

Normative and methodological regulation of internal audit in the Republic of Uzbekistan

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ABSTRACT

In the process of auditing the question of legal support and the study of regulations governing audit activity is of considerable importance. The article summarize and systematize provisions of existing regulations of the Republic of Uzbekistan regulating audit, in particular the scope of internal audit.

Key words: laws, normative, standards, internal audit, regulation of audit activity.

Audit in Uzbekistan emerged since the beginning of market reforms, development of foreign trade relations. Attracting foreign capital was only possible with the guarantee of return, and, consequently, independent evaluation of business structures. The usual way of obtaining reliable information - is an independent examination - audit. Thus, the need for auditing has become an objective reality.

Audit activity in Uzbekistan began its legislative formation from 1992, when the Act "On Auditing" was passed [1]. National Standards on Auditing (NSA) were developed which was based on ISA. Out of more than 30 existing ISA, 21 NSA are enacted in Uzbekistan. Given that the ISA changes are periodically made - NSA contain outdated provisions than ISA [2].

NSA are one of the elements of regulation of audit activities, the basis for the development of internal standards of audit firms and auditing methodology.

In Uzbekistan, there is a gradual reform of the audit activities. The main reformer and regulator of the audit activities is the Ministry of Finance of the Republic of Uzbekistan in cooperation with the Chamber of Auditors of Uzbekistan and the National Association of Accountants and Auditors. At the moment, Uzbekistan has the following regulatory gradation of the audit activities (Table 1).

Since the results of the audit are the basis of many economic decisions, the audit in all countries rather strictly regulated. In some of them, such as France, in this process interferes with the state, by setting norms, standards of audit, by carrying out registration of auditors and audit firms and control over their activities. In other countries (US, UK), this process is regulated by a public professional auditing organizations.

Table 1
Regulatory gradation of the audit activities in the Republic of Uzbekistan

Type and name of regulative documents	Management and use of regulative document	Degree of elaboration
The law "On Auditing"	Determines the place, purpose and objectives of the audit in financial and economic systems	The law was adopted
National auditing standards	Define the general regulatory issues of auditing, mandatory for all, set standards of audit that are compulsory for all participants of the market of audit services	National auditing standards (21 standards are developed and approved)
Legislative and executive regulations	Laying down general provisions on the regulation of audit activities for audit firms and auditors	Developed in accordance with this law regulations in the field of certification and licensing of auditing activities and other.
Internal standards of accredited professional	Regulation of specific issues of audit activities at the level of professional	Developed by accredited professional audit associations (National Association of

associations	associations	Accountants and Auditors of Uzbekistan, Chamber of Auditors of the Republic of Uzbekistan)
Normative documents of ministries and agencies	Regulation of the specific features of audit types: general, banking, insurance, investment institutions	Ministries adopted and developed a number of documents in areas of audit
Internal auditing standards	In carrying out the statutory audit and audit related services	Developed by audit firms and auditors

Nowadays, regulation of auditing in the Republic of Uzbekistan, with more and more attention, is carried out in accordance with international rules of audit activities. Associations to regulate internal audit in the Republic of Uzbekistan began to form on the initiative of the state, auditors and the companies themselves, for development of the securities market and improving the effectiveness of corporate management in the companies.

In accordance with international requirements the followings are operating in Uzbekistan:

- A single qualification program for obtaining a qualification certificate of an auditor;
- A single program of annual training of auditors;
- A single register of auditors and audit firms are kept;
- There is a regulator of audit activities - the Ministry of Finance;
- In 2005, a code of professional ethics of auditors was implemented.

Internal Audit of the Republic of Uzbekistan began to emerge at the initiative of the state for the development of the securities market and improving the effectiveness of corporate management in state-owned enterprises.

In Uzbekistan, there is the following integrated system to regulate the organization of internal audit:

