

## **Improvement internal audit plan of business entities in Uzbekistan**

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**Аннотация:** *Мақолада ички аудит режасини тузиши тартиби, танланган режасини баҳолаш қоидалари ва унинг ўз вақтида амалга оширилиши йўллари очиб берилган. Тадқиқот ишида ишлаб чиқилган таклифлар ички аудит режасининг ўз вақтида тузилиши ва йил давомида назорат қилиш учун ички аудиторларга кунлик операцияларини амалга оширишида кўрсатма бўлиб ҳисобланади.*

**Аннотация:** *В статье выбран в плане внутреннего аудита, план правила и оценить возможности его своевременного выполнения. Предложения разработанные в научно-исследовательской работе плана внутреннего аудита своевременно контролировать структуру в течение года и повседневной деятельности внутренних аудиторов.*

**Annotation:** *The article selected in the internal audit plan, the rule plan and assess the possibility of its timely implementation. Proposals developed in the research work of the internal audit plan in a timely manner to control the structure during the year and the daily activities of internal auditors.*

**Key words:** *internal audit, internal audit plan, internal auditor, internal auditor charter, internal audit service, elements of internal audit plan, business risk.*

### **Introduction**

The first law of the Republic of Uzbekistan “On auditing activity” was adopted in 1992, and it was renewed in 2000[1]. National audit standards have been working out since 2000 and their total number consists 21 standards. These legislative documents are base for forming and developing of audit in the country. It was necessary to organize and manage internal audit service according to improvement of national entities. Took into account of those changes, Cabinet ministers of the Republic of Uzbekistan adopted 215<sup>th</sup> resolution “Regulation about internal audit service in entities” in 2006, October 16.[2] According to the regulation if national entities possess assets more than 1 billion UZS<sup>1</sup> or 100000 times of minimal size of monthly salary in stock-companies[3], they will compulsory organize internal audit service. As from that resolution the number of internal audit service of business entities has steadily been increased. The results of practice expose that internal audit service is getting more significance in the activities of entities. It informs that internal audit service became important element of entity economic mechanism.

However, there are a lot of matters which are expected to solve related to internal audit service. One of them is making complete internal audit plan, because the effectiveness of internal audit service depends on its adequate plan. According to our scientific investigations, business risks and other important objects are not

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<sup>1</sup>UZS is national currency of Uzbekistan.

sufficiently considered in the plan of internal audit. It causes to neglect influence of those objects.

### **Literature review**

Internal audit plan is complicate according to composition, structure and contents. Separate entity required a particular internal audit plan. But commonly internal audit plans coincide each other as well as particularly they overlap. That's way there are various opinions about it. According to “International Standards For The Professional Practice Of Internal Auditing Standards” (2010 – Planning) are defined that “The chief audit executive must establish a risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals” [3].

Standard on internal audit (SIA) 1 “Planning an internal audit” (in India) stated “The internal audit plan should be based on the knowledge of the entity's business. While developing the internal audit plan, the internal auditor should have regard to the objectives of the internal audit engagement as well as the time and resources required for conducting the engagement. In addition, the internal audit plan should also reflect the risk management strategy of the entity”[10].

Scholar of Vietnam Nguen Txi Vet Le emphasized “Internal audit plan developed on the basis of results of assessment risks must be altered, adjusted with conform to changed outer environment, business processes and risks which connected with them. On the ground of assessed risks auditors define and implement further audit procedure for concert assessed risks” [5. p 118].

Scientist of Russian N.A.Filevskaya defined “On the stage “Planning audit” planned control carry out on the basis of the schedule of internal control for the year, but unplanned initiates by head of internal audit service. Have been made tasks for audit, plan and program to carry out audit on the basis of the selection priority criteria and theirs activities (regulated in normative legal documents and standards)” with an allowance for influence external and internal factors to a activity system of corporate governance” [6. p 86] .

Uzbek Professor N.Karimov gives the following opinion “It should emphasize in process of making internal audit plan to assess auditors risk and to properly determine material tasks in order to realize at the result of appointed risk directly affect to the effectiveness of audit activity”. Scholar affirmed that “In the auditing process auditor confirmed not only accuracy of financial statement as well as auditor should take into account all situations which are necessary to substantiate important matters”. Those opinions unveils some important specific directions of internal audit plan But, there are not exactly view about internal auditor plan and business risk of activity, theirs' relations. [7. p 26].

Uzbek scholar K.Akhmadjonov suggested to separate internal audit plan two parts according to organization works and audit implementation. Here in preparing internal audit plan, that is 1) make annually working plan for organizational works and directions; to examine branches, subsidiaries, affiliates; make annually schedule; make workforce schedule; to appoint staff; to form budget steps. 2) audit of objects; allocation of tasks for auditors; suggestions for make program [8].

