
ORGANIZATION OF AUDITING ACTIVITIES IN UZBEKISTAN REGULATORY AND LEGAL BASES

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Abstract

Keywords: *audit, audit activity, audit inspection, audit services, audit laws and documents, republican public associations of auditors*

In this article, the regulatory and legal bases of the organization of auditing activities in Uzbekistan are studied. The powers of the Ministry of Finance, the auditors public associations of auditors are analyzed in Uzbekistan.

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INTRODUCTION

The correct organization and effectiveness of conducting audits in economic entities directly depends on its legal basis. The legal basis of the external audit consists of a set of regulatory documents that form the basis for its organization and conduct, as well as the formalization of its results, or give the right to carry out these processes.

Audit activity began to be formed on the basis of the accumulated experience of departmental and state control formed in the real economy. The lack of a mechanism for strict legal regulation of audit activity led to its identification with departmental types of financial and economic activity in the public mind, and complicated the formation of market relations in the country. Therefore, in the legislative procedure, it was necessary to establish a strict boundary between state management and self-management of audit activity. The world experience in auditing was taken as a basis for the formation of an independent non-governmental form of financial control.

The development and improvement of the legal basis of audit activity took place under its tendencies to be free from state control. Currently, in almost all market economy countries, including Uzbekistan, first of all, attention has been focused on the legal provision of a significant reduction of administrative interference in the auditing profession, the release of the state from the performance of redundant functions related to the management of auditing activities, and the creation of mechanisms for professional and public monitoring of auditors' activities.

A number of the most important functions of the regulation of auditing activities, in particular, providing the right to engage in auditing activities, developing a code of professional ethics, external control over the quality of auditing organizations and auditors' work, organizing a system of continuous improvement of auditors' qualifications and monitoring their compliance with relevant requirements making, taking disciplinary

measures to audit organizations and auditors, and relationships related to audit activities were strengthened on the basis of regulatory legal documents.

LITERATURE REVIEW

In recent years, the rapid development of the economy in our country, attracting foreign investments, providing correct and necessary information to investors, as well as improving the activities of joint-stock companies, insurance organizations and banks, and bringing them to international markets, are of particular importance.

The theoretical and legal basis of conducting an external audit has been interpreted differently by different economists. In particular, economist R.D. Dusmuratov divided the system of normative regulation of audit activity in the Republic of Uzbekistan and its elements into the following 3 levels:

1. Law of the Republic of Uzbekistan "On Auditing Activities"; Resolution No. 365 of the Cabinet of Ministers of the Republic of Uzbekistan "On improving audit activity and increasing the role of audit inspections".

2. National standards of auditing; methodological instructions, recommendations for conducting an audit.

3. Permanent set of documents of the audit organization, audit plan and program, examination documents.

Economist V.P. Klimovich divides the normative documents regulating audit activities into the following 4 levels:

1. Law and Presidential Decrees.

2. Decisions of the Cabinet of Ministers, ministerial instructions and regulations.

3. Standards of audit activity.

4. Internal audit standards.

Economist H.N. Musaev divides the normative documents forming the legal basis of the audit into several types in the following order:

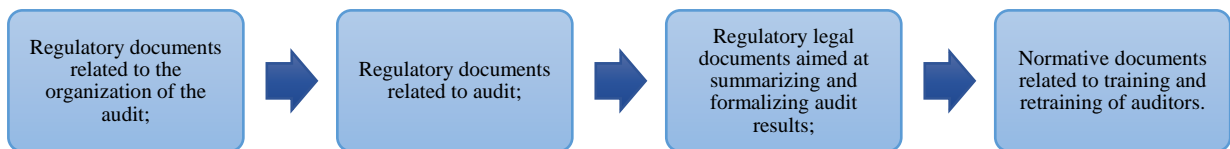


Figure 1. Regulatory documents forming the legal basis of the audit¹.

Among the types of financial control, audit is a type of independent control. An audit is an independent examination of the organization's financial report, compliance with the law of economic and financial operations, accurate and complete reflection of the organization's activities in the financial report, based on the verification of compliance with the accounting procedure.