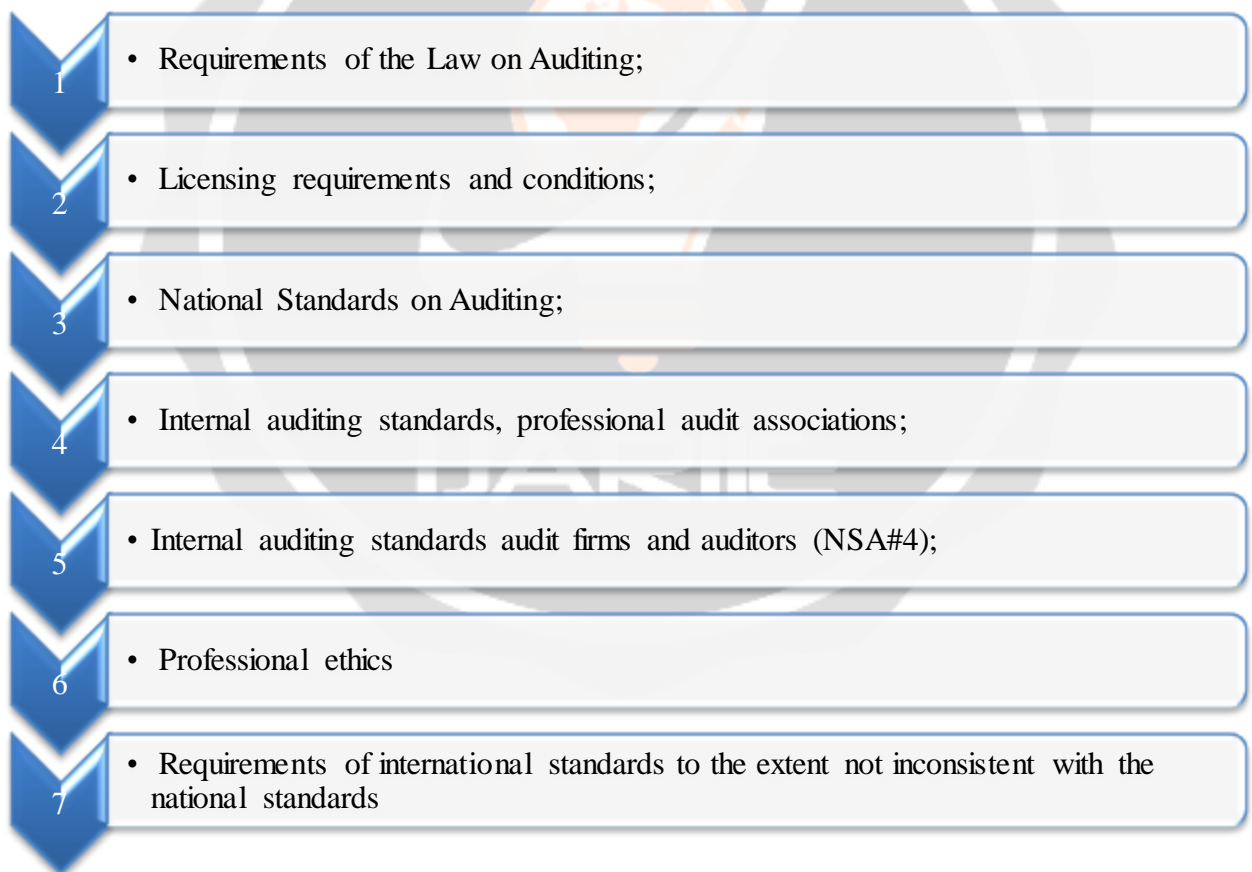


Fig. Normative regulation of internal audit.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated 27.09.2006 #475 "On measures for further development of the securities market" dated 1 January 2007 enterprises with a carrying value of assets of more than 1 billion soums started to establish internal audit services, who are appointed by and accountable to the Board of Supervisors [3].

Resolution of the Cabinet of Ministers dated 16.10.2006 #215 "On measures to ensure the effective management of enterprises with the state share in the charter capital and the proper accounting of state property"

approved the Regulation on the internal audit at the enterprises, which is the first regulative document governing activities of the internal audit and internal auditors [4].

The reforms also affected the non-state sector of the economy. Over the time, the corresponding changes were made to the Laws of the Republic of Uzbekistan “On joint-stock companies and protection of shareholders' rights” and “On companies with limited and additional liability”. As a result of regulatory requirements on forming internal audit services began to apply not only to companies with the state share in the charter capital and other major non-public enterprises.

Additional impetus in improving the regulatory activities of internal auditors was the Resolution of the President of the Republic of Uzbekistan dated 26.11.2010 #1438 “On priorities for further reforming and improving the stability of the financial and banking system of the republic in 2011-2015 and achieving high international ratings” [5].

The Resolution approves measures for further development of microfinancing and non-banking financial sector of the country for 2011-2015, which was provided for drafting government decisions and making changes and additions to the regulations regarding the implementation of the system of certification of employees of internal audit services, to the establishment of qualifications to the internal auditor.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan #258 “On amendments and additions to some decisions of the Government of the Republic of Uzbekistan” adopted on 14 September 2011, was a logical continuation of reforms to improve the regulatory framework of internal audit in the country [6].

In accordance with the provisions in the text of the Resolution of Internal Audit Service some changes and additions took place, according to which qualification requirements for candidates to work in the internal audit functions were revised. Under the changes to work in the internal audit service the applicant must be certified internal auditor. It was pointed out that the certification order of employees of the internal audit determined republican professional associations of auditors in consultation with the Ministry of Finance of the Republic of Uzbekistan.

