



TENDENCIES OF DEVELOPMENT OF AUDIT'S REPORT IN UZBEKISTAN: PROBLEMS AND PERSPECTIVES

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Voice of Research

Volume 4, Issue 4

March 2016

ISSN 2277-7733

Abstract

This paper analyzes the characteristics of the audit in Uzbekistan. It examines the development of the audit report on the basis of international experience. Based on this study, the author proposed recommendations for improving audit report based on national and international auditing standards. Trends described in this article suggest that audit in Uzbekistan is gradually developing.

Keywords: *international and national auditing standards, international financial reporting standards, report of the auditor, audit conclusions, a letter to the leadership, the financial information*

The Republic of Uzbekistan, which is governed by the elected president, has a total population of about 30 million people, with approximately three million living in the capital Tashkent. Since 2000, the Uzbek economy has experienced significant growth, largely due to the production, rising prices for raw materials over the years. Uzbekistan is currently the sixth largest producer in the world and the second largest exporter of cotton, as well as the seventh largest world producer of gold. Regionally as a major producer of natural gas, coal, copper, oil, silver and uranium.

In recent years, the Uzbek economy has achieved significant growth. To sustain growth, promote further economic development and reduce the cost of capital, we need reliable financial information (Derek Matthews, 2006).

Liberalization of the economy requires clear and comprehensive system of accounting and auditing practices, transparency and access to financial information for the further development of the real sector and encourage foreign investment in the country. Necessary of audit occurs in Uzbekistan since the start of market reforms and further it was improved (Ibragimov A.K, 2013). Attracting foreign capital business structures require a refund, warranty, and therefore independent evaluation using the audit. Based on an external audit is considered the audit report and the auditor's report. Thus, the need to verify began as an objective reality.

History of development of audit in Uzbekistan

Auditing activities in Uzbekistan began in 1992, when it was adopted the Law "On Auditing". ISA based on the development of national audit standards (NSAD).

Uzbekistan has gradually reformed audit activities. Chief reformer audit activity is the Ministry of Finance together with public organizations, including the Chamber of Auditors and the National Association of Accountants and Auditors.

For 2000-2006 were adopted Law "On Auditing" in the new edition and the Regulation on the procedure for issuing licenses and qualification certificate of the auditor. Were developed and adopted provisions for additional licensing requirements aimed at increasing the responsibility of audit firms and the quality of audit services. Introduced additional qualification requirements for auditors and the audit firm. From 1 January 2008 was a differentiated system of licensing audit activity depending on the inspected entities.

Problem is further exacerbated by the fact: that a significant expansion of the users of financial statements within country

and abroad: the deepening of integration processes in the world (the appearance of numerous joint ventures: access to world financial centers in the form of securities exchanges, international banks, funds and others) need to free movement of capital, labor, currency between countries.

To solve these problems it is important to audit the financial statements of firms and companies and be responsible for the audit report based on the international standard. The Republic of Uzbekistan is the audit report but based on national auditing standards (NSAD) No 70 "The auditor's report and the auditor's report on the financial statements." This standard is near to international auditing standards (ISA) No 700 "Auditor's report on the financial statements," but has their features, in particular in our country does not apply conditionally unqualified opinion. Since the audit activity in the country is regulated by the state, which establishes the legal framework of audit, audit organizations licenses and supervises their activities.

In Uzbekistan, in accordance with international requirements, the following:

- (1) training program for auditor qualification certificate;
- (2) the annual training of auditors;
- (3) currently being the register of auditors and audit firms;
- (4) The Ministry of Finance regulates the auditing activities in the Republic of Uzbekistan;
- (5) in 2004 introduced a code of ethics for auditors (accounting and audit development in Uzbekistan, 2011).

Analysis and Recommendations

To permit the synchronization the Uzbek and international standards are being developed national standards for accounting and auditing on the basis of IFRS and ISA. The Uzbek government is considering not only the adoption of IFRS and ISA, but officially translate these standards into the Uzbek language (audited financial statements, 2012).

The main purpose of the auditor's report prepared in accordance with Uzbek legislation financial statements is the formation of an audit report that provides whether the statements, in all material respects, the assets, liabilities and financial performance of firms and companies for the year ended on December 31 of this year, based on requirements of the legislation of the Republic of Uzbekistan, as well as providing a detailed audit report.

According to the results of each test step seems **audit report**, and after checking - **audit conclusion** on the financial statements of companies and firms for the current year.



