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SOI: 1.1/TAS DOI: 10.15863/TAS

International Scientific Journal

Theoretical & Applied Science

p-ISSN: 2308-4944 (print) **e-ISSN:** 2409-0085 (online)

Year: 2019 **Issue:** 10 **Volume:** 78

Published: 30.10.2019 **http://T-Science.org**

QR – Issue QR – Article

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DIRECTIONS FOR IMPROVING AUDIT IN THE CORPORATE GOVERNANCE SYSTEM

Abstract: *This article describes the practices of corporate governance, the definition, objectives and importance of audit, internal audit, external audit, and audit committees. In particular, the problem of the agency arising from the urgency of the subject, the purposes and objectives of external audit in its resolution, and its relationship with the corporate governance bodies, and on the report of the audit, it also outlines the audit committee, new requirements and objectives, and the need for its establishment. A new definition of the internal audit, which is the main essence of corporate governance, its main principles and the new tasks it is currently implementing, its formal report.*

Key words: *Corporate governance, effective corporate governance, audit function, internal audit, external audit, audit committees, supervisor board, financial reporting, audit reporting, agency issue, transparency, honesty, internal audit organization, organization of the audit committee.*

Language: *English*

Citation: Barakaev, O. O. (2019). Directions for improving audit in the corporate governance system. *ISJ Theoretical & Applied Science, 10 (78),* 467-473.

Soi: http://s-o-i.org/1.1/TAS-10-78-86 ***Doi***: crossref https://dx.doi.org/10.15863/TAS.2019.10.78.86

Scopus ASCC: *2000.*

Introduction

JEL: L43; L94

Directions of accelerated development and liberalization of the national economy in a globalized economy President of the Republic of Uzbekistan Sh.Mirziyoyev the Decree of the President of the Republic of Uzbekistan “On the Strategy of Action for the Further Development of the Republic of Uzbekistan” is clearly the main criterion and roadmap for achieving these goals. The Decree and the Presidential Decree "On measures to introduce modern corporate governance methods in joint stock companies" will attract wide foreign direct investment, radically increase the efficiency of joint stock companies, ensure their openness and attractiveness for future investors, and introduce modern corporate governance methods. Specific objectives and objectives to create favorable conditions for enhancing the role of shareholders in the strategic management of enterprises management system audit and the importance of the role of the audit reports with the fast development of the economy. [2,3].

Foreign experience shows that over the past two decades a number of financial failures and crises have drawn global attention. Examples include the great crises of Enron, Vorldcom, Tyco, Parliament and many others. Many projects worth billions of orders have been canceled due to lack of management skills, prevention, and lack of proper control measures. As a result of these financial failures and crises, investors' confidence in financial reporting and management reporting has decreased significantly.

The key role of corporate governance is to restore market confidence. Rebuilding investor confidence in financial markets is not easy. For this purpose it is important to establish clear criteria for effective management and management of the enterprises acting in the interests of shareholders, and to meet the requirements of corporate governance. This is because the theory of agency in today's economy stems from the fact that management (agents) are not always in the interests of owners who do not participate, and that shareholders require protection of their property [5]. To address this issue, the Supervisory Board has a supervisory function, which includes monitoring the executive and directors and internal control over financial reporting [6]. A number of contractual relationships with the information asymmetry indicate that there is a need for independence of supervisory boards, which are monitoring and monitoring mechanisms, effective audit committees and investments in external audit [7]. Thus, it is clear that the role of external audit, internal audit and audit committee is one of the primary factors in modern economy for effective corporate governance.

The internationally recognized principles of corporate behavior and governance of the Organization for Economic Co-operation and Development (OECD) are based on four global principles that form the basis of corporate governance practice in all countries interested in investment: justice, responsibility, transparency, and accountability. to adhere to such principles as transparency and immediate disclosure of information that is of paramount importance to shareholders, including financial information [10]. Adherence to and adherence to these principles is accomplished by pursuing a key component of the corporate governance process - the main objectives and objectives of the audit.

