

AUDITING IN THE CIS: PROBLEMS AND SOLUTIONS

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Abstract

This article is devoted to the prospects for the development of the audit market in the commonwealth of independent states, the specifics of organizing audit in these countries and the application of international standards, as well as the results achieved in the application of international auditing standards and ways to overcome problems in this area.

Keywords: member states of the Commonwealth of Independent States, international auditing standards, audit services market, professional audit public associations, non-governmental non-profit organizations.

MDH MAMLAKATLARIDA AUDIT: MUAMMO VA YECHIMLAR

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Abstract

Maqolada MDH mamlakatlarida auditorlik bozorining rivojlanish istiqbollari, auditni tashkil etishning xususiyatlari va ushbu davlatlarda xalqaro standartlarni qo'llash masalalari ko'rib chiqiladi, shuningdek xalqaro audit standartlarini qo'llash natijalari tahlil qilingan va bu boradagi muammolarni bartaraf etish yo'llari ko'rib chiqilgan.

Kalit so'zlar: mustaqil davlatlar hamdo'stligiga a'zo davlatlar, xalqaro audit standartlari, auditorlik xizmatlari bozori, professional auditorlik jamoat birlashmalari, nodavlat notijorat tashkilotlar.

АУДИТ В СНГ: ПРОБЛЕМЫ И РЕШЕНИЯ

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Аннотация

В статье рассматриваются перспективы развития рынка аудита в

странах СНГ, особенности организации аудита и применения международных стандартов в этих государствах, анализируются результаты применения международных стандартов аудита и пути преодоления проблем в этой области.

Ключевые слова: государства-участники содружества независимых государств, международные стандарты аудита, рынок аудиторских услуг, профессиональные аудиторские общественные объединения, негосударственные некоммерческие организации.

Introduction

It is known that special attention is paid to research aimed at improving international standards of financial reporting and auditing in many countries around the world. However, in order to fully study the content and essence of these standards in the full implementation of international accounting and auditing standards, to apply them in practice, to transform financial reporting into international standards, to introduce advanced foreign experience in the economy of our country. There is a growing need for comprehensive research on improvement.

Also, one of the most pressing scientific problems is the elimination of a number of problems in the current audit practice that need to be addressed in the process of planning, conducting inspections and summarizing the results of inspections, improving their theoretical and methodological basis. These are, firstly, the lack of application of laws and regulations on accounting and auditing in auditing practice, secondly, insufficient and in-depth study of practical and methodological aspects of the organization and conduct of the audit, and thirdly, the generalization and formalization of audit results in audit document, and, fourthly, the lack of modern requirements for determining the level of audit risk and materiality, the quality of audit work and the effectiveness of audit activities, as well as the ineffective use of its assessment methodology.

As the issue of solving the above-mentioned problems in the country, improving the methodology of planning and conducting audits has not been studied in detail as a whole, it is necessary to conduct research to improve the planning and conducting audits.

The existing problems and shortcomings in the auditing activities of the Republic have an impact on the further development of auditing. In particular, "the audit is not seen as a guarantee of the accuracy of the financial statements, but as a redundant and tedious administrative procedure"⁴. Therefore, it requires the

⁴ Resolution of the President of the Republic of Uzbekistan dated September 19, 2018 No PP-3946 " On measures to further develop auditing in the Republic of Uzbekistan." National Database of Legislation, 20.09.2018, No. 07/18/3946/1955

harmonization of accounting and auditing with international standards on the basis of the gradual introduction of modern norms and standards in our country, including international standards of financial reporting and auditing. Improving the investment climate in the country in the "Strategy of actions on the five priority areas of development of the Republic of Uzbekistan in 2017-2021"⁵, the active attraction of foreign, primarily foreign direct investment in sectors and regions of the economy, the introduction of modern standards and methods of corporate governance, important tasks have been identified to strengthen the role of shareholders in the strategic management of enterprises .

