

## **Theoretical and Methodological Foundations of Organizing Internal Audit in Economic Entities**

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**Annotation:** The article examines the stages of organizing the internal audit service and its development, the regulatory framework for organizing the internal audit service and its place in corporate governance, foreign experience in internal audit activities and the methodological basis for its application. Based on the objectives of the study, theoretical results and conclusions are presented.

**Keywords:** Econometric, empirical analysis, securities, internal audit, financial and credit sector, economics.

Analyses of the study showed that the need for internal audit primarily appears in large enterprises. Top management cannot control the daily activities of the enterprise and lower levels of management structures. Internal audit provides information on their activities and assures the accuracy of managers' reports.

The literature on this industry and regulatory documents provide definitions and comments on the concept of internal audit. As defined by the international Institute of Internal Auditors, "Internal audit is the activity of providing independent, objective assurance and advice aimed at improving the performance of an organization. Internal audit assists an organization in implementing a systematic and consistent approach to managing risks in its activities, assessing performance and improving management, control and corporate governance processes." [1]

According to K.B. Akhmadjonov, "Internal audit is considered an independent system that provides objective guarantees and consultations aimed at improving the financial and economic activities of business entities, ensuring the accuracy of internal audit accounting data and organizing an effective internal control system at the enterprise." [2]

In the process of scientific research, the author's definition of the concept of "internal audit" was developed and, according to it, internal audit was disclosed as an activity for risk management, reliability and effectiveness of internal control systems, in particular, activities organized to evaluate corporate governance practices on a regular and independent basis, based on generally accepted international and national standards in the field of internal control.

In our opinion, it is advisable to establish the legal basis for organizing the internal audit service in the following form (Fig. 1).

In the process of research, in order to further improve the efficiency of the internal audit service and ensure direct use by external auditors of the results of the work of the internal audit service,

we developed a draft of national auditing standards “Use of the work of the internal audit service” and proposed it for implementation in practice.

The practical application of internal audit standards, not limited to the Regulations “On the Internal Audit Service at Enterprises,” which is considered the regulatory framework of the internal audit service in Uzbekistan, will provide an opportunity to improve the regulatory framework in the field of internal audit.

By its essence, internal audit has the ability to summarize information and data on all aspects of the entity’s activities, accumulate funds for analysis, and the inextricable connection with internal audit leads to increased efficiency of decisions made by the manager.

It is internal audit that is considered an objective source of information that helps the manager in assessing the quality of implementation of management decisions.[5] In Uzbekistan, the National Institute of Internal Audit should be established and employees of internal audit services who carry out practical activities should be invited to join. Then it will be possible for employees of the internal audit service to pass the exam to obtain an international certificate of internal audit (CIA-Certificate Internal Audit) and a basis for advanced training directly in developed countries. This means the possibility of our internal auditors reaching the international level.

In our country, in order to carry out the activities of the internal audit service, improve the quality of internal audit and ensure its legal aspects, we consider it appropriate to make additions and changes to the Regulations of the Cabinet of Ministers of the Republic of Uzbekistan “On the Internal Audit Service at Enterprises”. As a result of scientific research, it was proposed to introduce changes and additions to the current Regulations (Table 2).[6]

As a result of the organization of the internal audit service and the study of its activities, some shortcomings and problems are observed in the implementation of internal audit tasks. In our opinion, in order not to repeat these shortcomings in practice, it is advisable to develop and implement in our republic an international standard “Use of the work of the internal audit service”, and enshrine it in law as a form of internal audit activity.

In the Republic of Uzbekistan, the certification system for employees of the internal audit service is carried out on the basis of the Regulations “On the procedure for certification of employees of the internal audit service” approved by the Ministry of Justice dated May 12, 2012 No. 2361, and applicants, by completing an 80-hour training course, are individuals who have a qualification certificate of auditor and tax consultant after successfully passing the exam before a special commission of the Ministry of Finance, public organizations of auditors receive qualification certificates of internal auditors. However, there are some obstacles in the system of certification of employees of the internal audit service by public organizations of auditors.

It is advisable to make the following changes and additions to the Regulations “On the procedure for certification of employees of the internal audit service”:

1. In paragraph 12: replace the words of paragraph four “notarized diploma” with the words “diploma”; the words of the fifth paragraph “work book (a copy is made and the original is returned) or its copy certified by the employer” should be replaced with the words “copies from the work book certified by the employer”; the words of the seventh paragraph “notarized or certificate” shall be replaced with the words “certificate or real certificate”; before the word of the eighth paragraph “document” add the word “copy”. [8]
2. From paragraph 56, delete the words “notarized.”
3. Replace the words of paragraph four of clause 58 with “payment document” with the phrase “copy of payment document”.
4. From the second paragraph of paragraph 72, delete the sentence “and to the business entity in whose internal audit service he works.”

Based on the above, the Republic of Uzbekistan has currently introduced a procedure for

certifying employees of the internal audit service by conducting an examination by public organizations of auditors and issuing a certificate. And the certification of internal auditors is a problem: after completing an 80-hour course, an internal auditor submits documents for an exam to the public organization where he was trained, and if he fails the exam, the applicant must receive back the documents to take the exam in another public organization.[9]

The public organization of auditors that accepted the exam will be forced to return the applicant's documents, and when checking the documents in relation to the applicant who did not pass the exam in the organization, there will be no evidence of passing the documents in this organization.[10]

Therefore, paragraph 42 of Chapter 5 of the Regulations "On the procedure for certification of employees of the internal audit service" should be amended as follows: "If the applicant fails to pass the exam, the application submitted by the applicant to participate in the exam and the documents attached to it must be returned within three working days after the exam and a copy of the application, minutes of the commission's meetings must be kept in public associations of auditors for five years."

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