Literature review

In the early stages of Uzbekistan's transition to a market economy, some aspects of corporate governance were studied by M.Khamidulin, I.Butikov and others. Today, the level of research and research on corporate governance is significantly increasing, and the scope of research and implementation is expanding. Among them are I. Kurbanov, A. Abidov, Z. Ashurov and V. Kotov are working on modern corporate governance, the Code of Corporate Governance and the mechanism of effective corporate governance.

A number of research works by scientists of our country aimed at improving accounting, financial analysis and audit are of particular interest. Economists A.Abdullaev, A.A. Karimov, A.A. Abduganiev, N.Yu. Juraev, A.K. Ibragimov, A.Kh. Pardayev, M.Q. Pardaev, R.O. Kholbekov, B.A. Hasanov, K.B. Urazov's scientific work focuses on addressing theoretical and methodological problems of accounting and economic analysis in the context of economic liberalization and the conceptual issues of this system. Isroilov and Z.N. Kurbanovs have done research to solve problems related to tax accounting and its methodology, which is an integral part of accounting [4].

R.D. Dostmuratov, N.F. Karimov, Z.T. Mamatov, H.N. Musaev, M.M. Tulakhodjaeva and B.K.Khamdamovs paid particular attention to establishing an audit in Uzbekistan, finding and improving its position in the context of economic reforms.

The works of the aforementioned scholars are also the scientific and theoretical sources of this research

He has started the first scientific work on the main directions of improvement of accounting and audit in the system of corporate management in Uzbekistan - Professor A.Kh. Karimov. The benefits of accounting and auditing, in particular the internal audit service in the corporate governance system, as well as a number of problems in legislation in these areas, have been developed and recommendations for their elimination have been addressed and implemented.

In the modern corporate governance system, the main objectives of this study are the specifics of the importance of auditing, including external audit, internal audit and audit committee, and directions for their improvement.

External audit plays an important role in the system of corporate governance, which fills and links the financial information makers (management) and users (shareholders). It is seen as a tool for improving the quality of financial reporting, protecting the interests of shareholders, helping investors make investment decisions, and building trust in the company status and, most importantly, monitoring (Cohen et al., 2002; Habbash, 2010; Brovn et al., 2011).

In addition, many researchers (Christensen, Glover, 2016; Cohen, Krishnamurzey, and Wright, 2002; Piot, 2001) have an external audit function that is an important element in corporate governance, managing agency disputes and opportunistic behavior. Becker and co-authors (1998) allow auditors to reduce data asymmetry and verify external financial validity of financial statements. Qualitative and reliable auditing activities effectively deal with fraud in financial reporting, as misleading reporting can damage the reputation of management and affect the value of the company.

External audit also plays an important role in resolving not only agency conflicts but also major conflicts. For example, in developing countries, company ownership is characterized by increased ownership of agency conflicts, in which case the external auditor acts to build trust and approval that the minority shareholders are protected from exploitation by controlling shareholders (Fan and Wong, 2005).

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Audit committees began to play an important role, starting with the 1990s, following corporate failures and problems, especially after Cadbury (1992), Higgs (2003) and Smith (2003) and US SOX (2002).

In addition, audit committees play an important role in strengthening the corporate governance system, which is necessary to increase the reliance on financial reporting and reduce audit risk. Audit committees may require additional volume of audits to safeguard and enhance the independence of auditors, safeguarding their accountability and reputation. The independence of the auditor is ensured by ensuring the quality of the audit and mitigating management pressure on auditors (Firz, 1997).

A corporate governance concept will be developed to mitigate agency conflicts, with the goal of controlling management behavior and consistently working with shareholders' interests. This can be achieved by preparing high quality financial statements and reducing profit manipulation. External audit is one of the monitoring tools used by directors to take into account owners' interests. Therefore, based on agency theoretical recommendations, effective oversight boards and audit committees play a key role in monitoring and controlling agents 'behavior and ultimately reduce agency costs by coordinating agents' interests (Jensen and Mekling, 1976; Cohen et al., 2002).

In addition, external audit supports monitoring of the board of directors by supervising managers and enhancing investor confidence in financial reporting. This confirms that the task of the audit is to reduce the agency's theoretically by reducing the asymmetry of information and thereby reducing the gap between owners and managers. (Piot, 2001; Susanto, Pradipta, and Djashan, 2017).