ANALYSIS AND RESULTS

Based on the results of the research of the evolution of audit activities in Uzbekistan, the development of the legal and regulatory system can be divided into four stages.

In recent years, a number of regulatory and legal documents related to auditing activities have been adopted in our country. This, of course, serves to improve audit activities, to conduct audits based on international audit standards, and to increase the quality of audit work.

¹Compiled by the author.

At the initial stage of the development of normative legal documents of audit activity in Uzbekistan, the Law "On Audit Activity" was adopted on December 9, 1992 and consisted of 18 articles. It was later revised and re-approved on May 26, 2000, with a total of 29 articles with certain additions. In this law, the functions and tasks of auditors, audit organizations, the rights, obligations and responsibilities of auditors are widely included. However, it was later amended by the laws of the Republic of Uzbekistan №447-II of December 13, 2002, №110 of September 17, 2007, №352 of April 30, 2013, and №372 of May 14, 2014.

A new revision of the Law of the Republic of Uzbekistan "On Auditing Activities" dated February 26, 2021 No. ORQ-677 was adopted. In this law, the powers of the Cabinet of Ministers and the Ministry of Finance regarding audit activities were defined. The Council of Ministers has the following powers:

- ensures the implementation of state policy in the field of audit activities;
- determines the procedure for recognition of international audit standards for use in the territory of the Republic of Uzbekistan;
- determines the procedure for conducting the qualification exam for obtaining the auditor's qualification certificate;
- determines the procedure for external control of the quality of work of the auditing organization.

The Ministry of Finance of the Republic of Uzbekistan is an authorized state body in the field of audit activities. The Ministry of Finance implements the state policy in the field of auditing activities, represents the interests of the Republic of Uzbekistan in international organizations in the field of auditing activities, develops, approves and implements regulatory legal documents regulating auditing activities within the scope of its powers, determines the work order and regulations of the qualification commission, auditors of the republican public conducts a qualification exam with the participation of public associations of auditors, issues an auditor's qualification certificate, reissues it, extends its validity period and terminates its validity, except for the certificate issued by the Central Bank of the Republic of Uzbekistan, as well as approves a model program of auditors' qualification improvement together with public associations of auditors, maintains the register of audit organizations and the register of auditors, electronically communicates with audit organizations and republican public associations of auditors ensures the improvement of the information system of the "Audit" software complex designed for cooperation, carries out external control of the quality of work of audit organizations together with the republican public associations of auditors, performs the analysis of the development of audit services.

