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IMPROVING AUDITING REPORTS ON FINANCIAL STATEMENTS OF IN IFRS THE REPUBLIC OF UZBEKISTAN

Abstract

The present article is written based on the requirements of international standards to improve the legal structure and regulations on audit activity. Financial Statements prepared by the International Financial Reporting Standards and their confirmation with the international auditing standards are necessary to attract foreign investments. One of the factors of auditing activities is developed by the leading multinational auditing organizations, which requires the auditing of financial statements in accordance with international regulations and standards of auditing due to the high level of competitiveness and the globalization of the auditing business. Reforming the accounting system in the Republic of Uzbekistan or the transition of national accounting practices to the international accounting standards has considerable influence on the development of standards of auditing activities in Uzbekistan.

Keywords: audit, the purpose of the audit of financial statements, the international auditing standards, IFRS, users of financial information, audit evidence, external audit, internal audit, the auditor's report.

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Introduction

Professional associations of the accounting and auditing society have already recognized the necessity of holding auditing activities within the framework of international standards. The identical requirement has been also arisen by foreign investors, who invest own capital to the economy of Uzbekistan. The development of auditing activities in overall economic activities of Uzbekistan can only be a solution to meet such necessity.

Literature review

The regulation of auditing activities in Uzbekistan carries the following areas:

- the development of legal and methodological framework of the auditing activity;
- training, certification, attestation and controlling the increase of professional qualifications of auditors;
- licensing the auditing activities and control over its implementation;
- determining the location and status of non-governmental public organizations in the government regulation system.

Due to the adoption of the Law of the Republic of Uzbekistan "On auditing activity" (dd.December 9, 1992) and the number of auditing organizations have been dramatically increasing. To implement the regulations of this law, the National Standards on Auditing (NSAD) has been developed and auditing activities have been licensed as a special kind of business.

Within the practicing period, some significant gaps of the first version of the law "on auditing activity" caused the adoption of the new edition on May 26, 2000. The main objective of the developing the new version was to eliminate those gaps and build connections between the national system of auditing activity and the general processes of strengthening reforms and liberalizing the economy in the country. The new edition of the Law eliminates several inconsistencies with the international regulations. The special Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "on further improvement of auditing activity and enhancement the role of audits" (dd.September 22, 2002 with no.365) has set the new edition to be implemented into the real life. The adoption of the new edition of the Law and the Resolution has allowed the auditing activity to arise into a new level.

The new version of the Law has fulfilled the following principal discrepancies:

First, it describes the concepts of "Auditing" and "Auditor" in more detailed way. According to the second article of the Law, "the auditing activity - it is entrepreneurial activity of audit organizations related to the conduct of the auditing and the provision of professional services." Only auditing organizations with independent legal status can carry out this type of activities. This concept emphasizes the independence of auditing activity. According to the third article of the Law, "Auditor" is a natural person qualified with a certificate.

Second, it introduces and clearly defines the new concepts such as "assistant auditor", "auditing organization", etc., gives higher status of refinement, and describes the detailed rights, duties and

responsibilities of auditing organizations. For instance, auditing organizations have the right to independently determine the forms and methods of the auditing. It means that auditing organization develops its own internal performance auditing standards, approves and applies them in the process of auditing.

Third, it defines and specifies the types of auditing activities more clearly. For instance, the separate article describes the concept of "auditing" (Article 9), which takes two forms: mandatory auditing (Article 10) and the voluntary auditing initiated by the customer (Article 11).

Moreover, it defines the procedure of auditing initiated by the customers, authorized entities of the regulatory and legal enforcement (appropriate government authorities). It also includes a list of professional services, which are not considered as auditing services and do not require a special permit (license).

The new edition of the Law clearly defines certification and licensing issues of auditing activities, rules on proper formation of the auditor's reports, conclusions and other respective circumstances. Thus, currently the legal system of regulation of auditing activities is in the stage of under development.

