

Internal audit processes in light industry enterprises and prospects for increasing their efficiency

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Abstract: The article reveals the importance of information and software for the organization of audit activities, in particular, proposals are made taking into account the best foreign experience on the use of analytical procedures for the purposes of internal audit, as well as on the organization of economic analysis at the country's textile and sewing and knitting enterprises.

Key words: audit activity, internal audit, analytical procedures, software, foreign computer programs, national audit automation programs.



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1. Introduction.

In accordance with the Development Strategy of New Uzbekistan for 2022-2026, the task is to increase the efficiency of foreign investments directed to light industry enterprises, which are considered one of the important sectors of the development of our economy, and to increase the production of textile products by 2 times and leather and footwear products by 3 times based on the use of modern equipment and technologies.[1].

Scientific and theoretical substantiation of the reforms being implemented in the process of transforming auditing activities to international standards is of great importance for the sustainable development of our economy.

The Resolution of the President of the Republic of Uzbekistan "On measures for the further development of auditing activities in the Republic of Uzbekistan" of September 19, 2018 was an important step in this area. In accordance with this resolution, the Ministry of Information Technologies and Communications of the Republic of Uzbekistan, together with the Ministry of Finance of the Republic of Uzbekistan, was tasked with developing the "Audit" software package for electronic cooperation between audit organizations and republican public associations of accountants and auditors by April 1, 2019. [2]

In turn, the widespread use of digital technologies in the economy requires the introduction of necessary changes in the organization and methodology of audit activities and audits. An analysis of the changes taking place in audit practice shows that its organization is moving from a traditional method to an intellectual one. In our opinion, the audit methodology should also be based on technologies. It is advisable to implement the process of digitizing the audit in stages.

2. Literature review.

According to economists Sh.A. Khusainov and J.M. Kushmatov: "...the digital business environment will affect the internal audit function in three ways. First, it will affect its scale. The flexibility of internal audit planning and the required digital data are expected to grow, and information technology (IT) risks are becoming increasingly important, especially cybersecurity threats. Second, there is a high demand for consulting services performed by internal auditors, and third, digitalization is changing the way internal auditors work in their daily tasks." [10]

We fully support the opinion of Professor B.A. Khasanov and others that "Internal audit is carried out by the enterprise itself, its task is to provide internal economic control over the formation of costs, identify deviations from the planned estimates and standards, analyze their causes and identify responsible persons, search for reserves of financial and economic activity and

provide the enterprise with the necessary information for making effective management decisions.” [11]. In this regard, we recognize the following opinion of R.D. Dismuratov: “Internal auditors audit the activities of the enterprises in which they work. However, as a rule, they are part of the administration (board of directors) of the enterprise.” [4]. According to the American economist S. Rosensweig: “The early participation of internal audit in the initiative for robotic automation of processes (Robotic Process Automation- RPA) ensures a balanced discussion, risk assessment and agreement on the general management principles and process design.” [9]. N.F. Karimov approached this concept as follows: “Internal audit helps to achieve the set goals through a systematic and well-organized approach to assessing and improving the effectiveness of corporate governance, control, and risk management.” [5]. Sh.I.Ilkhomov, an economist who conducted in-depth scientific research in the field of internal audit, defined it in his works: “Internal audit is an integral and important element of management control.” [8]. Russian scientist N.A.Prodanova defined the purpose of internal audit as follows: The purpose of internal audit is to assist the management bodies of the organization in exercising effective control over various parts of the internal control system.[6].

3. Research methodology.

The article conducts scientific research on increasing the efficiency of using information, software and analytical tools in the process of organizing internal audit. It effectively uses methods such as analysis, synthesis, grouping, comparison and coefficients.

4. Analysis and results.

The digitalization of the economy, in turn, has made the development of a digital audit model a socio-economic necessity. The future development of audit methodology should be based on a concept aimed at managing audit risks. Therefore, in the conditions of the digital economy, strategic reforms are required not only in the theoretical issues of auditing, but also in its methodology and practice.

If we pay attention to the SoftExpert Audit computer program, recognized in international practice, in this regard, it is designed to comprehensively implement the audit process. This program comprehensively manages all stages of the audit on a single integrated platform, from planning, preparation, development of audit plans, programs and checklists, to conducting an audit, reporting and monitoring.