The composition and content of the audit report and opinion must comply with Article 9 of the Law "On Auditing"¹, as well as requirements to the conclusion on the financial statements (statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows) set out in international auditing standards number 700 "auditor's report on financial statements"², as well as the position of the International Auditing Practice number 1014 "audit reports under international Financial Reporting Standards"², National auditing standards of the Republic of Uzbekistan¹ 70 "audit Report and Auditor's Report on the financial statements."³ According to these standards, given the concept of the audit report. Audit report - a document addressed to the head, the owner, the general meeting of members (shareholders) of companies and firms, containing detailed information about the course of the audit, identified deviations from the established order of accounting irregularities in the financial statements, and other information obtained as a result of audit, and is the basis for the auditor's report. The auditor's report includes the following sections:

1) An introduction part; 2) An analytical part; 3) A final part. Detailed submitted by the results of each stage of validation report is confidential and is made solely in order to attract the attention of management companies and firms to the existing shortcomings and indicate ways to correct them, drawing up such a report is required, its content depends entirely on the style of the audit firm.

All of the identified shortcomings of the current system of internal control, deviations in Accounting from the established order and errors affecting the nature of the alleged auditor's report may be reported in the audit, and at its end, as they are included in the content of written reports. At the initial stage of the audit, auditors actively cooperate with the accounting staff and internal control services. Practical issues that arise during the audit are resolved together with the management department, the head of the internal control and the chief accountant. Finished checking the auditor's report is discussed with the management of companies and enterprises.

Proper conduct of the audit, the reliability and usefulness of the results depend on the assistance of employees of companies and firms and support the work of the auditors. Auditors expect to get all the necessary documents and information, which can rely on the preparation of conclusions.

Auditors tend to guarantee the confidentiality of the obtained information about the audit firms and companies, as well as the fact that it will not be used by or disclosed to third parties without the prior written permission of administration of the audited companies and firms.

The main purpose of an audit of financial statements prepared in accordance with IFRS is to express a conclusion on the adequacy of the financial statements to reflect, in all material respects the financial condition of companies and enterprises for the year, the results of its operations and cash flows for the reporting period in accordance with IFRS.

Audit of financial statements in accordance with IFRS is conducted in accordance with International Standards on Auditing in the scope of audit procedures, types of tests and the format provided in conclusion.⁴

According to the audit company provided the following documents: the auditor's report for the year ended December 31, audited year; auditor's report on the audit; a letter to the leadership.

At this point, when the records are maintained in accordance with national accounting standards, companies and enterprises of Uzbekistan introduced the following changes to the regulatory framework: the preparation of financial statements to bring it in line with IFRS performed a series of transformational procedures.

In our opinion, after the transformation, the auditor can work for providing advice in the following directions:

I. Development of the algorithm transition to reporting format according to international standards, taking into account differences in the approaches to risk assessment, the establishment of reserves, valuation of assets and liabilities, etc.

II. Staff training companies transform Uzbek reporting format of international accounting standards, including:

a. assistance in the development of standards specialists companies reporting in accordance with IFRS; b. development of a methodology for reporting in accordance with IFRS (available in electronic form); c. recommendations for automating the process of reporting in accordance with IFRS on a regular basis; d. consulting support specialists companies compiling IFRS during the year.

As a result, companies must be able to self-reporting (IFRS on a semiannual and quarterly basis).

However, it should be noted that non-compliance with IFRS and low quality audit undermine the credibility of the international standards. According to a study by the International Accounting Standards Board (IASB), low quality of an audit of financial statements prepared under IFRS, is a serious obstacle to the successful implementation of international standards.

In his study, "International Financial Reporting Standards" former Secretary General of the IASB David Cairns found⁵ that companies with quoted securities (in particular, the largest European companies) have taken different approaches to comply with IFRS. Although many of the report under consideration:

165 companies make up a transparent and comparable financial statements under IFRS: 17 companies disclose, retreating from some requirements IFRS; 25 companies use IFRS only when their use is allowed by national standards, or lack thereof; At least 20 companies (including several major European companies) claim full compliance with IFRS and at the same time apply the accounting policy that is contrary to international standards.

Individual companies adjusting financial statements prepared under IFRS, as required by the American Securities Commission when placing their shares on USA stock markets.

¹ Law of the Republic of Uzbekistan "On Auditing" (new edition). // Collection of Legislation of the Republic of Uzbekistan. Article 403. Tashkent.2009.