Research methodology

In this study, interdisciplinary approaches to “Audit in Corporate Governance” are considered: various forms, internal and external relationships of auditors in the context of corporate governance, as well as the role of audit function in the effectiveness of corporate governance, increasing the user's confidence in financial reporting.

Given the achievement of the goals proposed in the study, it relies on a general, deductive approach that combines quantitative research with qualitative research. The starting point of the study is the current stage of conceptual basic knowledge: audit function and corporate governance.

To gain current knowledge, we understood the conceptual delineation of the term corporate governance by examining the literature and rules that collected the information needed for further processing.

Although there is increasing emphasis on the link between corporate governance (CG) structure and company performance, there is still no empirical study of the impact of CG bodies on the role of corporate governance (AfCG) in the audit function.

In Uzbekistan, CG is still one of the main economic terms. The connection between the decisions of the Company and its shareholders, private equity market participants and the governing and supervisory board is also growing.

AfCG is a global problem today, a painful issue in all developed and emerging capital markets, and has been explored in more advanced markets to date [11].

This study explores factors affecting audit function in corporate governance. These include the presence of the Supervisory Board, the Audit Committee, the Internal and External Audit, the scope of the company, the type of audit organization and the profitability of the company. Here, the transforming factor is the role and functions of audit in corporate governance.

The following is a model of theoretical structure.

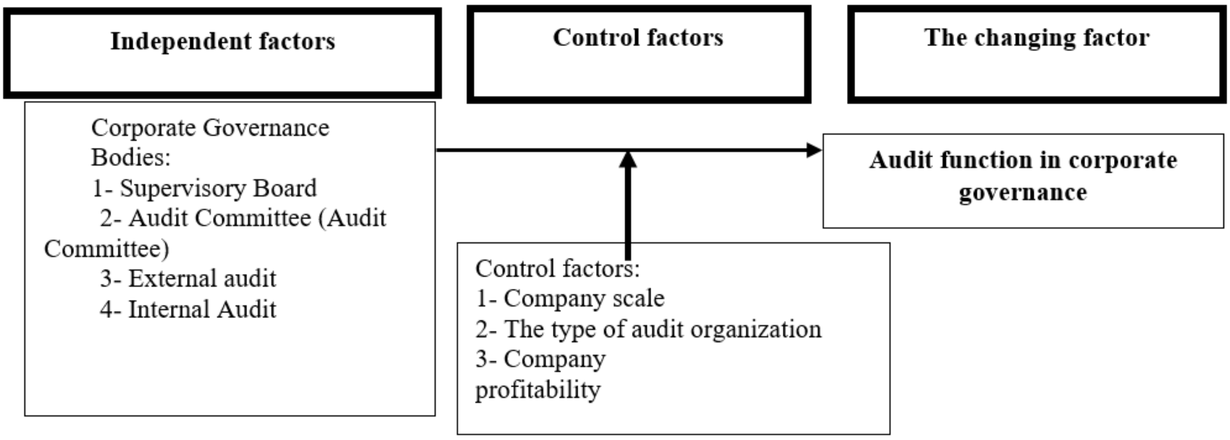

Fig.1. Factors influencing the audit of the corporate system

This study first investigated the impact of corporate governance practices on auditing in Uzbekistan. Regression analysis was used to describe the effects of the descriptive factors on the AiCG model. In addition to the control factors, as in previous studies, CG bodies were studied as a factor.

In the regression model, we used the correlation between the AiCG variables and independent factors (supervisory board, audit committee (audit committee), availability, company size, type of audit organization, and company profitability).

$$AiCG = \beta 0 + \beta 1\ (SBs) + \beta 2\ (ACEXIST) + \beta 3 (EXAUDIT) + \beta 4\ (INAUDIT) + \beta 5\ (SIZE) + \beta 6\ (AUDTYPE) + \beta 7\ (PROFIT) + \varepsilon \qquad (1)$$

In addition, at the scientific stage, we explored the current level of knowledge related to the concept of audit and corporate governance through the analysis of the literature.

