



## ORGANIZATION OF INTERNAL AUDIT QUALITY CONTROL AND ITS IMPROVEMENT

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### ABSTRACT

This article reveals the key problems that arise in the process of organizing internal audit quality control, conducts a deep analysis of the principles, procedures, methods, and presents the main directions of audit quality control. An analysis of the audit quality indicators that are available in the quality control system indicates that all of them are insufficiently disclosed and need to be clarified. The structure of the audit quality control system at the enterprise has been developed, its content has been disclosed. The regulation of internal quality control of the audit organization, which reveals the quality control procedures, is disclosed. The introduction of an improved system of internal audit quality control will minimize the costs of organizing this process in each audit organization, will provide confidence to clients that the audit organization acted within the established standards and principles.

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**Introduction.** The Law of the Republic of Uzbekistan “On Accounting” was adopted in accordance with the Law of the Republic of Uzbekistan dated April 13, 2016 No. ZRU-404 “On

Amendments and Additions to the Law of the Republic of Uzbekistan “On Accounting”<sup>1</sup>.

*Accounting* is an ordered system for collecting, registering and summarizing information in monetary terms about the state of property, liabilities and capital of an organization, and their changes through a continuous, continuous and documentary reflection of all business transactions.

The problem of organizing an internal quality control system in an audit firm is revealed in the works of economists, they generally consider the problems of its formation in order to implement the implementation of the legislation in the field of auditing.

According to M.A. Azarskaya, the audit quality control system is based on procedures and principles developed and established by an economic entity in accordance with audit standards.

In his work, R.P. Bulyga presented proposals for ensuring internal control, taking into account the requirements of federal auditing standards.

T.I. Kisilevich, K.N. Derevianko reveal the main goals and procedures of internal quality control. A methodology is presented that allows to establish the total cost of the audit services provided.

In the textbook V.I. Podolsky, the types and tools of audit quality control are defined, provisions are given that reveal the process of forming a system of internal quality control of audit services provided, taking into account the National and International Auditing Standards.

According to V.F. Massarygina, there are currently two methods for monitoring the quality of audit work:

- control of the actions of less experienced employees by more experienced ones in the process of auditing (verification pyramid);
- control of actions carried out by a specially appointed person, which is carried out before the signing of the conclusion (hot check) and after the issuance of the conclusion (cold check).

N.V. Parushina, S.P. Suvorov, indicate the important role that standards play in the process of internal audit quality control. In their opinion, the creation of internal quality standards is a complex process, as a result of which "auditor organizations prefer not to share their developments according to internal company standards, considering them production and technological secrets"<sup>2</sup>.

CM. Bychkova, E.Yu. Itygilova emphasize that “certain mechanisms for controlling the quality of the audit are already laid down in the system of regulatory regulation of audit activities. The requirements for the organization of an audit quality control system at the federal and professional levels, the requirements for the establishment and compliance by audit organizations with the rules of internal quality control of the audits they conduct, the requirements for the mandatory implementation of external quality audits of the work of audit organizations and auditors have been legally established.

The concept of quality control of audit activity T.I. Krishtaleva, I.D. Demin is considered taking into account international auditing standards.

*Quality control audit* - a system of organizational measures, methods and procedures used to verify compliance with the rules of auditing and other regulatory documents.

The key point for the further development of the audit services market is the development of unified audit quality criteria and the introduction of standard models for evaluating the results of the work of auditors and audit organizations.

At the present stage of improving the audit, the following *indicators of the quality of audit activity are disclosed*:

- functioning and stages of the methodology for the provision of audit services;
- analysis of labor costs for the provision of audit services, planning the audit process;
- disclosure of information on interaction with the customer and communication to the

<sup>1</sup> This Law was adopted in a new edition in accordance with the Law of the Republic of Uzbekistan dated April 13, 2016 No. ZRU-404 “On Amendments and Additions to the Law of the Republic of Uzbekistan “On Accounting”

<sup>2</sup> M.F. Safonova, O.V. Pugacheva "Organization of internal quality control" No. 22 (4), Moscow, p. 137, 2018

customer's management of data on the results of the audit;

- operating time of the audit company in the market of services rendered;
- information substantiating business reputation.