Professors of Uzbekistan B.A.Khasanov, Z.A.Aliboyev, M.SH.Zokirova stated “Audit internal plan are confirmed by head of internal audit department or specialist who appointed for auditing. Made all alterations in it should confirmed in time. But authors did not tell about composition as well as to consider business risk auditing and its importance in a internal audit plan” [9. p 43].

It is prescribed to realize of internal audit by means of conducts control according to plan confirmed by supervisor board of the entity in each year, but not given proper direction on make internal audit plan in the “Regulation about internal audit service in entities” [2].

At the result of our scientific investigation we agree and support first, second and third above mentioned opinions. Reason for this conclusion is business risk considered as integral part of the internal audit plan. Other opinions not took account the essential basis of the matter.

Briefly apply in practice risk-based plan of internal audit service of entities in national economy is requirement of the period. It is expedient to use existing experiences in this sphere of Great Britain, German, French and India to the national economy.

Objectives of the internal auditing are determined as the following:

-to extend sphere and number of matters according to priorities in internal audit activity;

- to enter the all material objects on the risky-based basis in internal audit plan;
- to control and study implementation of made plan indicators and access them;
- to prepare internal audit report for management;

Internal audit activity services should be designed to eliminate arisen shortcomings and introduce into new ideas for practice;

Ultimately enhance the quality and increase efficiency of internal audit service.

### **Research methodology**

Use methods comparison, grouping, ratio calculation and other methods in the research work. Developed in research work scientific offers and practical recommendations of the research can be used for the improvement of plan internal audit in the business entities.

### **Analysis of the results**

To make internal audit risky-based plan based on following principles:

**Table 1**

#### **Main principles**

<b>Complexly</b>	Overall objects should include internal audit plan if object important or influenced to results of entity.
<b>Systematic</b>	Auditing is the process that its continuous should be uninterruptedly, repeatedly and succession.
<b>Risky-based</b>	It is means that each objects entered in internal business plan had been taken into accounting according to uncertainty, factors affected to reasonably changes them and so on.
<b>Verifiability in a given period</b>	To carry control and verify of confirmed business plan objects should be possible in a given period
<b>Harmless</b>	Internal auditing process according to confirmed plan dose not impede normal activity of the entity
<b>Expenses for internal audit</b>	Expenses for accomplishing internal audit plan not to be more the results

	value which bring by it.
<b>Efficiencies</b>	The results value of internal audit will be more than expenses that spent for accomplished it and should bring uncountable benefits.
<b>Usefulness</b>	The results internal audit service on implementation of confirmed plan should be used without any suspicions by external auditors and other users.

Former principle means internal audit plan should include every object which has material impact to results of entities. Observance of concern laws and bylaw, movement and changes of assets, equity, liability, expenses, incomes, cash flows, correctness of business plans, budgets, estimations, managerial decision, business risk, and so many others are examples for our opinion. None of the matter should omit in the internal audit plan.

Systematic principle consider each objects to be in a certain order which previous objects subordinate to next one, subsequent event should appear in affect of prior event or events, auditing process routings and its continuous should be uninterruptedly and succession.

Other principles possess necessity value that to be base for internal audit plan which conform to modern requirements of economic activities of entities.

Business risk of entities may be adverse events which have negative subsequences or releasable positive possibilities in certain condition, environment and period. They are considered in the broad sense and described with various and definite indicators. Types of business risks can be different in a case. That’s why auditor should examine all existing types of business risks and their efficiencies Auditor assesses determined and applied business risk which selected. Selected business risk should be realized and its indicators successfully implemented. It means all actual effective indicators for certain reporting period should be equal or more than selected business risk indicators and other considered business risks.

Business risk are reflected in a business plan, various budgets, estimates, management decisions, projects, alterations and amendments influenced to activities. Internal auditor examines all above mentioned objects which concern business risk objects and assesses them.

For instance:

**Table 2**

**Assessment correctness of selected business plan  
(at the end of the reporting period)**

<b>Suggested business plan variants</b>	<b>Selected business plan</b>	<b>Advantages</b>	<b>Level of Realized (Full, More than half, half, partial)</b>	<b>Justification</b>	<b>Effectiveness (minimum, average, more average, maximum)</b>
A	-				
B	B	More than other business plans	Fully Realized	Justified	Maximum
C	-				

**Sours: Made by author.**

Internal auditor assessed correctness of business plan at the end of the period (annually, semiannually. It is managers discretion). In this case auditor used common and condensed evaluation (Table 2). Substantial alterations and amendments have been made to correct a business plan are checked. It helps to know the affects of proper changes (Table 3).