This audit computer program performs all types of functions, such as internal audit, operational audit, IT audit, audit of transactions with suppliers, risk and hazard assessment, audit quality control. The SoftExpert Suite application of the SoftExpert Audit program, which has a complete and flexible feature set, is effective in areas such as asset, capital, liability and business process management, investment project analysis, financial statement audit.

The SoftExpert Suite special application serves to conduct internal and external audits based on the requirements of international standards related to social responsibility, governance, quality, ecology, medicine and financial security. At the same time, auditors have the opportunity to monitor the quality of the audit through functions with accurate, real-time reliable information, convenient, intuitively understandable portals.

As a result, the following is achieved:

automate all audit processes from planning, implementation, reporting and monitoring of the audit;

allows auditors to plan from a single audit assignment to a full annual audit

program; optimizes the formalization of audit results, automates the search process and, if necessary, implements corrective action plans;

optimizes the audit period and time with automatic assignment and implementation of tasks, notifications and e-mail alerts; Managing all audit-related accounting information in a single place through a search engine ensures audit consistency and integrity; Coordinates auditor profiles to ensure the correct determination of the scope, scope and timing of the audit; Defines the scope of the audit process through integration with sectors, projects, departments, assets, processes, products and others; Easily configures information flows to automate the review and approval process through the application; Allows the auditor to download audit-related information for offline use; Automates reporting and information exchange via web pages or PDF formats.

A special application of the "Audit planning" program used in our economy, the "Audit Sampling" program, specializes in a specific object of audit inspection and cannot fully cover all audit processes. This application has a positive effect on determining the financial condition and stability when auditing the credit portfolio in the banking system. Taking this into account, we recommend using this program and its application to determine the financial stability during the audit of light industrial enterprises. Effective use of the principle of materiality in planning and conducting an audit creates conditions for conducting a large number of inspections in a short period of time allocated for the audit, summarizing, preparing an audit report and conclusion.

International Standards on Auditing and Quality Control (ISAQC) highlight the principle of materiality through two standards:

-ASI 320 "Materiality in Planning and Performing an Audit";

-ASI 450 "Evaluating Misstatements Identified during an Audit".

International Standard on Auditing 320 sets out the auditor's responsibility in applying the concept of materiality in planning and performing an audit of financial statements. International Standard on Auditing 450 sets out how the concept of materiality should be applied in assessing misstatements in financial statements. Both of the above standards require the auditor to consider whether materiality may be changed when misstatements are identified during the audit planning process. However, neither standard sets out specific requirements for materiality for specific elements of the financial statements being audited (ASI). [3]. According to economist M. Tulaev, "The concept of materiality is understood as the highest value of distortion of financial statements, beyond which a qualified user of these statements will not be able to draw correct conclusions and make correct decisions on their basis." [7]

Table 1

Proposed options for assessing materiality in audit reviews ¹

№	Indicators	Growth, million soums	%	Decrease, million soums	%
	Option 1:				
	Assets:				
1.	Cash	1 000,0	2	1 000,0	2
2.	Accounts receivable	15 000,0	30	5 000,0	10
3.	Inventory	34 000,0	68	44 000,0	88
	Total materiality	50 000,0	100	50 000,0	100
	Option 2:				
1.	Cash	10 00,0	2	1 000,0	2
2.	Accounts receivable	5 000,0	10	1 000,0	2
3.	Inventory	24 000,0	48	24 000,0	48
	Total assets	30 000,0		26 000,0	
	Liabilities:				
4.	Capital	2 000,0	4	3 000,0	6
5.	Current liabilities	13 000,0	26	17 000,0	34
6.	Long-term liabilities	5 000,0	10	4 000,0	8
	Total liabilities	20 000,0		24 000,0	
	Total materiality	50 000,0	100	50 000,0	100

It is noteworthy that the assessment of materiality in the audit process, while in the first option the assessment is focused on the current assets part of the balance sheet, in the second option it is proposed to determine it also by the weight of capital

¹ Author's development.

and liabilities in the balance sheet liabilities. The materiality threshold represents the amount or percentage that is optimally determined by the auditor in order to reduce the probability that the total amount of undetected and uncorrected misstatements exceeds the materiality level established for the financial statements to an acceptable low level. Depending on the requirement, the amount or amounts established by the auditor less than the materiality level or levels established for certain types of transactions, account balances or disclosed information are also called "materiality thresholds".

