



PERSPECTIVES FOR APPLYING INTERNATIONAL EXPERIENCE OF AUDIT OF FINANCIAL INVESTMENTS

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DOI: https://doi.org/10.55439/EIT/vol11_iss5/a8

Abstract

This article is devoted to the consideration of the perspectives of developing the audit of financial investments in reliance upon foreign experience. In addition, the article analyzes the perspectives of the investment policy in our republic and development of accounting and audit of investments in reliance upon international experience. Moreover, the stages of conducting the audit in the formation of reliable audit opinions on the objects of financial investments have been developed. Furthermore, based on the proposals and recommendations, the transparency of the audit by including additional activities in the audit of financial investments has been ensured.

Keywords: investments, financial investments, audit programme, audit stages, audit activities, audit planning.

Introduction

Currently under conditions of globalization, one of the top-target objectives is rapid development and liberalization of the national economy, further accelerating its integration into world financial markets and further development of the capital market and digital economy, as well as introduction of modern corporate governance principles. Taking the country's development to a new higher level, further development of the economy is impossible without attracting investments.

Nowadays, performing an in-depth and comprehensive analysis of complex global processes and the outcomes of the national development, systematic activities have been implemented in recent years and are being undertaken to prioritize reforms aimed at transforming the economy and accelerating entrepreneurship, ensuring human rights and interests and creating a dynamic civil society. Adoption of the Decree of the President of the Republic of Uzbekistan “On the Development Strategy of New Uzbekistan for 2022-2026” has marked a new stage in the development of the country, the beginning of the 3rd Renaissance [1]. This Decree has determined such urgent objectives as rapid development of the national economy and high growth rates, further improvement of the investment climate in the country and its attractiveness, as well as the efficient use of investments and ensuring an increase of

exports, establishment of a new system based on “bottom-upwards” principle, which requires active implementation of investment policy, finding sources of their financing, further improving the system, streamlining the system of making management decisions and their effective use. All these aspects necessitate improving the quality of auditing services.

Literature review

It should be noted that currently investment policy, formation of investment flows and improvement of audit processes in their effective use are considered one of the most essential issues in the era of the world economy globalization.

Various studies on the efficient use of investments and improvement of investment audit methodology have been conducted throughout the world. In particular, there are research papers of foreign scholars on the world scale dedicated to investigating the methodology of accounting and auditing of financial investments in the basic industrial enterprises and service-rendering of such scholars as Farrokh Barzideh, Soroush Lotfi, Mehdi Mousapour, Mojtaba Aghae [3]. In their research papers these scholars considered accounting of investments based on their sources in the improvement of accounting of investments, while other researchers Zhiyun Ouyang, Hua Zheng, Yi Xiaosing [4] conducted research on the improvement of accounting of investments in natural capital.

The issues of investments, especially the accounting and audit of financial investments, have been researched by the scholars of the CIS as well. In particular, M.V.Levina [5] researched the methodology of economic analysis in the effective use of financial investments, O.G. Jitlukhina [6] revealed the features of developing the concept of financial investments and their reflection in accounting and financial statements. A. V. Pasechnik [7] studied the issues of development of accounting of financial investments by enterprises.

Furthermore, the issues of accounting and audit of financial investments have been researched by economists of our country, and their research papers are mainly focused on improving the accounting of investments based on national standards. among other things, In particular, the research conducted by O. Juraev is aimed at improving accounting and audit of financial investments made by enterprises and the financial results obtained from them in the conditions of market relations. Sh.Ilkhamov [8] studied the issues of accounting and audit of investment activities in enterprises. Furthermore, the research, conducted by A. Avlokulov, studied the issues of accounting the investment of real estate as long-term securities included in long-term investments and other long-term investments.

Herewith handling accounting and audit of investments in our country in compliance with international standards of financial reporting and audit promotes the increase of their efficiency and provides reliable information to investors [9, 10].

Research demonstrate that the ways of improving accounting and audit of financial investments have not been studied comprehensively. This fact necessitates analysis of accounting and audit of financial investments taking into account the changes taking place in the practice of their improvement and requires creation of methodologies based on the improvement of its theoretical and methodological issues.

Research Methodology

The methodology of this research papers relies on the data collection, observation, as well as study of statutory acts based on the general scientific principles of research, which envisage general and systematic approaches to the study of economic relations and

phenomena in their development, as well as interrelation. The systematic approach has been used to research the concept of financial investment, to define the concept of formulating the concept for audit of financial investments and its level of development. Moreover, it has determined the stages of audit of financial investments, formation of audit conclusions, research in the field of effective use of financial investments in the services sector.

Analysis and results

The system of statutory regulation of auditing activities has been created in our country during the independence period. Moreover, systematic activities have been carried out to adjust them in compliance with international auditing standards, to improve the methodology of auditing processes. As a result, an independent audit methodology has been created in our country. Although the audit methodology has already been created by this time, it is necessary to improve it as a result of the reforms implemented in the economic sectors.

The Law of the Republic of Uzbekistan “On audit activities” states that “An audit is an examination of the financial statements and related financial information of an economic entity, carried out by an audit organization in order to establish reliability and compliance of the audited financial statements and related financial information with accounting legislation” [2]. The audit organization carries out activities of economic entities in the implementation of audit inspections in reliance upon the national standards of audit activity and provides audit conclusions.

