

DEVELOPMENT OF AUDITING METHODS IN ACCORDANCE WITH INTERNATIONAL CRITERIA AND STANDARDS

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The increasing number of organizations requiring auditor's services, establishing joint ventures, bringing foreign investment in real sector of our country's economy lead auditing to develop in accordance with international standards. Therefore, as the president of Uzbekistan Republic noted: "Auditing should be developed in order to defend the interests of entrepreneurs" [1]. Advancement of this area depends firstly on the development of framework which regulates auditing in compliance with international criteria and standards. Consequently, "...the universal economic model for settling problems causing regress in world's economic system and establishing proper control over it has not yet created"[2].

The economic players should possess the information on costs, control and analyses in order to be competitive in current world's financial recession. This in turn, assists, firstly in generation of reliable financial accounts, secondly, enables to regulate negotiations between consumers and partners within making decisions and managing various activities.

Internal control can be highlighted as one of the most effective tools in regulating management system of economic player within theoretical and practical approach. Internal control is an integral part of a management system of economic player, it combines "accounting, inspection terms and conditions and particular instruments" [3], thus all together they are used to form a reliable financial report. Due to this economic player will be able to collect crucial information to evaluate correctly fulfilled job and to differentiate fixed account indexes.

The general conception of governing economic player, trends of organizing internal control, disorders in requirements of running accounting records, many auditing companies complicate the situation by achieving aims without learning the reliability of internal auditing instruments. This happens due to the fact that there is no suitable and reliable method to evaluate above-mentioned instruments.

Thus "expanding the role of the auditing companies and developing its system, ensuring its stability and effectiveness in accordance with international criteria and standards, broadening variety and scale of auditing services in our country" are determined as important tendencies [4].

Therefore it's important to conform auditing regulation system to international auditing standards and develop methods of assessment of internal inspection during auditing.

"While checking financial report and relevant financial information by auditing organizations" [5], the method of evaluation internal checking should be based on complex of methods and procedures containing auditing internal standards.

Internal control is very important to take measures against depression in Uzbekistan and to take financial and economic decisions by economic players. As the President of Uzbekistan Republic had noted: "... If only there is a guidance of development and strategies to implement comprised of profoundly considered distinct goal and sustainable methods which provide opportunity to foreseen the growth and recession of world's economy and possible challenges can a country and its nation attain a progress" [6].

Taking previous thoughts into account its crucial to set up internal control effectively in order to implement tasks which lead economic players to stable functioning and producing goods of high quality," to increase competitiveness of companies at the expense of creating exceedingly frugal system, encouraging to reduce manufacturing expenses and product's net cost" [7]. As far as this system is effective the auditing risk will also be a minimum.

In normative documents auditors are given at least three stages to assess internal control system:

- 1) General familiarization with internal control system;
- 2) Primary assessment of reliability of internal checking system;
- 3) Confirmation of reliability of internal control system.

Likewise, auditing organizations can also decide to use multiple choices of evaluating internal control system" [8]. However technological process of evaluating internal checking system is comprised of many stages, so highlighted stages are also comprised of interim steps. Auditors are given instructions at other standards.

Unfortunately representing recommendations on evaluating internal control system in different standards does not lead all organizations to establish the only method to evaluate internal control system. This creates a necessity to develop the complex of internal standards for auditing organizations. Therefore, during the research based on international auditing standards, 24 technological steps on assessing internal control system were worked out.

One of the most important steps in planning auditing is assessing economic players' accounting and internal control system and regulated by corresponding national standard [9]. It's well known that supervision is one of the

functions of management. Therefore organizing internal control system and its implementation is a supportive instrument for manager to regulate the management system of economic player.

Effective internal control system depends, first of all, on responsible employees who were appointed to run related work. The process of selecting, employing, upgrading professional skills, advance training of workers should be appropriately lead them to the high professional competence.

The economic book [10] elucidates the algorithm called “the method of direct testing”, which means distribution of absolute cost of the level of importance among separate paragraphs of financial report. This, in turn, contains following points:

1. To select assets and liabilities to distribute the level of importance as per the most considerable segment at the end of balance.
2. To distribute the significance level amongst selected debit and credit operations. Here, the significance level is defined not by the percentage of the end of balance, but by representing indexes as a percentage in the balance sheet (currency of balance (2%) and the amount of private capital (10%)) and in the report of financial results (gross sale volume (2%), general costs (2%), balance sheet profit (5%)), as it is recommended in related standards[11].

According with international experience “an audit defines the level of importance based on own experience. Usually audits identify the level of importance using designated characteristics. The most popular of them are: from 5 to 10 percent of income before paying profit tax; from 0,5 to 1,0 percent of all assets; from 0,5 to 5,0 percent of private capital; from 0,5 to 1,0 percent of net profit” [12].

R.D. Dustmuradov proposes to use following seven quantitative indicators: proceeds from sale (service and work) (5%), net cost of sold goods (3%), temporary cost (3%), private capital (10%), currency of balance sheet (5%), uncompleted production (3%), undistributed profit (2%)” [13]. Whereas N.F.Karimov set forward the following five items of financial reports of commercial banks: “net profit of balance sheet (3,2%), gross profit (2,7%), gross assets (1,3%), stock capital (5,3%), general expenses (3,0%)” [14].

It is not aimed to designate absolute cost of the level of importance in normative documents. However, it's indicated that “while finding out the absolute cost of the level of importance an audit should take as a base the most important indexes which, on one hand characterise the liability of the report of economic player, and on another hand named as major indicators of financial report”[15].