When determining the materiality level for audit organizations, the following factors are taken into account:

the absolute amount of error;

the relative amount of error (analysis of the error in relation to the total amount of the financial statements); the cumulative value of the error;

the content of the reporting items (error-prone items);

specific conditions – who the report is intended for: shareholders (profit), banks

(cash flow), investors (profit and cash flow); uncertainty (continuity and continuity of activity, presence of signs of bankruptcy).

When determining the level of materiality, the following indicators are taken into account for the profit and loss statement:

- from turnover – 0.5-1.0%;

- from gross profit – 1.0 - 2.0%;

- from profit before tax – 5.0%; For balance sheet items: - from the amount of equity – 5.0%; - from the value of assets – 1.0 - 2.0%.

If the amount of the detected error exceeds the indicated indicators, such an error is considered a material error.

Based on the experience of developed countries, we recommend using the following approximate indicators based on the amount of retained earnings when assessing the level of materiality:

- if the error amount is up to 5% - not material,

- if the error amount is from 5% to 10% - may be material, - if the error amount is above 10% - always material.

We divide the stages of determining the level of materiality into the following sections.

Testing and planning stage:

Stage 1. Initial judgment on materiality.

Stage 2. Applying the initial judgment on materiality to segments.

Evaluation of results:

Stage 3. Determining the actual amount of error in segments.

Stage 4. Determining the total amount of actual error amounts.

Stage 5. Comparing the total actual amount of error with the initial judgment amount.

Effective use of the materiality principle in planning and conducting an audit creates conditions for conducting a large volume of inspections allocated to the audit, summarizing them, preparing the internal auditor's report, act and conclusion. The total amount of undetected and uncorrected misstatements is the amount or percentage determined by the auditor to be optimal in order to reduce the probability of exceeding the materiality level set for the financial statements to an acceptably low level.

Table 2

Analysis of sales revenues and expenses of the foreign enterprise "INDORAMA KOKAND TEXTILE" Joint-Stock Company, million soums²

Indicators	2020	2021	2022	2023	2024
1. Financial performance indicators					
Revenue from sales	740 430	871 094	1 024 816	1 205 666	1 418 431
Cost of goods sold	464 378	530 647	599 082	781 296	920 568
Period expenses, total	170 911	201 072	251 515	212 173	238 034
Including:					
Salaries	61 053	71 827	72 984	79 963	99 089
Rent	65 151	76 648	103 925	77 872	60 157
Depreciation of fixed assets	24 395	28 700	45 498	34 376	18 917
Credit interest	20 312	23 897	29 109	19 962	59 870
Net profit	105 141	139 375	174 219	212 197	259 829
Net profit margin%	14,2%	16%	17%	17,6%	18,3%

The table shows that the sales revenue of the research object increased over the years. As a result, the cost of production increased accordingly. In 2024, the period expenses increased by 139% compared to 2020, but when compared to 2022, we see that these expenses decreased by 94.6%. The fact that the net profit margin was 14.2% in 2020; 16% in 2021; 17% in 2022; 17.6% in 2023; and 18.3% in 2024 should be considered a positive situation.

Preliminary opinion on significance, 50,000.0 million soums.

As a result of determining the appropriate audit procedures (discussion, additional tests, decision-making, etc.), an adjustment is made to the preliminary opinion.

As a result of the audit analytical procedures, the following true state of total assets and retained earnings was determined:

Balance sheet, in million soums.

1. Cash – 100,000.0

2. Accounts receivable – 450,000

3. Inventories – 550,000 Total assets - 1,000,000

Retained earnings - 1,000,000

The article uses the capabilities of the currently widely used

«E-views», «Stata» and «Excel» programs to develop and implement a long-term forecast of factors affecting financial results using econometric modeling. Today, the use of digital technologies in auditing reduces the duration of the audit and significantly reduces the amount of labor required by the auditor. This leads to an increase in the quality of audit results.

Table 3

²Author's calculations based on financial reporting data of the foreign enterprise "INDORAMA KOKAND TEXTILE" JSC.

Dynamics of financial results of "BETLIS TEXTILE" LLC for 2019-2024, thousand soums³

Indicators	2019	2020	2021	2022	2023	2024
Net income, thousand soums	44 073 679	82 466 323	76 045 393	74 245 844	98 945 423	135 322 545
Operating profit %	54	40	42	37	18	11
Earnings before tax %	12	5	9	13	13	6
Net profit %	7	3	8	11	9	5

The table data shows that the research object's net income in 2024 was more than 3 times higher than in 2019, but we see that the profit from the main activity decreased by 43%, profit before tax by 6%, and net profit by 2%.