Review of the literature on the subject

Many foreign economists have conducted research to create and improve the theoretical and practical basis of auditing in the Commonwealth of Independent States. The market of audit services in the CIS countries and its analysis has been studied by economists from many CIS countries to study the best practices of auditing in the CIS countries such as N.P. Baryshnikov, N.T. Beluxa, S.M. Bychkova, Suyts, A.A. Terekhov and A.D. Sheremet⁶.

These issues have been partially studied in textbooks, monographs and textbooks created by economists of our country, as well as in published scientific articles and theses. For example, R.D. Dusmuratov, Tulaxodjaeva, B.Q. Hamdamov, K.R. Hotamov and I.N. Kuziev⁷ studied some aspects of the theoretical and practical foundations of auditing in the CIS. It should be noted that the above research provides general views on the subject, but the issue of comparative analysis of auditing activities of the CIS member states and their application of best practices in the practice of Uzbekistan has not been studied as a separate research object and integrated system. This situation requires conducting comprehensive scientific research on this topic and defining research tasks.

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⁵ No. PF-4947 of February 7, 2017 " On the Action Strategy for the further development of the Republic of Uzbekistan ." Collection of Legislation of the Republic of Uzbekistan, 2017, No. 6, Article 70

⁶ Baryshnikov N.P. Organization and methods of conducting general audits. 4th ed. perer. and dop. – M.: Filin, 1998. – 528 s.; Beluxa N.T. Audit. Textbook "Knowledge", KOO, 2000. – 769 p.; Bychkova S.M. Auditors deyatelnost. Theory and practice. – SPB.: Lan, 2000. – 320 p.; Terexov A.A. Audit: development perspectives. – M.: Finance and statistics, 2001. – 560 p.; Suyts V.P., Sheremet A.D. Audit. – M.: INFRA-M, 2009. – 456 s.

⁷ Dusmuratov R.D. Formation of auditing activity in Uzbekistan and improvement of its methodology: i.f.d. written Dissertation to obtain an academic degree. avtoref. – Tashkent, 2008. – 35 p.; Tulaxodjaeva M.M. Audit of the financial condition of the enterprise. -T.: The world of economics and law, 1996 – 193 p.; Hamdamov B.Q. Methodological bases of development of audit control in the accounting and reporting system of the economy of Uzbekistan: i.f.d. written dissertation to obtain an academic degree. avtoref. – Tashkent, 2007. – 33p.; Xatamov K.R. Improving the accounting, analysis and audit of indirect taxes: i.f.d. written dissertation to obtain an academic degree. avtoref. – Tashkent, 2016. – 30 p.; Koziyev I.N. Improving the methodology of compiling and summarizing audit reports in the context of modernization of the economy: i.f.d. written dissertation to obtain an academic degree. avtoref. – Tashkent, 2017. – 70 p.

textbooks created by economists of our country, as well as in published scientific articles and theses. For example, economist A.Kh. Sattarov [5], deeply analyzing the process of applying the best practices of the CIS countries in the practice of Uzbekistan, managed to formulate practical proposals for the application of the results achieved by these countries in the field of auditing in Uzbekistan.

In this regard, the research of economist I. Meliev [3] provides a comparative analysis of the organization of auditing in the CIS countries, but does not sufficiently describe the application of best practices of these countries in the practice of Uzbekistan.

The analysis of the market of audit services in the member states of the Commonwealth of Independent States and the application of international auditing standards in them until 2014 is detailed on the official website of the Ministry of Finance of the Republic of Uzbekistan (<https://www.mf.uz>). However, the sources that reflect the data of the official analysis of the state of auditing in the CIS countries in the years after 2014 are not yet available.

Research methodology

Current state of the audit market in the Commonwealth of Independent States and its analysis in the form of scientific abstraction, experiment, simulation, analysis to obtain results, analysis, synthesis, grouping, as well as inventory, comparison in the collection of audit evidence, arithmetic calculations and various mathematical and statistical modeling methods have been widely used for the purpose of gathering information. In all methods, analytical operations are carried out and information is obtained as evidence and proof. However, it should be noted that the audit methodology should include accounting, statistical, analytical, mathematical and philosophical methods to ensure the effectiveness of its results and the reliability of the evidence obtained.