As a result of analysing international experience it's suggested to allocate the level of importance to the portion of some balance sheet accounts in gross balance. Therefore, we can use indexes of table 1

Table 1
Fundamental indexes of financial report

The items of balance sheet assets	The sum, in thousand sum	According to international criteria		According to offered criteria	
		Portion %	Level of significance, in thousand sum	Portion %	Level of significance, in thousand sum
1	2	3	4	5	6
The gross profit from sale (service and work) (2-form, 030-line)	857821	-		2	17156
The profit before paying income tax (2-form, 240-line)	441503	5-10	44150	5	22075
Gross assets (1-form, 400-line)	2226600	0,5-1,0	22266	0,5	11133
Authorized capital (1-form, 410-line)	650910	0,5-5,0	32545	5	32545,5
Net profit (2-form, 270-line)	368489	0,5-1,0	3684	1	3684

$$(17156+22075+11133+32545+3684)/5=86594/5=17318;$$

$$(17318-3684)/17318=78, 7\%; (32545-17318)/17318=87, 9\%$$

The derived index is to be compared with the least and the biggest numbers:

If the difference goes above 30 %, two (3684 and 32545) numbers should be excluded and these numbers will no longer be used in calculation. Calculation is to be carried out based on the rest indexes:

$$(17156+22075+11133)/3=50364/3=16788;$$

The derived number can be multiplied or decreased, it should not overtop 20 % due to international standards. This number is to be decreased:

$$(16788-15000)/16788=10, 6\%; (lower than norm).$$

Thus, we can designate the level of importance as 15 000 sums. The derived level of importance can be allocated among balance sheet accounts and their portion in the balance itself, the reached results are shown in the table 2

Table 2
Equal distribution of the index of significance level by balance structure*

The items of balance sheet assets	Sum, thousand sum	Portion, %	The level of significance, thousand sum	Balance passive items	Sum, thousand sum	Portion, %	The level of significance, thousand sum
1	2	3	4	5	6	7	8
Fixed assets	197202	8,8	1320	Authorized capital stock	650910	29,2	4380
Long term investment	828357	37,3	5595	Subjoin capital	80993	3,8	570
Stock of resources and goods	1036312	46,5	6975	Reserve capital	565877	25,4	3810
Debtors	96273	4,3	645	Retained income	405034	18,3	2745
Monetary funds	68456	3,1	465	Operating obligations	523786	23,3	3495
Total	2226600	100	15000	Total	2226600	100	15000

*compiled by author from the indexes of "Uzdonmahsulot" incorporated company's financial report.

In this way, during auditing an audit designates fixed assets, long term investment, authorized capital stock and others as 1320; 5595; 4380 thousand sum respectively, moreover it is obligatory to designated in audit's general plan. The level of importance shows the highest level of the mistakes audit can possibly make or miss. It's suggested to equally distribute the index of level of importance on debit - credit recordings of an economic player (Table 3).

Table 3
Equal distribution of the level of importance according to debit-credit recordings

Numbers of items *	Debit turnover, thousand sum	Portion in total turnover, %	The level of significance, thousand sum	Credit turnover, thousand sum	Portion in total turnover, %	The level of significance, thousand sum
0100	95517	0,11	16,5	149275	0,2	30
1000	369476	0,44	66,0	506216	0,6	90,0
1010	83747	0,10	15,0	-	-	-
2810	21365801	25,5	3825,0	21271938	25,3	3795,0
4000	56128746	67,2	10080,0	56080913	67	10050,0
5100	1955362	2,3	345	1954341	2,2	330,0
5200	296684	0,3	45,0	283721	0,3	45,0
5500	842845	1,12	168,0	830879	1	150,0
6000	1891955	2,35	352,5	1597896	2	300,0
6100	10098	0,01	1,5	215496	0,2	30,0
6300	-	-	-	11873	0,1	15,0
6400	62969	0,07	10,5	-	-	-
6520				888	0,1	15,0
6600	15988	0,01	1,5			
6700	-	-	-	17699	0,1	15,0
6900	-	-	-	6171	0,1	15,0
7250	21374	0,02	3,0	-	-	-
7810	141500	0,16	24,0	-	-	-
8300	-	-	-	600840	0,7	105,0
8500	-	-	-	18273	0,1	15,0
8700	264357	0,31	46,5	-	-	-
Total	83546419	100	15000	83546419	100	15000

To conclude, this method has following advantages: there is possibility to calculate the turnover based on debits and credits of an account designated for distribution, because the methods of distributing the level of importance among account remainders can be used by the audit in auditing conclusion to confirm the report.

However the cost of level of importance can have various forms in this method, likewise the balance sheet accounts of precise period may not rank by the largest criteria while making-up balance sheet. Particularly, the costs of the level of importance are distributed among the accounts of long term assets and accounts payable too.

*** The name of accounts:**

- 0100 - Accounts on accounting of the basic means;
- 0400 - Accounts on accounting of non-material assets;
- 1010 - Not Finished productions;
- 2810 - Finished goods;
- 4000 - Accounts received;
- 5100 - The Settlement account in bank by calculation to native currency;
- 5200 - The Settlement account in bank by calculation to foreign exchange;
- 5500 - Money funds in the special bank account;
- 6000 - Accounts paid to suppliers and contractors;
- 6100 - Accounts paid дочерных and dependent economic societies;
- 6400 - Accounts on indebtedness accounting in the budget;
- 6500 - Accounts on accounting of indebtedness on insurance and to target state funds;
- 6600 - Accounts on accounting of indebtedness to founders;
- 6700 - Accounts on accounting of calculations with the personnel on payment;
- 6900 - Accounts on accounting of indebtedness to other creditors;
- 7200 - Accounts on accounting of long-term obligations;
- 7800 - Accounts on accounting of long-term credits and loans;
- 8300 - Accounts on authorised capital accounting;
- 8500 - Accounts on reserve capital accounting;
- 8700 - Accounts on accounting unallotted has arrived (no coverings a loss).

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