Table 4

Forecast indicators of financial results of "BETLIS TEXTILE" LLC for 2022-2026 [13], thousand soums

Indicators	2022	2023	2024	2025	2026
Net income, thousand soums	175 919 309	228 695 101	297 303 631	386 494 721	502 443 137
Operating profit %	40	34	30	34	50
Earnings before tax %	16	10	6	10	26
Net profit %	12	7	4	7	19

As a result of the analysis of the table, positive trends are expected in the indicators of the financial results of the enterprise in 2022–2026. In particular, the forecast data confirmed the growth of 3 times in 2026 compared to 2022, the growth of the main operating profit by 10 percent, the growth of the profit before tax by 10 percent and the growth of the net profit by 7 percent.

As a result of the research carried out in the article, the dynamics of the financial results of «BETLIS TEKSTIL» LLC in 2016-2021 and the expected forecast indicators for 2022-2026 were developed in the form of a diagram.

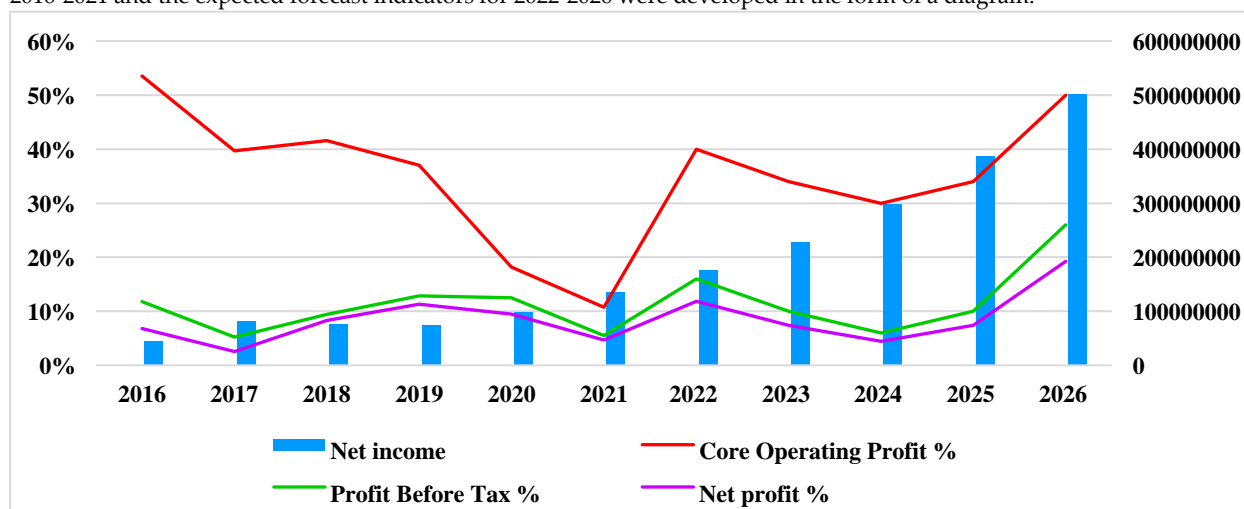


Figure 1. Dynamics of financial results of "BETLIS TEXTILE" LLC in 2019-2024 and expected forecast indicators in 2022-2026 ⁴

³ Financial and statistical data of "BETLIS TEXTILE" LLC for 2019-2024

⁴ «BETLIS TEKSTIL» MChJning 2019-2024 yillardagi moliyaviy va statistik ma'lumotlari

Processing the above panel data and forecast indicators using computer programs will allow for the implementation of audit audits, as well as the preparation of audit reports and conclusions based on international standards.

5. Conclusions and suggestions.

As a result of the recommendations developed on the use of analytical procedures in the audit process and the use of materiality in risk assessment, it becomes possible to organize the audit based on international standards.

In the light industry system, the use of improved forms of digitized accounting registers intended for processing in ICT and the developed mechanism for the formation of consumer value based on the "Costs - Product Volume - Profit" Chain in industry enterprises will have a positive effect on the activities of industry enterprises.

It is advisable to put into practice methodological recommendations for conducting an audit of product costs and financial results in light industry enterprises based on the "Audit-Sampling" and "SoftExpert Audit" programs, as well as the developed forecast of indicators affecting the cost of products and financial results of textile and sewing and knitting enterprises until 2025.

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