Attracting foreign investments requires preparation of financial statements based on International Financial Reporting Standards (IFRS) and their confirmation on the basis of international auditing standards. IFRS are used in many parts of the world, including the South Korea, European Union, India, Hong Kong, Australia, Malaysia, Pakistan, Gulf Cooperation Council (GCC) countries, Russia, Chile, Philippines, South Africa, Singapore and Turkey. The increasing popularity of IFRS comes with necessity auditing activities held by leading multinational auditing firms. One of the necessary factors of auditing activities is developed by the leading multinational auditing organizations, which requires the auditing of financial statements in accordance with international regulations and standards of auditing due to the high level of competitiveness and the globalization of the auditing business.

Reforming the accounting system in the Republic of Uzbekistan or the transition of national accounting practices to the international accounting standards has considerable influence on the development of standards of auditing activities in Uzbekistan. Many countries Development of generally accepted accounting principles and requirements leads to an increase in the degree of identical statements, which results the possibility of a common approach of auditing. International experience shows that the control exercised by professional auditors associations for the quality of auditing services provided by their members, is quite effective by standardizing auditing activities. National auditing standards in Uzbekistan are being developed on the basis of international auditing standards.

In conclusion, the need for international auditing standards arose in connection with the following circumstances:

- 1) the possibility of biased information from the financial statements of their drafters in the event of a conflict between them and the users of this information (owners, investors, creditors);
- 2) the dependence of the consequences of decisions (and they can be quite large) on the quality of financial information;
- 3) the need for expertise to conduct an external auditing by the external auditors;
- 4) lack of access of financial statement users to assess the quality of preparation;

It should be noted that the Law "on auditing activity" and its subordinate regulations have been developed during the initial period of building foundations of a market economy in our country. At that time, it was not possible to transform the experience of developed countries to our own economy without any thorough research and implementation study. Development of market relations and the strengthening reforms have been gradually causing improvements on the legal framework of accounting and auditing. As a result, the system of legal regulation of accounting and auditing has been gradually formed and improved.

The development of national standards on accounting and auditing has become significant factor in recent years. The recognized experience in this field has already accumulated and continues to be accumulated. However, implementation of plans and draft solutions should be drafted in legal measurements by involving the most qualified professionals and by accompanying certain financial expenses.

Development of national auditing standards (hereinafter – the NAS) in Uzbekistan began in 1999. The Ministry of Finance of the Republic of Uzbekistan is directly in charge of the development and implementation of the NAS. Moreover, several professional non-governmental organizations are also actively involved on the development of NAS such as National Association of Accountants and Auditors

(NAAA) and the Chamber of Auditors (CA) of Uzbekistan. The discussion of the NAS related issues also involves leading research organizations for accounting, statistics, automation and information technology, as well as highly qualified specialists and university professors of accounting, control and analysis of economic activities. In short the discussion of the NAS collectively involves the large circle of professionals. Obtaining most reliable information in the financial statements improves the efficiency and effectiveness of functioning of the capital market and enables to assess and predict the consequences of various economic decisions of foreign investors. It is important to mention that conducting the auditing under the international standards, even in cases where it is not mandatory, is essential for business activities.

Several definitions of the term “auditing” exist (Ageeva O.A. 2016). Some definitions are set on official both international and national documents and regulations and others are given by auditing professionals. The terms “auditing” and “auditing activities” are essentially defined as the International Standard on Auditing ISA 200, “Objective and General Principles Governing the Auditing of Financial Statements.” This standard specifies that “the purpose of the auditing of financial statements is to enable the auditor to express an opinion as to whether the financial statements are prepared in all material respects, in accordance with the established conceptual framework of financial reporting.”

According to the Law of the Republic of Uzbekistan “On auditing activity” (new edition dd. May 26, 2000 no.78-II), the “Auditing activity” is defined as follows “the auditing activity - it is entrepreneurial activity of audit organizations related to the conduct of the auditing and the provision of professional services.”