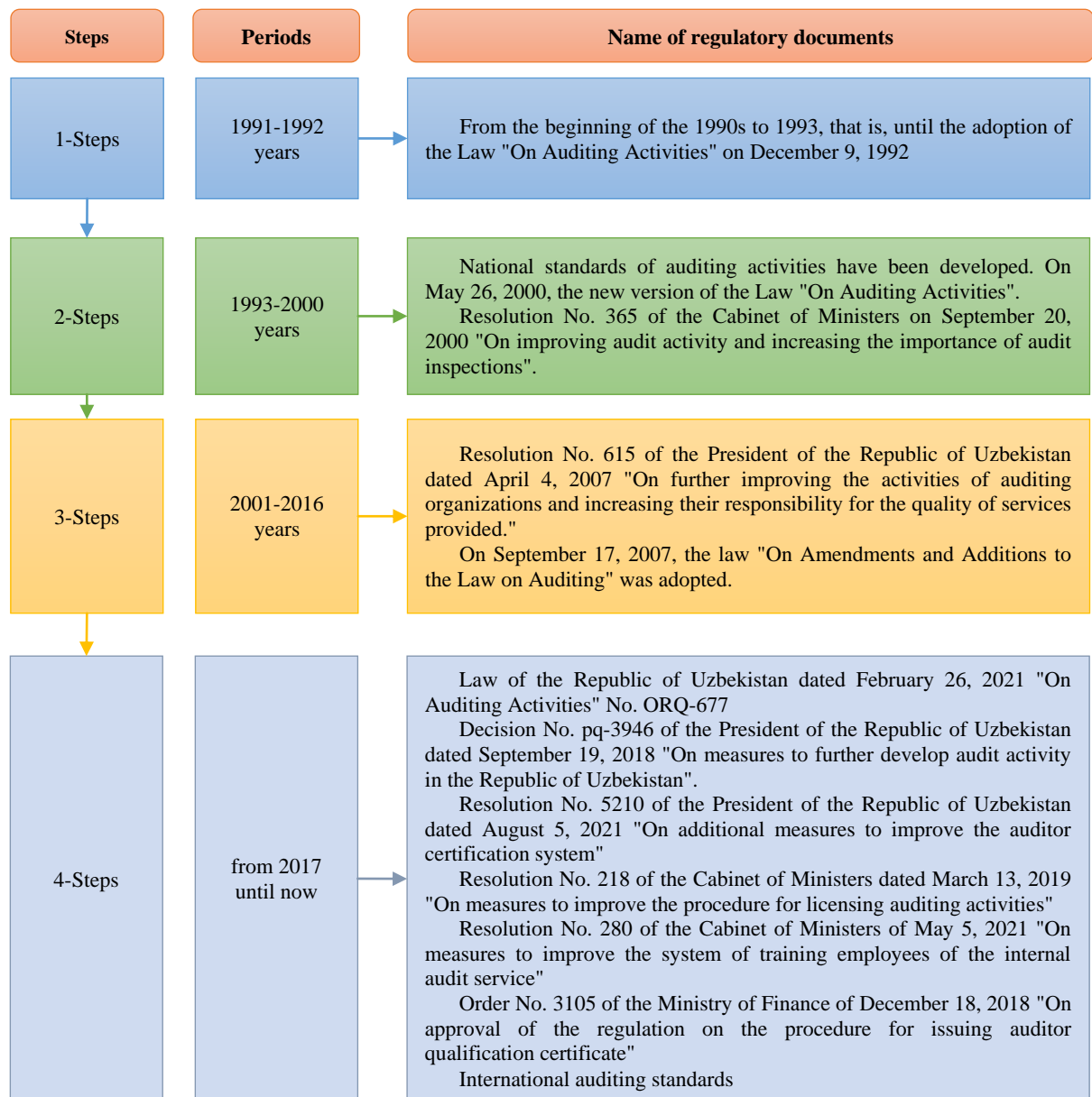


Figure 2. Description of regulatory and legal documents of audit activity in Uzbekistan ²

Non-governmental non-profit organizations that unite auditors are republican public associations of auditors. Public associations of auditors are encouraged to help develop and maintain the professional level of auditors and protect their professional interests.

In 2017 by the Cabinet of Ministers of the Republic of Uzbekistan Decision №274 dated May 12 "On additional measures to ensure further improvement of the legal basis of the activity of auditing organizations" was adopted and the following was cited:

- improvement of regulatory legal documents regulating audit activities based on the requirements of clients of audit services, corporate management system and international audit practice standards;
- to ensure fair competition by applying effective measures of accountability of audit organizations for fair competition to consider the application of effective measures in cases of violations of the code of professional ethics by auditors of audit organizations;
- implementation of the best world experience in the application of international

²Compiled by the author.

auditing standards to the activity of public associations of the auditors, improvement of the system of training and improvement of auditors, as well as activation of the activities of the auditor organizations in the implementation of voluntary quality control of their members;

- creation of conditions that ensure information openness of the auditor services market, including the annual publication of information on the activity of the auditor services market on the website of the Ministry of Finance of the Republic of Uzbekistan.