² Bychkova S.M, E.Yu Itygilova International Standards on Auditing. M.: TC Welby, Publisher avenue 2008.-132c. p.9

³ National Audit Standards of the Republic of Uzbekistan. // Norm Program.

⁴ Sheremet A.D, V.P Suyts Audit: Textbook. M. INFRA-M, 2009. 448p. P.56.

⁵David Cairns. Failure to comply with IFRS and low quality of audit undermine the credibility of the international standards. //(Http://www.Cairns.Co.Uk).



Currently, organizations with complex internal structure quite a lot. This large and medium-sized enterprises in different fields, organizations with a large number of structural units, complex structures.

The current system of external audit is aimed primarily for validation reporting and does not solve the many problems associated with the improvement of the management system. In these conditions it is the internal audit, which gives information senior management throughout the organization about its financial and economic activity, increases the effectiveness of the internal control system, which prevents the appearance of wrongdoing and confirms the authenticity of the report of its separate structural subdivisions.

External auditors are selected shareholders of the company:

- Companies Act provides that the general shareholders' meeting appoints the external auditors.

- Appointment of external auditor of the company confirmed at the annual meeting of shareholders. We recommend the following amendments to the regulatory framework :

- Establish criteria for distinguishing public interest entities (PIE), small enterprises and micro entity meets the requirements for financial statements.

- Strengthening control audits and create a robust program of audit quality external audits. Our recommendations for improving the legal framework for the audit include:

- Statutory audit should be applied only to firms above a certain size threshold. This threshold should be set at a level appropriate to the public interest in reporting the audit based on the potential of the audit profession in Uzbekistan. Such a requirement is likely to cover all the thresholds and can be extended to cover other companies above this size threshold.

- The licensing authority must assess professional qualifications, for example, CAP, CIPA, ACCA and CPA, and determine and holders of professional qualifications may be granted privileges for passing certification exams.

- Quality of the external audit and the corresponding methodology of the audit report should be strengthened. Regime should be focused on risk assessment and its aim should be to improve audit quality by identifying gaps in the implementation of auditing standards and the promotion of learning and improvement in the methodology to fill the gaps.

- The licensing authority (or, if applicable, the other supervisor), in collaboration with professional associations , to initiate the process for the implementation of IFAC Code of Ethics and to develop and implement procedures to ensure compliance with this Code, including the establishment of the disciplinary committee and procedures , process complaints and sanctions for violations.

- The licensing authority may wish to consider requiring that all licensed auditors must be members of a professional organization; professional organizations, in turn, must meet certain criteria in order to be able to work. IFAC Statements of Membership Obligations (IFAC) contains examples of the internationally agreed criteria for well-functioning professional organizations.

2) Public Availability of Financial Statements

Measures to strengthen the enforcement of corporate financial reporting requirements include:

- Requiring all entities subject to regulation (eg, financial institutions, insurance companies, etc.) to provide full financial statements (which will include all the notes to the financial statements in accordance with NAS 1) to their respective control. Each regulatory authority shall publish the financial statements in full on their websites, thus implementing the current legal requirements that the company's financial statements can be made public. Currently, the company produces only a generalized balance sheet and income statement, rather than a complete set of financial statements, applying them to the audit report on the full financial statements.

- In the long term, the Ministry of Finance (MOF) may wish to consider establishing a registry, where the financial statements of all companies subject to the requirements of the financial statements will be centrally and publicly.

- Extensions and, where applicable, renewal of certificates audit licenses audit firms and individuals must depend on supply confirm compliance with legal requirements, such as continuing professional development, compensation insurance, etc. MF should review the current requirements that auditors every five years pass qualifying exams, which is quite burdensome.

- In addition, the Ministry of Finance should consider amending the relevant legislation that professional auditing and accounting organizations wishing to register in Uzbekistan will have to first obtain a license and the Ministry of Finance if they meet certain criteria. In addition, membership in the recognized association should be mandatory for auditors and audit firms. This would be the beginning of a reliable and effective system of audit quality control.