**Table 3**

**Assessment made alterations and amendments to selected business plan**

Constant	Variable	How many substantial alterations have been done (within year)	How many substantial amendments have been done (within year)	The affects of alterations and amendments to route of business plan	Effectiveness (effectiveness remain in planned level, effectiveness increased than planned)
No	Yes	7	11	Positively. There is not sharply change in route and quite manageable.	Effectively (effectiveness increased than planned)

It is known the management decision is important in the entity activity. The correct special decision can change tradition activities to positive sides or overcome arisen serious obstacles. To assess decision effect internal auditor considers the results in until decision made (It would be expedient to consider the last years results and not altered current business plan.) and the results of a period after taken decision. Differences of both periods shows and characterize effects of made decision. This approaching content is a specialists at what level understood and took into consideration of the existing risk or obstacles which in a certain matter and their competent to affect them.

Besides them internal auditor gives own opinion on the most substantial activities of business plan. For example, targeted main financial activities (Table 4).

**Table 4**

**Assessment of implementation targeted main financial effectives of selected business plan (Annually)**

Titles	Plan	Actual	Deviation (+;-)
1. Sale, thousand so'm	1000000,0	1200000,0	+200000,0
2. Cost of Goods sold	(700000,0)	(740000,0)	(+40000,0)
3. Gross profit	300000,0	460000,0	+140000,0
And other indicators			

In table 3 have been reflected implementation of targeted main financial activities. Deviations shows the plight. In this case risky-based planned indicators have successfully been implemented. Actual indicators more than planned. It means the specialists of entity precisely understood and took into account them in preparing business plan at the beginning of the year and made alterations and amendments on business plan were relevant. That's way the selected business plan have fully been implemented in time. We emphasize that all main substantial activities of the business plan would be consider as a table 5.

Internal auditor should conducts control in specific interval (Monthly, quarterly) on implementation of business plan of entity. For example:

**Table 5**

**Assessment of implementation of selected business plan “A” (Monthly)**

<b>Titles</b>	<b>Plan</b>	<b>Actual</b>	<b>Deviation (+;-)</b>
1. Sale, thousand so'm	87000,0	109000,0	+22000,0
2. Cost of Goods sold	62000,0	75000,0	(+13000,0)
3. Gross profit	25000,0	34000,0	+9000,0
And other indicators			

By means of monthly control internal auditor compile all necessary information about implementations of business plan and hands them to managers or authorities. The up-to-date report made by internal auditors contains the actual condition of activity in a respectively month. The operational control has certain character. On the cursory the operational control seems very simple, like easy action. But, indeed there are various specific works which requires special interference by specialist in the field of proper system. For example, cost of products or commercial expenses unexpectedly increased of the given period. In this case internal auditor should professionally examine the matters and should find the reasons. For this aim internal auditor must know cost accounting or periodic expenses as accountants or better them. In briefly internal auditor not only conducts controls but professionally examines all objects which may be subject to audit. In short internal auditor should consider every substantial objects in business plan on the risky-based principle. For this way internal auditor(s) have to develop well-grounded internal audit plan.

**Table 6**

**Internal audit plan (Pattern)**

<b>№</b>	<b>Titles</b>	<b>Periods</b>	<b>Internal auditor</b>	<b>Required hours</b>	<b>Estimation of internal audit</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1.	Available economic potential of the entity and its market opportunities	At the beginning and end of the reporting year		84 (42, 42)	Salary
2.	Business plans A, B, C.	At the beginning and end of the reporting year			
3.	Selected business plan B for realize	At the end of the every month and annually			
4.	PPE	At the end of the each six month			
5.	Inventory	At the end of the each quarter			
6.	Labor	At the end of the each quarter			
7.	Products volume	At the end of the each month			
8.	Cost of products	At the end of the each month			
9.	Overhead expenses	At the end of the each quarter			
9	Profit of sale and profitability	At the end of the each month			
10.	Periodic expenses	At the end of the each quarter			
11.	Financial activity (expenses and income)	At the end every six months			
12.	Tax and other compulsory allocations	At the end of the each month			

13.	Inventory assets	Due to until ninth months			
14.	Financial statement	At the end of the each quarter			
15.	Financial state and ratios	At the end of the each quarter			
16.	Effectiveness of corporate governs of stock companies (economic entities)	At the end of the each quarter			
17	Assess to internal control system	At the end of the each quarter			
18	Annually internal audit report	At the end of the year			

Eventually internal auditors prepare report. It is expedient if a separately section would be opened in the report and called “Assessments of business risky”. Briefly review about implementation of business plans and made substantial alterations or amendments. It would assessment to managers and proper specialists.

### **Conclusion**

It is very necessary to use international reasonable experience to the national economy. For instance, internal audit services in entities.

All proper international experiences should be adjusted with accordance to national economy requirements and its developing. Internal audit services and its mechanisms have been accommodating to the national entities condition for short periods. Especially, complexly and systematic conduct control and audit over the risky-based business plan as well as assesses it is very essential information for owners about management system in entities.

That’s way the assessment should be reflected in internal audit report in a separate section. This approach is to take into account in prepare internal audit plan. We think if above mentioned procedures implemented in activity of entities of the national economy then influence and efficiency of internal audit service would be reasonable increased

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