According to the Law "On Auditing", *the main requirements for internal quality control* developed by the auditor should include the following:

- auditors must comply with the principles of honesty, independence, confidentiality and objectivity, including the rules of professional conduct;

- auditors must be competent, have the appropriate skills and perform their work with due diligence;

- it is necessary to observe the work of employees and carry out control measures at all stages of the audit, in order to ensure that the services provided correspond to the established level of quality;

- the provision of audit services is entrusted to employees with high qualifications and experience required in specific conditions;

- if necessary, consultations with experts with special knowledge are organized;

- it is necessary to regularly organize control over the reliability and effectiveness of procedures and principles of internal quality control of audit activities;

- Communicate continuously with existing and potential customers. With the possible conclusion of a contract or its extension, it is necessary to be based on the principle of independence of the audit.

*Audit quality control indicators:*

- the necessity and effectiveness of the methods used in the implementation of audits;

- availability of the required amount of time and labor resources for carrying out verification activities;

- Availability of economically justified prices for the rendered audit services;

- following the rules and regulations of audit independence;

- creation of a continuous process of documenting the audit and audit services;

- formation of an operational system of internal control<sup>3</sup>.

*The head of the audit* evaluates the professionalism of the auditors and their assistants who perform the work assigned to them. Those, in turn, receive detailed explanations from the head of the audit on the necessary procedures. Auditors may become familiar with the nature of the entity's business and the anticipated accounting risks that are likely to affect the nature, timing and extent of audit procedures.

The work of the auditor's assistant is checked by auditors whose level of competence is higher in the following *areas*:

- whether the audit was carried out in accordance with the audit program;

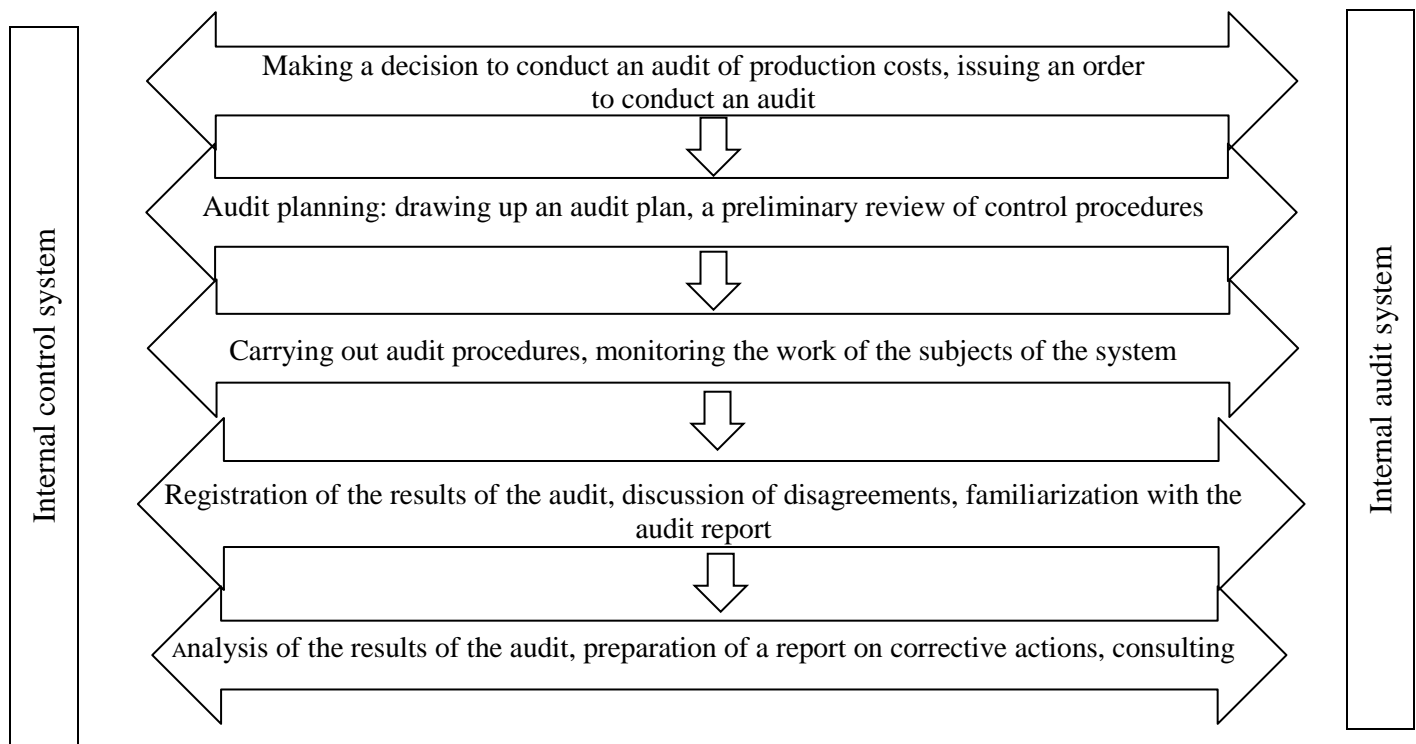
- whether the documentation process was carried out in full;