At the macroeconomic level, the audit is an element of market infrastructure, the need for which it is determined by functioning the following circumstances:

a) financial statements are used for decision-making purposes for stakeholders such as management, shareholders, property or economic entity owners, real and potential investors, employees and customers, government and general public authorities;

b) financial statements can be distorted due to a number of factors, in particular, the use of estimates and the possibility of ambiguous interpretation of the facts of economic life; moreover, the accuracy of the financial statements is not provided automatically in view of the possible bias of its developers;

c) Majority of stakeholders, as a rule, cannot independently assess because of the difficulty of access to records and other information, as well as the large number and complexity of transactions reflected in the financial statements of joint stock companies.

During the process of auditing the financial statements, auditing organizations need to have sufficient, reliable, and appropriate auditing evidence to make one of the following respective conclusions:

a) accounting documents of joint stock companies are prepared in compliance with the requirements of regulatory acts governing the accounting and financial reporting in the Republic of Uzbekistan;

b) financial statements of joint stock companies hold identical information on company’s activities provided to the auditing organization.

Auditing is intended to provide reasonable assurance that financial statements as a whole document is free from holding any discrepancies or misstatements. The concept of *reasonable assurance* - it is a common approach, referring to the process of accumulation of auditing required and sufficient evidence to ensure that the auditor concluded that financial statements as a whole document is free from holding any discrepancies or misstatements. The concept of reasonable assurance applies to the entire auditing process. The limitations of auditing affecting the ability to detect documentary misstatements in to be audited financial statements occurs due to following reasons:

- applying sample techniques and testing during the auditing;
- any incomplete system of accounting and internal control (for instance, obtaining no guarantee for the absence of collusion);

The predominant part of the auditing evidence only provides arguments in support of a particular output, and does not contain exhaustive character. For instance,

Limitations on the auditing reliability also depend on the fact that the auditor, who performs the service, formulates an opinion based on his/her own professional judgment, in particular, on the collection of auditing evidence, including

- the determination of the nature, timing and volume of auditing procedures;
- preparation of the conclusion based on the auditing evidence, for example, finding reasonable significant assumptions on customer management during preparation of financial statements;

In addition to the above, other type of limitations may affect the persuasiveness of evidence, which are used for making conclusion by taking into account certain preconditions of the financial statements. Some requirements (standards) of auditing activity identify specific procedures, which contain unique prerequisites to become satisfactory auditing evidence, where none of the following conditions is applied:

- extraordinary situations where the risk of material misstatement on the financial statements is higher than the expected one under normal conditions;
- signs indicate the presence of any material misstatement of the financial statements.

The main objective of the auditing financial statements - an objective assessment of the reliability, completeness and accuracy of the reporting of assets, liabilities, equity and financial results of the company for a certain period, verification of compliance with accounting policies adopted by the company to the current legislation and regulations.

The reliability of financial reporting refers to a degree of accuracy of reporting data. On this basis of such reporting information, qualified users make correct assumptions on financial position and results of company activities and take appropriate decisions.

The main objective of the auditing is supplemented by the contract with the customer by specifying the provisions for best usage of financial resources, analysis of the accuracy of calculation of taxes, the development of measures to improve the financial situation of the enterprise, optimizing cost efficiency and performance, income and expenses. Auditing by verifying the financial statements involves the study and analysis of company reports, including the report on financial condition (Form no.1), the comprehensive income statement (Form no.2), statement on changes of equity (Form no.3), cash flow statement (Form no.4), the explanatory notes (in terms of verification of compliance with company accounting policies).

On auditing process, the correctness of the report on financial condition and the comprehensive income statement with the accurate explanatory notes will be established. In this process, auditing establishes the correctness of all company assets' and liabilities' reflection on reports; support of necessary documentations of the report; the actual method of property valuation based on the established company's accounting policies.

Auditing evaluates the comprehensive income statement to analyze the correctness of the income calculation for both accounting and taxation purposes.

Research Methodology.

Auditor needs to evaluate whether:

- company owners follow rules to decide changing the authorized capital volume;
- synthetic and analytical accounting is applied on asset and liability account balance;
- all account receivables and payables are reflected on reports.

To prepare an auditing report, followings are verified:

- business transactions and property valuation is made in compliance with the company's accounting policies;
- income and expenses classification is correctly reflected for the reporting period;
- distinction in the current account of the costs of production and capital investments;
- providing analytical accounting data of the identity turnovers and balances analytical account on the first of each month.