Discussion and results

In recent years, the market of audit services has become an integral part of the economy of the Commonwealth of Independent States (CIS). Like any segment of the economy, the audit services market is characterized by a system of indicators. The subjects of auditing in the CIS member states are mainly audit organizations. Legislation of the CIS countries such as the Republic of Azerbaijan, Belarus, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan allows auditing activities to be carried out by individual (private) auditors. Individual (private) auditors are recognized as individual entrepreneurs who meet the established qualification requirements and have the right to engage in auditing activities without the formation of a legal entity.

Also, in accordance with the requirements of the legislation in these countries, there are restrictions on the auditing activities of individual (private) auditors. For example, in the Russian Federation, individual auditors are not entitled to perform mandatory audits of the accounting (financial) reports and consolidated financial statements of socially significant organizations (credit and insurance organizations, non-governmental pension funds, etc.). In general, the scope of activities of individual (private) auditors in the CIS countries usually does not have a significant impact on the performance of the audit services market. In these countries, the number of auditing entities is usually determined on the basis of registers of auditors and audit organizations. According to experts, in the audit practice of these countries, 70-95% of entities with such a right in the CIS member states are engaged in auditing activities.

In the practice of the CIS member states, the subjects of auditing provide the following types of services:

Audit of financial statements;

Providing professional audit services;

Related to other auditing activities (accounting, tax, legal, management consulting, accounting, tax accounting installation, restoration and maintenance, accounting (finance), tax reporting, accounting automation and introduction of information technology, evaluation services, training of specialists and conducting research in areas related to auditing, financial and economic analysis, tax and customs disputes, representation in court and tax authorities).

In the CIS member states, including the Republic of Azerbaijan, the Republic of Belarus and the Republic of Uzbekistan, the audit of financial statements accounts for one third of the services provided by audit firms, and in the Republic of Moldova and Kyrgyzstan for one second. At the same time, the share of other audit services in the volume of services provided is very low in the Republic of Armenia and the Republic of Tajikistan, while in the Russian Federation the share of other professional audit services with audits is equal. However, the share of audit services in the total volume of audit services provided in most CIS member states is declining, while the share of other audit-related services is increasing.

Another important indicator that characterizes the market of audit services in the CIS countries is the number of clients served by auditing entities. The financial reporting audit service is one of the most common services provided by auditing entities in the CIS member states. In the case of the mandatory audit service, the clients of audit firms are, as usual, organizations, securities markets, open joint stock companies, credit and insurance organizations, non-governmental pension

funds, stock exchanges, investment funds, state and municipal commercial enterprises. In addition, in the audit practice of the CIS member states, the form of initiative (voluntary) audit control is widely developed.

One of the peculiarities of auditing practice in most CIS member states, including the Republic of Azerbaijan, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Moldova, the Russian Federation and the Republic of Uzbekistan, is the establishment of professional organizations for self-management or unification of auditors. In addition to these countries, in addition to Azerbaijan, there are a number of self-governing organizations of auditors, including two in the Republic of Belarus and the Republic of Kazakhstan, three in the Republic of Moldova and the Republic of Uzbekistan, and five in the Russian Federation.

In the CIS countries (except the Republic of Belarus) there are self-governing organizations of auditors who are members of the International Federation of Accountants, including the Republic of Azerbaijan, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Moldova and the Republic of Uzbekistan - one organization, and in the Russian Federation - It should be noted that there are three organizations.

An order to eliminate deficiencies identified in the practice of auditing in the CIS member states for violations of applicable law or poor quality audits, notifications against violations, fines, suspension or revocation of licenses, qualifications; administrative and disciplinary measures are applied to the subjects of auditing activities, such as expulsion of auditors from the self-governing organization.