- whether all important circumstances of the audit are reflected in the auditor's report and audit conclusions;

Whether the conclusions drawn are consistent with the results of the work and support the auditor's opinion.

Maintaining an effective system of internal quality control in an audit organization is one of the problems that can be solved without attracting significant resources.

<sup>3</sup>M.F. Safonova, O.V. Pugacheva "Organization of internal quality control" No. 22 (4), Moscow, p. 137, 2018



**Fig.1. The structure of the internal audit quality control system**

The purpose of developing and implementing a quality control system can be divided into two levels. *The first* is the quality of the organization's consistent activities - strategic and current planning of the company's activities, personnel policy, maintaining and improving the skills of employees, compliance with ethical requirements and legislative requirements, analysis of the shortcomings of audits. *The second level* is the quality of the direct performance of the audit assignment and the preparation of the audit report.

High-quality provision of services is associated with the availability of audit technology in the audit organization, which is regulated by internal audit standards developed taking into account the requirements of international audit standards.

The *main problematic points of internal audit quality control* include organizational problems and problems of its functioning, associated with the lack of a methodological basis and limited personnel.

In order to solve these problems, taking into account the balance of costs and obtaining the final result, it is necessary to reflect the procedures and principles of audit quality control in the internal standard.

*The priority principles of internal audit quality control* are: responsibility, targeted focus on improving quality, continuous monitoring of emerging deviations, establishing a balance between costs and the effect obtained, consistency in organizing control, proportional distribution of responsibilities, compliance with ethical standards.

The process of developing an internal audit quality control model is completed by the evaluation procedure for this model, covering all elements and consisting of internal and external evaluation.

*Internal analysis* is carried out continuously and is carried out directly by employees of the audit firm who have knowledge, skills and practical experience in the field of internal control. *External evaluation* is established by law and is carried out every three years by self-regulatory audit associations.

Having completed the assessment of the quality of the services provided, the employee performing the control measures generates a report that is submitted to the management, a long-term action plan is drawn up to eliminate the comments, and responsible employees are appointed for the implementation of the developed measures.

Subsequently, control over the implementation of the action plan for identified violations is carried out, and then corrective actions are proposed.

An in-house document is called upon to ensure compliance with quality at both levels, which fixes the goals, elements, policies, procedures and rules for maintaining a high quality audit - the Standard (Code) for quality control of an audit organization.

It is the responsibility of any audit organization to create a quality control system, in the form of an internal Quality Control Standard, which includes procedures and rules that allow clients, third parties to form reasonable confidence that the audit organization in the process of providing services provides the necessary composition of employees, their high professionalism, compliance with ethical standards.

Compliance with the principles of the Quality Control Standard will enable the firm to plan and perform engagements so that the audit evidence on which the auditor's report is based is sufficient and of appropriate quality and persuasiveness. This will give users confidence that the audit firm is engaged in commercial activities and serves the public interest.

