reflected in the auditor's report and conclusion. In our opinion, it is appropriate that the sample composition of the audit team participating in a specific audit should be as follows ( Table 2 ).

**Table 2**

**Sample composition of the audit team<sup>2</sup>**

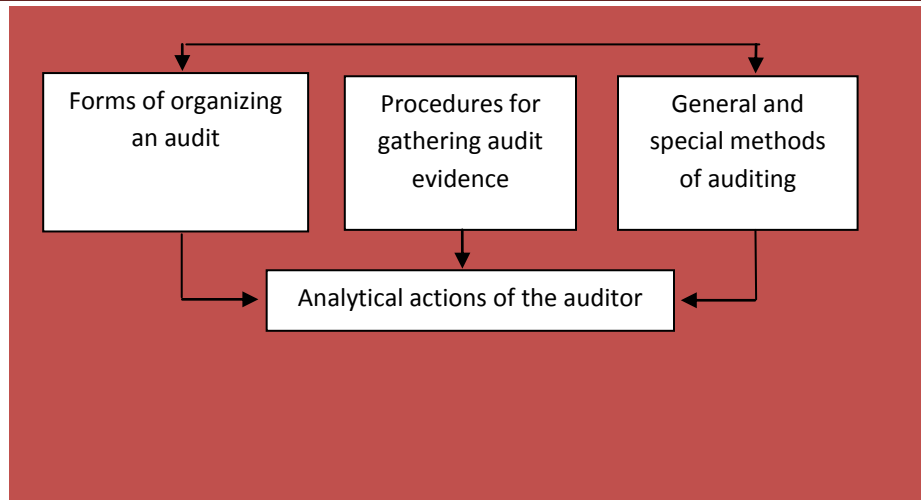
Done type of work	Type of customer activity	Amount	Specialists	Total no
Comprehensive audit	All entities subject to mandatory audit	At least seven people	Auditor specialist experts	Auditors - 4, specialists in other fields -3 (lawyer, financier, tax specialist), information system specialist -1
An audit in the form of an initiative	All business entities	At least four people	Auditors and experts	Auditors-2 specialists in other fields (lawyer) -1, information system specialist -1
Selective inspection	All business entities	Depending on the subject of the inspection and the size of the selection, but not less than three	Auditors and specialist experts	Determined according to the terms of the contract
Thematic examination	All business entities	On the topic of the type of inspection	Auditors and specialist experts	Determined according to the terms of the contract

In our opinion , when defining the audit method as a science, the general research methods it uses can be divided into such methods as dialectics, formal logic and systematic approach. All common methods are used in the process of collecting audit evidence and data analysis in order to form a professional decision regarding audit research objects. There are also private or special methods of auditing that are used in the examination of separate and specific objects. In our opinion, the methodological basis of audit activity consists of the following elements (Figure 1).

**METHODOLOGICAL ELEMENTS OF AUDIT**

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<sup>2</sup>Prepared by the author



**Figure 1. Methodological elements of auditing<sup>3</sup>**

In our opinion, in order to perform each of the tasks related to the above-mentioned stages of the audit, it is necessary to create an "algorithm" of the audit based on their characteristics, to perform audit actions and summarize the results of the audit, and to develop a scientific, methodological and normatively based methodology of assessment. For this purpose, we performed the analysis of the scientific, methodological and normative basis of the tasks performed at the stages of the audit, based on the procedures presented in Table 3 of the article. In this case, the status of coverage of the procedures for the performance of the assigned task in regulatory and legal documents, educational literature, and scientific research works was taken as an evaluation criterion. In our opinion, the method in audit is a set of research principles, procedures, stages, requirements, and analytical actions performed and applied in the process of researching the subject and conducting an audit . The most effective methods used in the investigation process include documentation, inventory, assessment of the actual situation, scanning, assessment, calculation, statistical analysis, alternative balance, comparison, hypothesis, expertise, systematic review, survey, confirmation and performing analytical operations .

In our opinion, it is appropriate to carry out the following stages and the actions performed in them in order to ensure the quality implementation of the audit of economic entities (Table 3).