Internal control - a mandatory requirement by the state to types of enterprises, such as:

- credit institutions;
- professional participants of the securities market;
- notaries;
- insurance companies and leasing companies;
- organizations managing investment funds.

Internal control is now being developed on the basis of the rules containing the procedure for documenting information, the privacy of financial information, qualification requirements for the preparation of relevant training and, most importantly, the criteria for the identification and signs of unusual transactions.

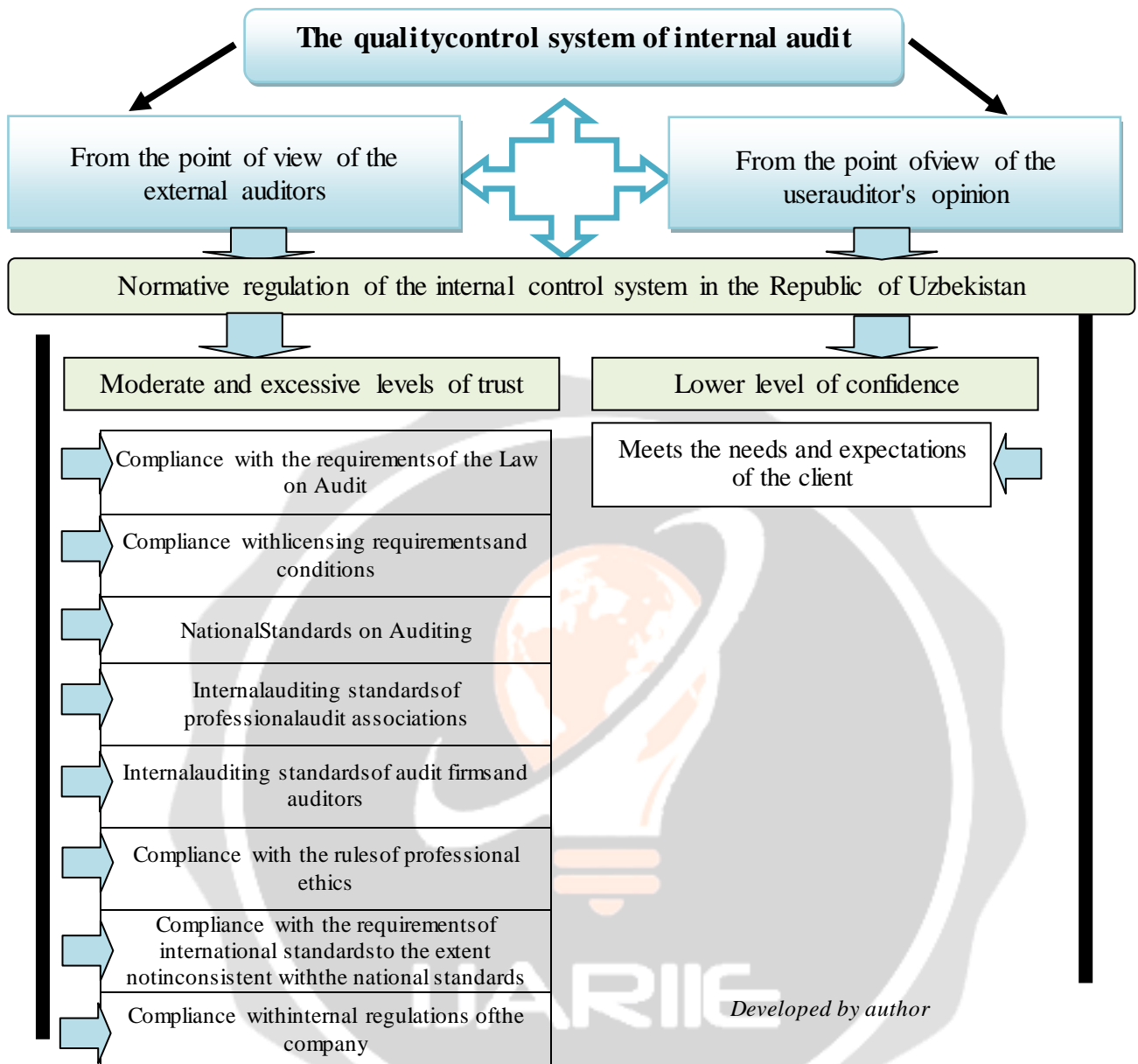
Legislation establishes a list of operations to be subject for unconditional financial control by the relevant public authorities. Information on these transactions flows to the authorized body - Department for combating tax, currency crimes and money laundering under the General Prosecutor of the Republic of Uzbekistan (authorized body) from organizations performing operations with monetary funds or other assets. In addition, if there is reason to believe that this operation is used to finance terrorism or the laundering of proceeds of crime, the organization transmits information on transactions (arrangements) to the competent authority.