In the Uzbek literature have been used structural analysis as a research method for determining the current status of auditors' knowledge of corporate governance in the role of audit in corporate governance.

Analysis and results

In the modern corporate governance system in Uzbekistan, we offer a structure that demonstrates the importance, role and relevance of audit, including internal audit, audit committee and external audit (Structure 1).

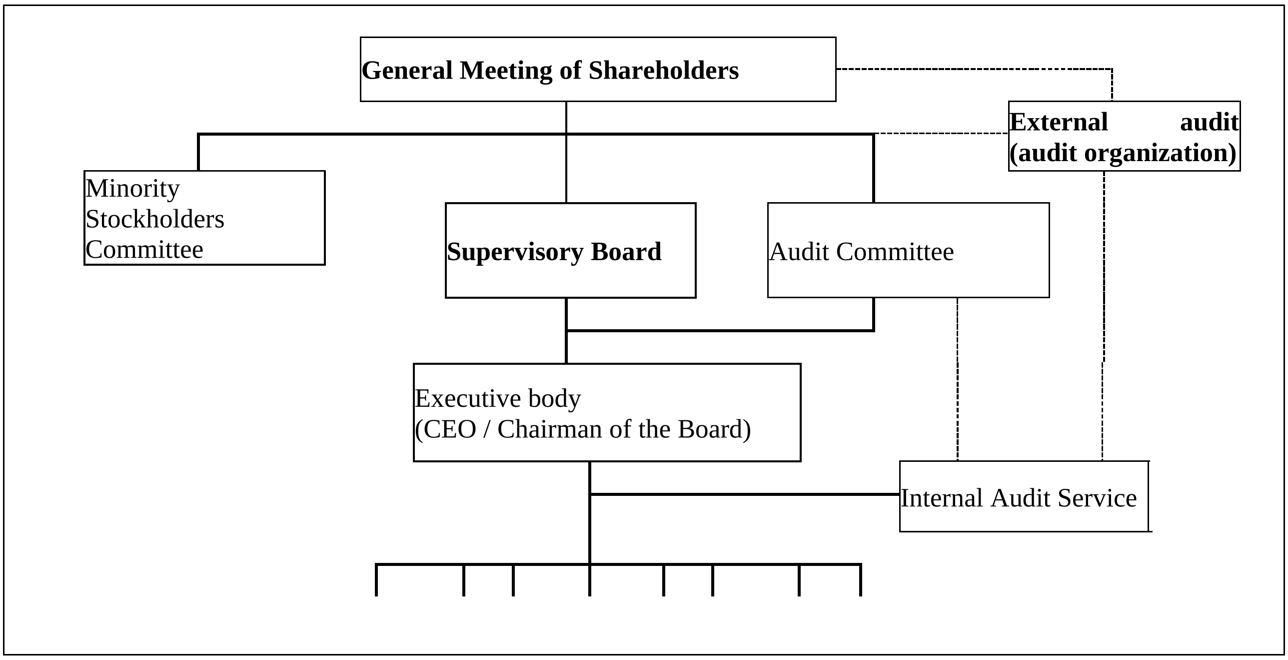

Fig.2. A structure that represents the role of audit in the corporate governance system

In order to fulfill its obligations to shareholders, the Supervisory Board must provide relevant and reliable information. Reliability refers to the degree of accuracy of the information contained in the financial statements, which gives an objective view of the financial position and results of financial and economic activities of a business entity. The Auditor (external) will assist the Board in achieving this goal. There should be an open and transparent dialogue between the auditors and the board and strictly adhering to the principle of honesty with regard to their duties.

Audit communication and information exchange with corporate governance bodies (ISAs) is set out in ISA 260, "Information Exchange with Managers," according to which responsible persons are responsible for controlling the strategic direction of the business entity. and the person (s) or organization (s) (for example, corporate trustees) who have responsibilities for the business entity's accountability [11]. This includes overseeing the financial reporting process.

The objectives of the auditor are:

a) Sharing accurate information with management officials about the auditor's responsibilities regarding the audit of the financial statements and the summary of the planned scope and timing of the audit;

b) obtaining the information required for the audit from those charged with governance;

and c) Encouraging effective two-way information exchange between the auditor and those charged with governance.