<sup>3</sup>Prepared by the author



**Table 3**

**Stages of audit and actions performed in them<sup>4</sup>**

Audit stages	Tasks to be performed
<b>Planning stage</b>	<ul style="list-style-type: none"> <li>- determine the purpose and task of the inspection ;</li> <li>- selection of inspection objects;</li> <li>- preliminary planning of the inspection;</li> <li>- drawing up an audit contract;</li> <li>- preparation of the general audit plan;</li> <li>- approval of the audit team, that is, appointment of persons participating in the direct inspection;</li> <li>- preparation and approval of the audit program ;</li> <li>- assessment of the reliability of the data of the internal control system of the economic entity;</li> <li>- receiving a written presentation letter from the client's management;</li> <li>- determining the scope of selection and selection of objects of audit inspection ;</li> <li>- approval of the audit working group, that is, appointment of the responsible persons participating in the direct inspection ;</li> <li>- determination of the level of audit risk and importance of audit objects ;</li> </ul>
<b>Inspection phase</b>	<ul style="list-style-type: none"> <li>- study the availability and storage status of the client's property and funds;</li> <li>- checking whether the transactions carried out in the business entity are correctly, completely and on time accounted for in the accounting accounts;</li> <li>- checking whether the transactions carried out in business entities are completed correctly, completely and on time in accordance with the forms and procedures specified in the relevant documents;</li> <li>- determining the legality of the transactions, the authenticity of the documents, the arithmetical and grammatical correctness of the calculations contained in them, the compliance of the documents with the specified forms;</li> <li>- to study whether the economic transactions were actually carried out or correspond to the information of the valid primary documents;</li> <li>- cross-comparison of the analytical account data on the performed transactions with the aggregate account data and to study the causes of the identified inconsistencies;</li> <li>- verification of the correctness of saving and spending of funds and material assets, the reliability of accounting and reports, compliance with financial discipline in the economic entity;</li> <li>- checking whether the business plan or estimate of the economic entity is correctly drawn up and the procedures for their formalization are followed;</li> </ul>

<sup>4</sup>Prepared by the author

	<ul style="list-style-type: none"> <li>- checking and analyzing the correctness and timeliness of expenses incurred by the economic entity, compliance of the expenses with the goals of the enterprise, the level of fulfillment of production plans by sets, states, contingents;</li> <li>- evaluating the activity of the internal control system of the economic entity, conducting an analysis of financial and economic activity reports of the economic entities, studying the actual status of the implementation of the planned control work plan, and checking the quality of the execution of the tasks given by the higher management bodies;</li> <li>- verification of the correctness and legality of the process of formation, assessment and accounting of creditor obligations of the economic entity;</li> <li>- analysis of the state of formation of debtor obligations of the economic entity, the reasons for its change and ways to reduce it;</li> <li>- Assessment of the efficiency of the economic entity's activity based on the requirements of the decision of the Cabinet of Ministers dated July 28, 2015 No. 207 (identification of SMK and SYK and analysis of the calculation of their implementation);</li> <li>- assessment of the continuity of the economic entity's activity;</li> <li>- to verify the accuracy and truthfulness of the data on the transactions carried out in the business entities in the financial statements or the reliability of the indicators.</li> </ul>
<p><b>The final stage</b></p>	<ul style="list-style-type: none"> <li>- analysis of the adequacy of the collected evidence;</li> <li>- study whether the collected evidence is confirmed on the basis of documents of form and content in accordance with the established procedure;</li> <li>- receiving necessary explanations on the identified situation from materially responsible persons regarding identified deficiencies;</li> <li>- comparing the collected evidence with the client's related party or third party information;</li> <li>assessment of the impact of internal and external factors affecting the financial and economic activity of the economic entity ;</li> <li>- study of the factors related to the organizational and structural description of the activity of the economic entity;</li> <li>- to study and assess whether the indicators in the client's financial and statistical reports correspond to the information of the primary documents, are correct and are presented to users in a timely manner;</li> <li>- study whether the windfall is not shown as income in the client's financial statements;</li> <li>- study whether the contents of the information describing unexpected circumstances in the client's activity, their impact on the future results, the evaluation of the financial impact or the impossibility of conducting such an evaluation have been disclosed in the letter of explanations and comments to the client's financial report;</li> <li>- to study whether the consequences of unexpected situations and their</li> </ul>

impact on the client's financial results have been objectively evaluated by the economic entity;