An intricate or unusual nature of the transaction may indicate about this, which has no apparent economic or visible lawful purpose; mismatch of transaction to objectives of the organization, established by the constituent documents of the organization; repeated transactions or arrangements, the nature of which gives grounds to believe that the purpose of their implementation is the evasion of mandatory control procedures.

Comparing the requirements for the organization of internal control in public organizations, we can say that they do not differ much from foreign standards.

The term “internal control system” means a set of organizational measures, techniques and procedures (internal controls) adopted by the leadership of the economic entity for the effective management and control of financial and economic activities, safeguarding the assets and records, to prevent and detect fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

Scheme# 1



The internal control system extends beyond those matters which relate directly to the accounting system, and includes the control environment. (Scheme #1) Under the control environment refers to the awareness and actions of the company's management, aimed at establishing and maintaining a system of internal controls, as well as understanding of the importance of such a system. Control environment affects the efficiency of specific control means and includes the following components:

- 1) style and basic principles of business management;
- 2) organizational structure of the enterprise;
- 3) distribution of responsibilities and authority;
- 4) carry out personnel policy;
- 5) procedure for the preparation of financial statements for external users;
- 6) procedure for internal management accounting and reporting for internal purposes;
- 7) ensuring that the business enterprise follow legal requirements;
- 8) existence and characteristics of the organization of the Audit Commission, the Internal Audit Service as part of the management board of the enterprise.

Control procedures adopted by management include:

- a) accountability of employees with others;
- b) internal checks and verification of data on financial and economic activities;
- c) comparing the results of the counting of cash, securities and inventories with the accounting records (inventory);
- g) comparison of the data obtained from internal sources of data with external information sources;

- d) verification of the analytical accounts and current statements and arithmetical accuracy of the records;
- e) monitoring the applications and computer information systems, including through the establishment of change control software and access to the data files for the right of access at input and output information from the system;
- g) the restriction of access to assets and records;
- h) the comparison and analysis of financial results with the target values.

The functions of the internal audit include monitoring the adequacy and effectiveness of internal controls. It should be noted that the scope and objectives of internal audit in each case are different and depend on the size and structure of the company and the requirements of its owners in the form of the Supervisory Board. Typically, the functionality of the internal audit include one or more of the following elements:

- a) monitoring of the effectiveness of internal control procedures – setting necessary accounting system and internal control is the responsibility of management, and this should always have appropriate attention, and the internal audit service is usually given the responsibility for checking these systems, monitoring their effective functioning, as well as the presentation of recommendations for their improvement;
- b) study of financial and management information - includes our review of means and methods used to collect, measure, classify the information and reporting on its basis, as well as specific requests for some of its component parts, including detailed testing of transactions, accounting for account balances and other procedures;
- c) control over the economy, efficiency and effectiveness, including non-financial controls of the enterprise;
- g) monitoring compliance with the legislation of the state, regulations and other external requirements, and policies, directives and other internal management requirements.

The role of internal audit is determined by the Supervisory Board of the enterprise. Internal audit is part of the company. The activities of the internal audit service, regardless of its degree of independence and objectivity can not achieve the degree of independence required from the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the use of the results of the internal audit service. All judgments in relation to the audited financial statements are made by the external auditor.

One of the types of international regulatory standards are the internal audit quality characteristics (Attribute standards) 1000-1322, performance standards (Performance standards) 2000-2600, currently in Uzbekistan there are no specific standards to regulate exactly the specifics of the internal audit.

In our view, if internal audit standards are developed and implemented in Uzbekistan at the regulatory level, this will increase the responsibility and thus the quality of internal audit services, and also simplify the work of the external auditors.

But also, the main problem of audit in accordance with ISA in Uzbekistan is not the absence of relevant national standards on auditing in general or their poor content, but in the need to establish a reliable mechanism that would ensure the implementation of these standards.

If it is possible to ensure that all domestic organizations comply with standards and this would be confirmed by the results of objective tests, it would require a minimum effort to eliminate the “cosmetic” differences between the standards and complete the transition to work in accordance with ISA.

Literature:

1. The law “On Auditing” of the Republic of Uzbekistan.
2. National auditing standards.
3. Resolution of the President of the Republic of Uzbekistan #475 “On measures for further development of the securities market” dated 27.09.2006.
4. Resolution of the Cabinet of Ministers dated 16.10.2006 #215 “On measures to ensure the effective management of enterprises with the state share in the charter capital and the proper accounting of state property.
5. Resolution of the President of the Republic of Uzbekistan dated 26.11.2010 #1438 “On priorities for further reforming and improving the stability of the financial and banking system of the republic in 2011-2015 and achieving high international ratings”.
6. The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan #258 “On amendments and additions to some decisions of the Government of the Republic of Uzbekistan” adopted on 14 September 2011, was a logical continuation of reforms to improve the regulatory framework of internal audit in the country.