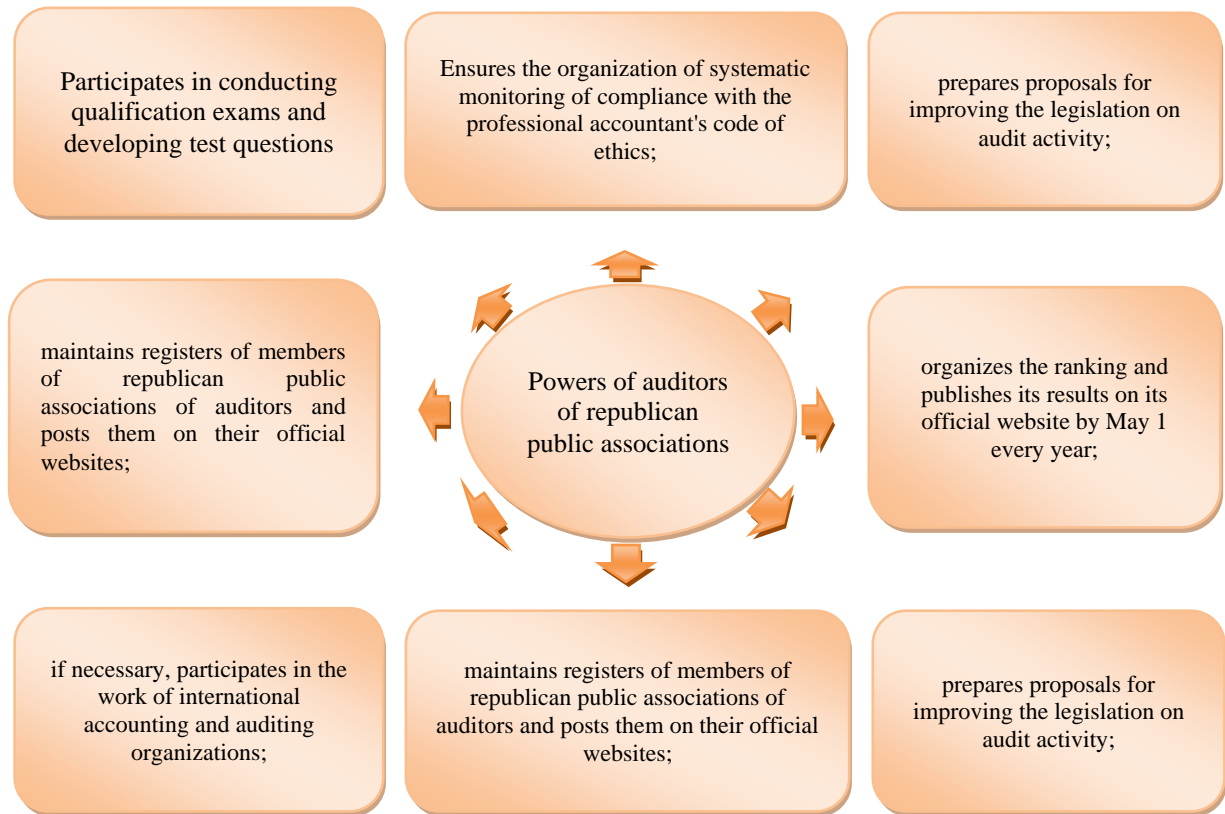


Figure 3. Powers of auditors of republican public associations³

In our opinion, the adoption of this decision serves to improve the current legal and regulatory documents, further develop the audit market, increase the quality of audit work, and develop healthy competition between audit organizations.

In order to conduct a high-quality and successful audit, it is necessary to apply common standards of audit activity during the audit.

Auditing standards are a system of general laws and regulations adopted to help auditors fulfill their audit responsibilities, which regulate the specifics and foundations of auditing. Adherence to auditing standards during the audit ensures high quality and reliability of the audit.

Based on the standards, auditors' activities are evaluated in terms of quality.

The standards define the general approach to the audit, the scope of the audit, the type of conclusion, the methodology of the audit and the rules that the representatives of this field should follow.

Amendments and additions to the general standards may be made based on changes in the economic environment. If the auditor deviates from these standards during the audit, he must be able to justify the reasons for this.

It should be noted that although auditing standards generally determine the correctness of the auditor's activity, they do not mean the correctness of all methods and practices used by the auditor.