Over the past decade, one of the key elements of the global audit services market has been the application of international auditing standards (hereinafter ISA) in auditing practice. A similar feature of the national audit systems of the CIS member states is the adoption of the ISA as the main tool in the regulation of audit activities. Such a conceptual unit of approach is interrelated for the following main reasons:

First, it incorporates a system of universal and qualitative requirements for auditing activities in the ISA, currently being developed by independent international non-governmental institutions;

Second, the high incentive to encourage investment in the national economies of the CIS member states, the activation of national capital markets, as well as the creation of a favorable information environment for investors using the internationally recognized IFRS and ISA in modern life;

Third, the international popularity of ISA has increased dramatically in recent years, with ISA requirements being directly adopted in many countries. In

this regard, the ISA was seen as an element of the integration of some states into world politics. In addition, national programs for the introduction of ISA in the Republic of Azerbaijan, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation and the Republic of Uzbekistan are being developed and gradually implemented. The Ministry of Finance, together with audit institutions and other bodies, is responsible for implementing these programs (Table 1).

CIS countries is the organization of audits based on ISA requirements. Today many CIS member states, including the Republic of Belarus, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan, conduct audits in accordance with national standards developed on the basis of ISAs. It should be noted that in some CIS countries, the requirements of the ISA are fully applied in direct audit practice.

Table 1.

The state of implementation of international auditing standards in the CIS member states*

CIS member states	Existence of a plan for the introduction of ISA	Competent authorities implementing the plan (program)	Period of introduction of ISA
Republic of Azerbaijan	Yes	-	as of 01.01.2010
Republic of Armenia	No.	-	-
Republic of Belarus	No.	-	-
Republic of Kazakhstan	Yes	Ministry of Finance, qualified audit organizations	since 2006
Kyrgyz Republic	Yes	-	since 2003
Moldova Republic	Yes	Ministry of Finance, Ministry of Education, Qualification Associations in Accounting and Auditing	As of 01.01.2012
Russian federation	Yes	Ministry of Finance, Board of Auditors, self-governing organizations of auditors	2013–2016 yy .
Republic of Tajikistan	No.	-	-
Republic of Uzbekistan	Yes	Ministry of Finance , Central Bank , professional association of accountants and auditors	2011–2015 yy . step by step

*Compiled by the author based on data from the Ministry of Finance.

Today, the requirements of the ISA are fully applied as a direct national standard in the audit practice of the Republic of Azerbaijan, the Republic of

Armenia, the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Moldova. In the Russian Federation and the Republic of Uzbekistan, a gradual transition to the use of ISAs as national standards is planned (Table 2). The process of studying and applying the experience of international practice in the transition to ISA in the CIS member states, in conjunction with the competent authorities, is carried out mainly through public professional audit organizations.

The CIS member states have faced a number of common challenges in the implementation and application of ISAs in auditing practice (Appendix): there are institutional, organizational, legal, financial, training and other methodological issues. In turn, the solution of these problems will allow for real cooperation in the application of the ISA.

Table 2.

Generalization and popularization of the experience of the introduction of ISA*

CIS member states	The system of generalization and popularization of the introduction of ISA
Republic of Azerbaijan	The Chamber of Auditors will hold seminars and symposiums on the introduction of ISA; popularized through the media
Republic of Armenia	No information
Republic of Belarus	The Ministry of Finance and the National Bank will develop recommendations
Republic of Kazakhstan	The system of generalization and dissemination of the experience of the introduction of ISA is based on the interaction of the Ministry of Finance and self-government organizations of auditors "Chamber of Auditors of the Republic of Kazakhstan", "Board of Auditors". Qualified organizations summarize and disseminate the experience of auditors and audit organizations, distribute textbooks, publish guidelines, publish periodicals and develop software products, conduct training seminars
Kyrgyz Republic	Generalization and dissemination of the experience of the introduction of GAS by the State Service for Regulation and Supervision of the Financial Market under the Government of the Kyrgyz Republic
Republic of Moldova	Generalization and dissemination of the experience of the introduction of ISA through the Ministry of Finance, the Ministry of Education and the qualification associations in the field of accounting and auditing through the free adoption and application of standards and training seminars
Russian federation	Self-governing organization of auditors - members of the International Federation of Accountants popularize the practice of applying ISA
Republic of Tajikistan	Generalization and popularization of ISA implementation experience through training courses through the Institute of Qualified Accountants and Auditors on
Republic of Uzbekistan	The generalization and dissemination of the experience of the introduction of ISA is carried out by the professional association of accountants and auditors, the Ministry of Finance through the distribution of textbooks, publication of methodological recommendations, training seminars, as well as training courses for auditors and accountants

*Compiled by the author based on data from the Ministry of Finance.