- study the existence of extraordinary losses in the client's financial statements and whether they are fully disclosed as a liability in the financial statements;
- drawing up an interim audit report based on the collected evidence;
- on the basis of interim audit reports, preparation and formalization of a general audit report for each object of inspection;
- analysis of the causes of deficiencies in formalized audit reports;
- expressing in money the deficiencies reflected in the audit reports and evaluating their impact on the client's financial results;
- development of relevant practical recommendations regarding the reasons for the appearance of deficiencies identified in the inspection and their correction and prevention of future occurrences;
- the auditor's audit and presenting it to the client's management;
- formation and approval of the components of the auditor's report in the form and content specified in the international audit standards;
- before submitting the audit report, receive an official presentation letter from the client's management in accordance with the international audit standard No. 580 "Written Presentations";
- preparation and formalization of the auditor's conclusion form in the form and content specified in the international audit standards;
- providing copies of the prepared audit report and conclusion to the client's management.

In accordance with the procedures and forms presented in Table 3 of this procedure, if inspections are carried out in a specified sequence, errors and omissions made by auditors will be reduced. This is an important factor in increasing the quality and efficiency of inspections.

Today, audit control has become an integral part of the financial control system. As a result of the consistent reform of the financial system and the improvement of the market infrastructure, a solid regulatory and legal basis of audit activity was created in the Republic. In turn, in order to accelerate its development, effective economic factors as well as tax incentives and preferences are used, the system of issuing licenses for auditing activity has been seriously simplified and liberalized. However, in the audit practice, the specific procedures for conducting the audit of the company's assets, in particular, the audit of fixed assets, and the main aspects that should be paid attention to, and its analysis, are among the most important issues to be studied today. elimination of a number of problems waiting to be solved in the process of planning, conducting and summarizing the results of the inspection, improvement of their theoretical and methodological foundations are considered as urgent scientific problems.



**Summary.** As a result of the research, the current regulatory legal documents on the organization and conduct of audit activities and the general approach to the organization and conduct of audits in scientific research, the stages of implementation of the audit audit, or the advanced foreign experience in the implementation of the audit operations performed in the audit, and in accordance with the international standards of the audit, are still insufficient. there are problems, and it is necessary to increase research on their elimination and improvement of audit activity. In order to clarify the above issues, in the article, it was recommended that the audit should be carried out in 3 stages.

Today, although many regulatory and legal documents or literature have been developed on the organization and conduct of audit activities, they mainly approach the organization and conduct of the audit from a general point of view, and it is a scientific observation that the stages of the implementation of the audit audit or the audit operations performed during the audit are not clearly and fully explained. done. Today, the fact that the auditors have not fully mastered the norms of the international standards of auditing and the fact that the norms of the international standards of auditing have been established in the republic as a new procedure affects the fact that inspections are conducted on the basis of different approaches and the reliable guarantee of financial reporting indicators is called into question.

In our opinion, it is necessary to widely use the international standards of auditing in order to ensure quality audits in a short period of time and to ensure the reliability of financial reporting indicators. For this, advanced auditing programs such as AuditNET, ITAUDIT:Auditor, AUDITXP, "Complex audit", "Express audit:PROF", "Auditsoft" and "Audit sampling" and "First-audit" are introduced into practice. We believe that it is necessary to establish a system of ensuring (legislating the use of modern audit software in audits of audit organizations) and training auditors in the use of software (organizing training and training courses, introducing a system of mandatory certification of auditors in the use of software).

Introduction of private auditing activities into the practice of Uzbekistan, having studied the auditing experience of countries such as Russia, Kazakhstan and Azerbaijan. In this regard, we consider it expedient to establish a private auditing practice, such as issuing a certificate giving them the right to engage in private auditing activities in accordance with the established requirements, giving private auditors the right to independently conduct audit audits in the form of initiative.

We believe that tasks such as ensuring the wide introduction of the advanced foreign experience of auditing activities and the requirements of international standards of auditing in the organization and conducting of audits will be an important factor in the further improvement of auditing activities in the republic.

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