³Compiled by the author

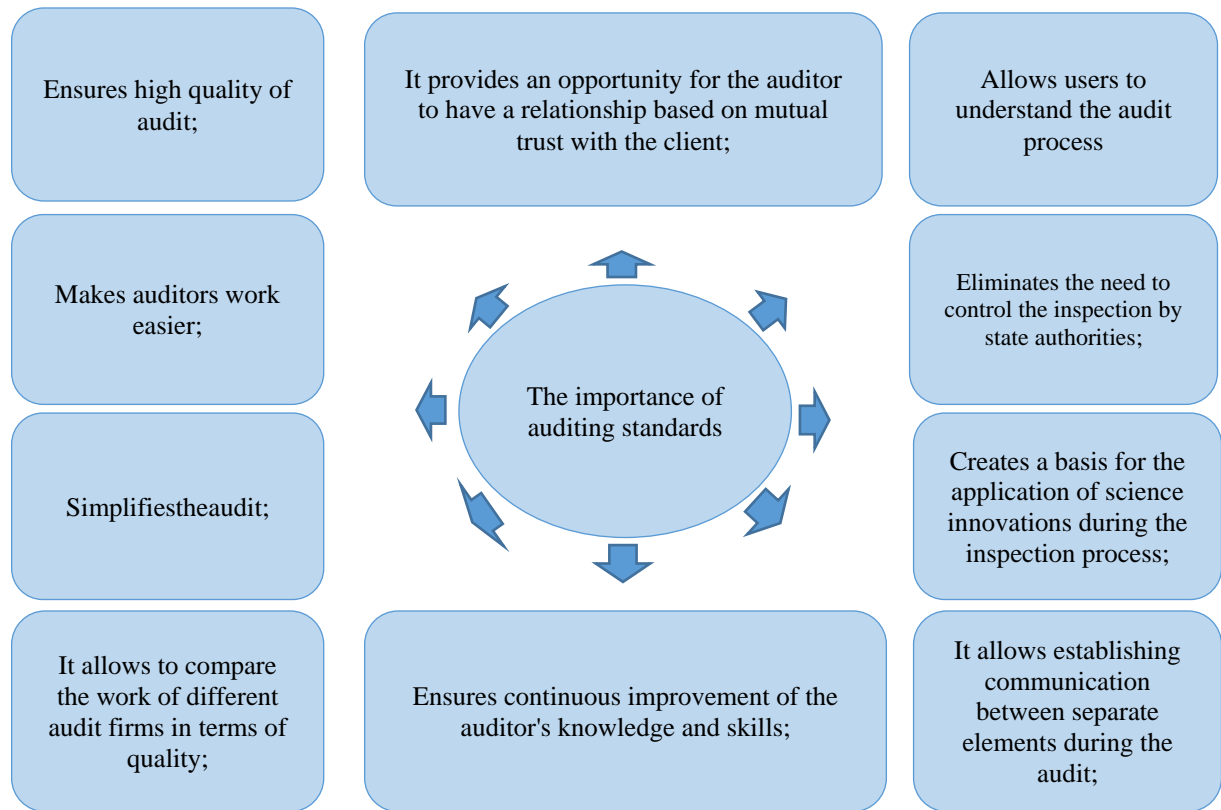


Figure 4. Importance of auditing standards in use⁴.

Audit activity is carried out on the basis of the standards of audit activity posted on the official website of the competent state body in the field of audit activity, which do not conflict with the legislation of the Republic of Uzbekistan, based on the permission of the International Federation of Accountants to publish in the Republic of Uzbekistan.

The procedure for recognizing international audit standards for use in the territory of the Republic of Uzbekistan shall be determined by the Cabinet of Ministers of the Republic of Uzbekistan.

Although there are more than a hundred audit organizations operating in the audit market, not all of these organizations are trusted by business entities, due to the fact that the service fees of audit organizations that have their reputation in the market are very high, and audit organizations that are newly established or do not yet have a high position in the market. the service fee of the organizations is somewhat lower, but the confidence of economic subjects is less.