(3) Establish institutional capacities

Regulators and other institutions in the area of financial reporting increasing problems as changing infrastructure and business environment creates a demand for an updated accounting and auditing (VI Podolsky , 2010). Although a cautious approach to accounting reform will not lead to the urgent need to strengthen the institutional capacity, there is a need for additional capacity , as evidenced , for example , the fact that the disclosure requirements listed in the National Academy of Sciences 1 , will not be executed and that the absence of these is not always resulting in a modified audit opinion . This points to the need to strengthen the capacity of both auditors and audit quality control function . Accordingly, it's recommend:

- Regulators are supported, including the international expert institutions, to build their capacity in terms of numbers, skill levels, and training their staff. CBU and insurance and securities agencies should be supported to ensure compliance with high quality financial reporting entities they regulate. They should have the necessary powers to regulated entities comply with the relevant financial reporting requirements and, in particular, address the deficiencies noted in the review of financial statements. To achieve these objectives it will be necessary to hire more professionals to regulatory authorities, providing specialized training, establish specific processes of investigation and disciplinary action, as well as to provide legal support for all of these processes and measures.

- Professional organizations of accountants and auditors should receive the same support that they could increase their



capacity to manage their members more effectively, particularly in the field of audit quality and ethics.

4) Professional education and study.

National Association of Accountants and Auditors, the Association of Teachers of Business and Finance disciplines and the Court of Auditors have developed their own codes of ethics, although none of them has a disciplinary function that the Ministry of Finance and the licensing authority shall be the responsibility. Codes based on the IFAC code, address, in particular the following:

1) the orderly conduct of business and objectivity; 2) resolution of ethical conflicts; 3) professional competence; 4) confidentiality; 5) Tax Practice; 6) independence; 7) Commission and the contractual payments; 8) relationships with other auditors; 9) advertising, conflict of interest, supervision, information and publications, etc.

While the education system seems to turn out a sufficient number of future specialists, there is a need to strengthen the capacity of accounting and auditing education at universities and build continuity between pre- university and professional education programs, as well as further expansion of the existing CDP program. Correct understanding and application of international standards and requirements of accounting and auditing requires a solid foundation of education and training for preparers of financial statements, auditors and users. To achieve this goal, we recommend the following steps:

- To meet the growing needs of Uzbekistan's economy requires more capacity in the current representatives of education and training in the field of accounting. This, in turn, requires the introduction of new programs to upgrade skills of university teachers and modern techniques of accounting and auditing, which could pass on to their students. Furthermore, it may be considered secondment faculty at other universities in the region and attract teachers from other former Soviet republics, which have already made the necessary changes in the curriculum.

- University curricula may need a comprehensive overhaul to cover, in addition to the NAS, and IFRS, as well as principles and accounting theory underlying both NAS and IFRS. Similar attention should be given to the theory and principles underlying the NSA and ISA audit. Support should be given in particular to those institutions that seek to create high-quality programs, using its own resources.

- Particular attention should be paid to the better integration of professional certification and licensing requirements and university programs, such as aligning the university and the CAP / CIPA courses so that graduates granted exemption from certain requirements of CAP / CIPA exams.

- Greater support should be given to activities aimed at standardizing and improving the quality of university accounting and auditing education programs across the country. Support for these activities can help achieve many other recommendations contained in this section, such as updating and strengthening of university curricula, to be compatible with NAS and NSA helping university professors in keeping their current knowledge of accounting and auditing and coordination of educational programs with universities professional qualifications.

- The Uzbek government should continue its efforts to unify and coordinate the provision of accounting education and training with the interests of professional accounting

community, bringing together professional organizations, university professors, government ministries and leading international and local professional accounting firms to cooperate making accounting courses more responsive to market needs. This will lead to a stable supply of accountants, with knowledge and experience relating to the needs of the market of Uzbekistan.

- Professional accounting and audit qualifications on the market should be reviewed for their suitability for the Uzbek market. The results of this review should be used to influence policy in the Republic of Uzbekistan, as well as provide valuable feedback to the providers of the Russian language professional qualifications.

Conclusion

Above recommendations require a holistic, interdisciplinary approach and should be done gradually. Their implementation will require the cooperation of a wide range of stakeholders, including governments, regulators and the accounting profession, and should act as a senior statesman with sound political support. In addition, input from the peer may Uzbekistan unique understanding of how these issues were resolved in such countries. Uzbekistan should create a working body composed of representatives of various stakeholder groups to advise politicians and regulators on how best to implement the recommendations of the ROSC. Based on the successful experience of other countries, it seems appropriate that this development team, with the assistance of local and international experts, a detailed plan of action Country, which would clearly set out the key actions reforms prioritized by value, and assign responsibilities for their implementation. The plan should include a comprehensive budget with the resources required for successful implementation. Government stakeholders and development partners should work together to provide these resources to achieve a common goal of improving the quality and availability of financial information in the Republic of Uzbekistan.

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