To achieve the main objective and to present an opinion, auditor should find solutions to a list of activities (see Table 1.).

Table 1

External Auditing procedure under International Standards on Auditing

	Tasks of External Auditing	Main concerns on preparation of Auditing Report
.	<i>Acceptable and corresponding financial</i>	financial statements' correspondence with the requirements of legal rules and regulations of the Republic of Uzbekistan, as well as with the

	<i>statements with the accounting principles</i>	respective international standards on auditing; absence of conflicting information
	<i>Proved rationale for specific articles based on the auditing evidence</i>	to express auditor's opinion, there is a need to gather enough information to prove the given amounts on specific articles of financial statements
	<i>Completeness of financial statements</i>	financial statements should include all appropriate amounts; corrected respective transactions, including proper ownership of all assets and liabilities of the company; company's every items of property, etc.;
	<i>Classification and appliance to the appropriate account</i>	evidence to relate specific amount to the respective specific and most appropriate account on which the amount is applied; making correct transactions of economic operations
	<i>Evaluation and calculation</i>	all articles proper evaluation based on the International Financial Reporting Standards and accurate calculation of accounting to respective amounts and sub/grand totals
	<i>Verifying calculations and sub/grand totals</i>	Consistency of individual transactions to the information provided in trial balances and general ledgers; accurate summation and consistency of amounts in sub/grand totals with the general ledger
	<i>Related accounting to the actual periods of income and expenditures</i>	transactions' appropriate compliance with immediate related period before the date of balance sheet, or immediately after the actual happening or operation
	<i>Disclosure</i>	financial statements include all articles and their proper reflection in reports and their enclosures

Based on objectives given in this table, auditor may use several techniques to accumulate necessary information(Ibragimov A.2010).

During professional activities, the auditors (audit firms) give solutions to a number of problems related to the provision of auditing services such as: checking bookkeeping activities and reporting, the legal compliance of business operations; assistance to the organization's accounting; assistance in the restoration and maintenance of accounting, preparation of accounting (financial) statements.

Moreover, an auditing is necessary for evaluation and assistance to fulfill the following cases under its contract:

- *assistance in tax planning and tax calculation;*
- *advising on specific issues of accounting and reporting;*
- *expert's evaluation and analysis of business results;*
- *advising on a wide range of financial and legal issues, marketing, management, technological and environmental consulting, etc.;*
- *development of articles, constituent documents, regulations, etc.;*
- *providing information on future partners; customer service information; and other services.*

By rendering auditing services, the independent auditors fulfill these basic functions, which are accepted in the international generally accepted accounting principles. Within last two decades the role of the evaluation functions: interpretation of the facts, confirming the findings of the originator of financial statements; and the role of evaluation findings have greatly increased. One of the reasons of this increase consequences with the successful improvement on the administration structures of internal control, which provides technically accurate information. Auditors often find it more appropriate to check the internal control system in order to obtain evidence of the effectiveness of its organization and operation, rather than to be scanned information issued by this accounting system. Another reason of this increase is the quantitative growth of complex transactions, new types of transactions and the need to assess the ways of their reflection in the statements of administration.

At the stage of preparation of the auditing opinion on reliability of the companies' financial reporting, the auditing firm is obliged to *compile and assess the conclusions* made on the basis of the

obtained information. During preparation of financial statements, economic entity must follow all the rules and regulations and record most accurate information, which corresponds with the same data presented to an auditing organization. An auditing opinion must contain a clear expression of opinion on the degree of reliability of the financial statements of the economic entity. Certainly positive auditing opinion indicates that the auditing organization considers that financial statements of the economic entity complies with all material matters. In compilation of conditionally positive or negative audit opinion or a disclaimer of the design of an opinion on the financial statements of the economic entity must specify the circumstances that play as a reason for such decision of the auditing organization.

During auditing process, the auditing organization is obligated to achieve acceptable confidence in the reliability of its opinion based on the reliable financial statements of the economic entity in all material matters (Mazurenko A.A. 2015).