The auditor shall inform the law enforcement bodies, the management of the business entity and the system of corporate governance, and the person responsible for the audit committee in writing about the mistakes and shortcomings, violations of the statutory acts or facts of corruption offenses. The auditor shall formulate the opinion of the financial statements on compliance with the requirements established by the legislation on accounting, based on the audit report in writing.

Communication of the auditors (external) should be open to the Supervisory Board and the Audit Committee.

An effective audit committee is an important part of an effective corporate governance system: the audit committee and the auditors must communicate regularly with (independent) management and other members of the board. The Audit Committee has always played a key role in corporate governance. While the new body is to be set up as an audit committee, the most significant change today is the responsibility of the audit committee to appoint an external auditor, which is currently implemented by the Supervisory Board. This means, for the first time, that the committee has the ability to assess the performance of the current auditor and the quality of the audit, as well as the criteria for selecting them in future trends.

The Audit Committee also provides new tools for preventing strategic breaches and future sustainability of the business model, digitalization and automation of financial records, new external reporting requirements, measuring performance indicators, and enhancing auditors' quality of audit through technology. it is recommended to perform tasks.

Internal audit is an integral part of the corporate governance mosaic in the public and private sectors [8]. The contribution of internal audit to corporate governance can be expressed by defining the relationship between the key elements of internal audit and corporate governance. The new definition of internal audit focuses on corporate governance, particularly the supervisory board and the executive director. Internal Audit is an objective and advisory activity that promotes the achievement of its objectives through a systematic approach to risk management, internal control and evaluation of the effectiveness of the business entity. This definition highlights the role of internal audit to help achieve the objectives of an enterprise. The supervisory board and the executive directors are ultimately responsible for the organization's achievement of its objectives, and the internal auditor's contribution is to inform this group [9]. Apart from the above, the role of internal audit is important to assist in the self-assessment of the executive. The following are some of the key principles of internal audit, such as: honesty, professionalism and competence, honesty and impartiality, independence, startups, purpose and risk alignment, well-positioned and adequate resources, quality and continuity, risk-based assurance, proactive and to contribute to the future, development and growth. Internal Audit Services The principle of honesty is that internal auditors must adhere to their professional responsibilities and ethical requirements, and should not be allowed to affect the reputation of the organization in which they operate.

Based on these principles, the new (modern) objectives of internal audit further enhance the role and importance of internal audit in corporate governance through cybersecurity, cultural risk / soft control, integration of guarantees in the risk environment, implementation of innovative technologies, and strategic initiatives.

The results of internal audit assignments should be reflected in the internal audit report, which should contain recommendations and proposals on how to eliminate identified violations and violations, as well as improving the efficiency of financial and economic activities of a business entity. The report details the place and date of the internal audit engagement, the date when the internal audit engagement was initiated and completed, and the violations identified in the internal audit assignment.

Conclusions and recommendations

In the present study, the functions of audit in the corporate governance system were investigated in a holistic manner, exploring their interrelationships and their importance and importance on a scientific theoretical basis. Based on the results of the study, the role of external audit, internal audit and audit committees in corporate governance as a body of corporate governance system, its relationship with the corporate governance bodies, its main new tasks, and directions for improving the effectiveness of audits were identified.

Based on the foregoing, it is advisable for the regulators to consider future governance reforms in existing corporate governance legislation and to include other relevant information to enable other stakeholders to better understand the relationship between corporate governance mechanisms and audit and audit functions.

Audit by examining the role of supervisory boards and external, internal and audit committees to guide the dimensions that are not recommended by the Corporate Governance Code of Uzbekistan. In addition, the results of the audit committee experience, as well as consideration of other employees' experience, such as legal experience and business, are important topics for future research. The presence of legal experts in the Audit Committee may result in a greater interest in exemption from litigation resulting from fraud in financial statements, that is, the exemption from the risk of legal liability. In future studies, it is suggested that in addition to the above-mentioned dimensions, the impact of an audit opinion on corporate governance is suggested.

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