The Law "On Auditing" contains a requirement for an audit organization "to establish and comply with the rules of internal control over the quality of work."

Thus, each audit organization is required to develop, document and comply with an internal document that regulates the objectives, policies and procedures for maintaining the quality of its activities.

The development of an internal document (Code or Standard) for audit quality control was often carried out by organizations formally - the relevant national or international standards were rewritten with the addition of self-regulatory organization standards to them.

International standards, in particular the International Standard for Quality Control (ISQC 1) and ISA 220, Quality Control in an Audit of Financial Statements, carefully describe the objectives, principles, content and structure of a quality control system and the quality requirements for audit engagements.

The need for a carefully developed in-house Quality Control Standard is also due to the fact that it is difficult to assess the quality of an audit.

*The "Audit Quality Framework"* defines the causes of difficulties as follows <sup>4</sup>:

1) the existence or absence of misstatements in the financial statements provides only a partial idea of the quality of the audit;

2) audit engagements differ from each other, and the availability of appropriate evidence to support the auditor's opinion is a matter of professional judgment;

3) among the interested parties there are ideas about the quality of the audit;

4) there is limited transparency regarding the work performed and audit reports.

The existence of quality objectives, policies, rules and procedures, as well as evidence of compliance with them, can increase stakeholder confidence that quality is maintained at the level of the organization's day-to-day operations and assignments.

Sections of the Standard (Code) of Quality Control	Control procedures
1. Responsibilities of the management of the audit organization, to ensure the quality of the	Determination of responsible employees and manager for the quality control system

<sup>4</sup>M.F. Safonova, O.V. Pugacheva "Organization of internal quality control" No. 22 (4), Moscow, p. 138, 2018



services provided	Development of internal regulations, job descriptions, work schedule Study and study of important issues Incentive events for the employee
2. Compliance with the norms and rules of ethics in the process of providing services	Informing employees about norms and ethical rules Warning about measures of responsibility for their violations
3. Acceptance of the client for service. Further work with the client	Development of a client profile Approval of the internal standard for working with clients Organization and conduct of negotiations
4. Work with personnel	Apparatus employed Improvement of qualifications and professional skills and abilities
5. Audit engagement process	Development of a schedule of services rendered Assignment and distribution of responsibilities for the provision of audit services Direct provision of services, formation of an audit file Development and presentation of the final report and conclusion
6. Monitoring	Continuous review of the existing quality control system Testing Response measures

**Table 1. Key procedures and measures of the Audit Quality Control Standard (Code)**

The process of assessing the system of internal quality control of audit activity allows you to analyze information to ensure the effective functioning of processes, methods and organizational structure in the audit organization.

If the audit organization is faced with the task of improving the quality of services provided, the main aspect is to identify and unify the important problems that affect the quality of the audit, as well as the creation of a unified concept for assessing the quality of audit firms, based on international standards by bringing the factors to a comparable form<sup>5</sup>.

*In the future*, the approved system of indicators will ensure the uniformity of the requirements of the supervisory authorities, and will contribute to the transparency of the activities of the regulatory authorities.

**Materials and methods.** For knowledge and study of the audit, in particular, the internal quality control system of the audit, it is necessary to deeply understand its content. In the field of audit and internal control of organizations, studies were carried out by domestic scientists, such as S.Yu. Mekhmonov, B.Zh. Zhumamuratov, B.B. Sugirbaev, A.K. Optner, Jan Van Tynen, P.P. Andreev, A.L. Kolesniks. In turn, they gave definitions and expressed their views and opinions regarding the concept of audit and internal control of organizations in their research papers, articles and educational and

<sup>5</sup>M.F. Safonova, O.V. Pugacheva "Organization of internal quality control" No. 22 (4), Moscow, p. 139, 2018

methodological developments.

**Conclusions.** Based on the conducted research, it can be concluded that the introduction of an internal audit quality control system and internal regulations will minimize the costs of organizing the process in each audit organization and provide clients with confidence that the audit organization acted within the established standards.

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