Many auditors have sufficient experience and skills in audits conducted on the basis of national auditing standards, but do not have qualified work experience in audits conducted on the basis of international auditing standards, which, in turn, creates certain difficulties for foreign joint ventures and investors in understanding financial statements. Currently, such problems require the auditing market to be brought to a new level.

When we analyze the regulatory and legal documents on audit activity adopted in recent years, we can conclude that the audit market and audit activity in Uzbekistan are moving to a new stage of development.

Improving the normative and methodological basis of audit in our country based on world standards, forming the market of audit services in developed countries is one of the most urgent issues today.

⁴Compiled by the author

Based on the advanced experience of developed countries, in order to introduce a modern system of auditor certification that ensures the transparency of the qualification exam for obtaining the auditor's qualification certificate, as well as to establish close cooperation and mutual relations with international organizations in this field, the President of the Republic of Uzbekistan dated August 4, 2021 "Additional measure to improve the auditor certification system" Decision No. PQ-5820 "On events" was adopted. In accordance with this decision, from August 15, 2021, several functions of the Ministry of Finance were transferred to public associations of auditors.

Including:

conducting qualification exams to obtain an auditor's qualification certificate;
issuing, reissuing, extending and terminating the auditor's qualification certificate;
approval of training programs for auditors.

Also, in accordance with this decision, public associations of auditors have the following powers:

the regulations for conducting qualification exams, the procedure for issuing, reissuing, extending and terminating the auditor's qualification certificate, training programs for auditors are approved by public associations of auditors in agreement with the Ministry of Finance;

information on the organization and structure of qualification exams, recommended materials and training programs for preparation for qualification exams, as well as the results of qualification exams, will be posted on the official website of public associations of auditors;

the database of applicants for qualification exams and auditors with auditor qualification certificates is maintained by public associations of auditors.

Public associations of auditors were given the following rights:

to independently or jointly organize examination centers to conduct qualification examinations in accordance with the approved procedures and regulations;

organization of qualification exams in all regions of the republic and development of networks in the regions in order to improve the qualifications of auditors.

CONCLUSION

Currently, the problems that prevent the development of auditing activities and services in Uzbekistan can be listed as follows:

1) the level of trust in auditing organizations is low, and auditing is not a guarantee of confirming the truthfulness of financial statements, but is considered a redundant and burdensome administrative procedure;

2) the existing restrictions on the selection of audit organizations and the practice of conducting competitions in many cases cause unfair competition, including unfair competition in terms of price, as a result of which the quality of audit services and the accuracy of audit conclusions decrease;

3) the current system of special training of auditors and improvement of their qualifications is superficial and does not provide the necessary level of professional training and quality of audit services, including compliance with international standards of audit activity, which leads to a decrease in the prestige of the auditor profession;

4) there is no effective system of external control over the quality of audit organizations' work, which does not allow prompt action against cases of low-quality audit services and dishonest behavior of auditors in the context of limited legal measures of the licensing body;

5) national standards of audit activities do not fully correspond to generally recognized international audit standards, which does not ensure the formation of skills of foreign investors to understand the truthfulness of financial statements of local enterprises.

In our opinion, the above-mentioned problems are really hindering the development of auditing activity and market in Uzbekistan. Some business entities conduct audits not by their own will, but because they are required by law. We can also know from the statistical data that the initiative audits have less weight than the mandatory audits.

Thus, in Uzbekistan, in recent years, non-institutional for the purposes of determining the reliability of audit and accounting (financial) reports, as well as providing other audit services for the purpose of establishing and maintaining accounting, preparing income declarations, providing advice on financial, tax, banking and other economic legislation issues, became widespread as an independent financial control. In this way, the audit serves not only the interests of the owners, but also the state. With the development of auditing, the development of auditors' professional skills and their experience, not only tax and legal issues, but also the development of more effective management and business management consulting services will expand. Also, the audit is gaining more and more importance in solving the current problems related to the attraction of investments, strengthening of public finances and the growth of the country's economy. This makes it possible to improve the quality of audit activities, protect the interests of auditors and auditees, as well as interested users of economic information.

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