Auditing organization based on its professionalism proves the assessment of the necessary level of auditing guarantees, the reliability of auditor's opinion on the reliable financial statements of the economic entity. This prove allows the audit organization to safely draw conclusions about the absence or the presence of distortions in the financial statements of the economic entity.

Confidence of the audit organization expressed an opinion on the reliability of the financial statements of the economic entity cannot be absolute because of the following factors, which inevitably limit the effectiveness of the auditing:

- the limitations of the auditing organization to be aware of the activity of the subject part of the study, the cost of holding such information must be in economically acceptable limits;
- the auditing service contains an inevitable element of subjectivity in the process of decision-making, which is the dependability on the auditor's professional judgment, particularly, in determining the types, volume and schedule of auditing procedures;
- auditing process relies on the random approach on inspection due to irrational inability to inspect in consecutive order;
- to express its opinion the auditing organization may use the information for auditing evidence gathered on the basis of compilation of findings and conclusions of the third party (for instance, the auditing organization uses the reports and feedbacks received from other involved experts - appraiser, engineer, geologist, etc. and make a its own conclusion based on the this objective data from conducted studies and opinions and conclusions);
- susceptibility of accounting and internal control systems of the economic entity by inherent faults;
- no insurmountable obstacles for the fraudulent conspiracy to misrepresentation;
- uncertainty due to different interpretation and evaluation of some events in economic life, as well as other circumstances that make it impossible to use exclusively objective criteria in both compilation of the financial statements and assessment of their validity.

These factors limit (in acceptable manner rather than absolute certainty) provision of guarantee by the audit organization guarantees on absence of any other (not detected during the auditing) the circumstances that have or are likely to have an impact on the financial statements of the economic entity.

During auditing process, several objective and subjective reasons, which we cannot ignore, cause probability of not noticing the possible distortions in the financial statements of the economic entity.

In case of high probability of possible distortions may have happened during accounting reporting period, the audit organization should increase its procedures to dispel or confirm doubts that are arisen.

Discussion and analysis of results

The auditor must check the real restrictions in ownership of the assets, the degree of reliability of the guarantees provided in regards of liabilities, the reliability level of contingent assets and liabilities for quantitative assessment and verification of valid amounts received from commitments against future capital expenditures.

During evaluation of records and reports, the auditor must analyze the presence and conditions of followings:

- assets (fixed assets and investments, stocks and costs, intangible assets);

- other long-term assets (long-term investments, investments in subsidiaries and affiliates, in associates);
- cash payments and other assets (cash, settlement and currency accounts, securities and short-term investments, accounts with stakeholders, accounts payables and receivables);
- long-term liabilities (authorized capital, depreciation of property, special funds and reserves); loans and other borrowings;
- payables and other liabilities (accounts payables to creditors, with the government budget, insurance agencies, personnel of the enterprise); other liabilities.

Conciusion/Recommendations

On evaluation of the entity's financial performance, the auditor studies followings:

- revenue (gross revenue) from sales of products (works, services);
- the cost of production of products sold;
- results from financial operations and other non-sale transactions.(Kevorkova J.A.) 2014).

Taking into account the abovementioned, the conclusion can be reached as that during the process of auditing of financial statements, it is important to ensure the accurateness of the balance sheet, income statements and other financial documents by:

1. Evaluation of all significant operations and transactions: major transactions and transactions registered in the end of a quarter or fiscal year, the main financial indicators, factors and targets different from the calculated average for the past five years, the unsatisfactory situation of working capital, revealing the facts that show the sudden and not necessarily increased revenue to keep the stock prices, the causes and nature of the litigation to the enterprise, especially, in connection with the claims of shareholders, the usage of different forms of financial statements in different divisions of enterprise.

2. Evaluation of profit usage by allocating payments for budget, reserve (insurance) funds, accumulation of funds by profit transfer, consumption fund, charitable funds and other similar purposes or fines.

3. Putting particular attention to the analysis of receivables and payables, the dynamics of long-term and short-term financial investments (in the units and shares of other companies, bonds and other securities, loans receivable, etc.).

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