In our view, there are common problems in the CIS member states, such as the lack of an institutional environment or underdevelopment, as institutional problems in the application of ISAs. In the CIS member states, there are problems not only with the translation of the standards into the national language for the application of the ISA, but also with the provision of unimpeded access to these texts by any interested person. In our opinion, so far, the CIS member states have solved these problems independently. However, the lack of translation of the ISA for most of the CIS member states and the existence of financial problems in the application of the ISA or the limited financial resources of the CIS member states have exacerbated the problem. Personnel problems in the application of ISAs in these countries are the lack of knowledge and skills of auditors in the field of ISA, such as the lack of quantitative and qualitative methodological materials in the local languages in the transition to ISAs (Table 3).

The methodological problems of the application of the ISA in the CIS member states arose due to the inconsistency of some provisions of the ISA with the requirements of national regulations. This necessitated active cooperation with international organizations in the field of auditing activities of the CIS member states .

Table 3.

**Translation of ISA into the state language
in the CIS countries***

CIS member states	Availability of ISA translation	Bodies responsible for preparing ISA translation	Status of ISA translation
Republic of Azerbaijan	In the Azerbaijan language	Chamber of auditors	Official
Republic of Armenia	In the Armenian language	Ministry of finance	Official
Republic of Belarus	In Belarusian	-	Informal
Republic of Kazakhstan	In the Kazakh language (type 2009) _	Ministry of finance	Official
Kyrgyz Republic	-	State financial supervision	-
Republic of Moldova	In Romanian	ISA Board	Official
Russian federation	In Russian	-	Informal
Republic of Tajikistan	-	Ministry of finance	-
Republic of Uzbekistan	Uzbek language ¹	Qualified association of accountants and auditors, Ministry of finance, National bank	-

*Compiled by the author based on data from the Ministry of Finance.

In our opinion, the main problem in the application of ISA in the CIS member states is the training of staff. The International Federation of Accountants

has set up a coordinating committee. This committee examines how members of the International Federation of Accountants apply the International Standard on Professional Activities “On the Provision of High-Level Professional Services” and conducts a comparative analysis of auditing and disciplinary practices in member organizations of the International Federation of Accountants. Some of the enterprises that are part of the business forum are subject to regular peer review . In this regard, it will be necessary to create a global system that provides high-quality audits in the office of each member of the business forum.

Conclusion

The results of a comparative analysis of the audit activities of Uzbekistan and the CIS countries, as well as research on the study of best practices of developed CIS countries, formed the following conclusions and recommendations:

First of all, we consider it expedient to introduce private auditing practices in the auditing activities of Uzbekistan, as well as in developed CIS countries. To do this, it is necessary to make appropriate additions and amendments to existing legislation, with an in-depth study of the best practices of developed countries in auditing;

Secondly, we consider it expedient to regulate the internal audit activity in the audit activity of Uzbekistan, as in Russia, Azerbaijan and Kazakhstan, as well as the compulsory insurance of the liability of auditors and audit organizations through a special law. In order to ensure this, we consider it necessary to develop and implement the draft Law on Compulsory Insurance of Civil Liability of Auditing Organizations and the Law on Internal Audit , with an in- depth analysis of the legal system of developed countries in this area ;

Third, the study found that in the current audit practice in Russia and developed European countries , the most professional software such as AuditNET, ITAUDIT, Auditor, AUDITXP, “Complex Audit” and “Express Audit: PROF” conduct quality inspections in a short time and on a regular basis. In this regard, we consider it expedient to establish the widespread use of the above programs in the activities of all audit organizations operating in the practice of Uzbekistan;

Fourth, we consider it expedient to give professional public associations of audit organizations operating in Uzbekistan (Chamber of Auditors of Uzbekistan, the National Association of Accountants and Auditors of Uzbekistan, the Federation of Accountants of Uzbekistan) a wide range of powers and rights to regulate auditing, as in developed countries.

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