Currently the measures on adjusting the national audit activity system in compliance with the international audit activity systems determines the need to conduct research on the audit activity in the future. In particular, the international standards on auditing and international standards of quality assurance, international standards of analytical inspections, international standards of reliability assurance, international standards of related services, published by the International Auditing and Assurance Standards Board (IAASB), imply international standards of audit activities.

Currently auditing activities in our country are implemented on the basis of the standards of auditing activities posted on the official website of the public body authorized in the field of auditing activities, which do not contradict the legislation of the Republic of Uzbekistan in reliance upon permission of the International Federation of Accountants (IFAC) to publish in the Republic of Uzbekistan.

The planning of the audit is considered one of the processes of the audit activity. For example, “One of the important steps in the planning process of the audit is evaluation of the accounting and internal control systems of economic entities, which is regulated by the relevant national standard. It is known that control represents one of the functions of management. Therefore, organization and implementation of the internal control system is considered a tool that helps the executive in managing this economic entity” [8].

One of the essential elements of the audit is the quality control system, which can be used to assess the reliability of the audit conclusion. Communicating audit quality control policies and procedures to the employees of the audit organization includes explanation of the quality control policies and procedures, as well as objectives to be achieved by their organization. In addition, it implies that each person has personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging the employees

of the audit organization to express their opinions or attitudes on quality control matters represents the significance of obtaining feedback on the quality control system of the audit organization.

Therefore, it is necessary to determine focus areas of the inspection, the sequence of actions, and required sources of evidence when planning the control procedures of the audit of financial investments in economic entities. With the aim of regulating specific activities and reducing audit risk, it is recommended to prepare a special program for the audit of financial investments [11].

In the process of carrying out audit of investments, an auditor must verify which method is used in the evaluation of investments and whether it corresponds to the option selected having consideration for the entity’s accounting policy.

Expenditures associated with the implementation of investments should be confirmed with documents and reflected in the analytical accounting. The value of some financial placements (shares) can be confirmed by explanatory notes and other documents confirming ownership rights.

In our opinion, the aim of the audit of investments is to determine the reliability of the financial reporting data of economic entities and compliance of the accounting methods of investments and taxation transactions with relevant statutory acts.

In order to achieve this aim we have developed the sample of audit tasks, presented in Table 1.

Table 1

Tasks of the audit of investment activity

№	Main tasks of the audit
1.	Verifying whether the assets of economic entities are included in the composition of investments.
2.	Restricting classification of investments in the account according to the relevant symbols, verifying their accuracy.
3.	When accounting for investments, checking that their value is correctly formulated.
4.	Verifying accuracy of the accounting of transactions related to investments.
5.	Assessing the state of synthetic and analytical accounting of investments.
6.	Verifying the procedure for carrying out an inventory of investments and their results are correctly reflected in the account.
7.	Checking compliance of transactions with investment with the applicable tax legislation.

In reliance upon the aim and tasks specified above, the objects of the audit are determined by the auditor, and the audit is performed in accordance with the developed programme.

Before starting the audit of investment activities, it is necessary to work out the programme of audit procedures based on the information presented in the above table.

First of all, an auditor should familiarize himself with the documents confirming the financial investments made. These can include received shares, various certificates, bonds, certificates of deposited amounts, loan agreements. Documents confirming the sale of securities can include sales contracts, payment orders confirming that the bonds have been redeemed and the debts have been returned.

During the process of the audit, for revaluation of long-term financial investments it

is required to determine periodicity of the revaluation, including the categories of long-term investments. With the exception of a temporary decrease in the balance sheet value, the balance sheet value of all long-term investments is reduced in case of a decrease in the value of investments. Herewith the reduction is determined and prepared for each financial investment.

An auditor should not forget that the additional amount arising from the revaluation of financial investments should be added to private equity as the gain received from revaluation. In the case of a decrease in the value of financial investments, the amount of the decrease is implemented at the expense of the previous valuation of those investments reflected in private equity.

If the amount of decrease in the value of financial investments is less than the amount of income obtained from the previous revaluation, this difference should be accounted as an expense. The amount of the additional evaluation of the impaired investments is included in the increase of private equity after the losses from these investments are covered.

When planning the control procedures of the audit of financial investments it is necessary to determine the focus areas of inspection, the sequence of actions, and required sources of evidence. With the aim of regulating specific activities and reducing audit risk, it is recommended to develop a special programme for the audit of financial investments.

According to the developed inspection programme, an auditor shall compare the information of the following balance sheet items (lines 040, 050, 060, 070, 080) at the beginning of the reporting period and at the end of the reporting period respectively with the data in the accounts “Securities”, “Investments in subsidiary companies”, “Investments in associated companies”, the data of accounting “Investments in companies with foreign capital”, “Other long-term investments” with accounting data, as well as with the data of the Ledger. In turn, the data of the Ledger should be compared with the data of relevant accounting registers and preliminary documents. Then the value of investments should be checked for accurate determination (Table 2).

Table 2

Objects of audit of investment activity

Indicators		Financial reports containing indicators							
Name	Accounts №	Form 1		Form 2		Form 4		Form 5	
		line №	column	line №	column	line №	column	line №	column
1	2	3	4	5	6	7	8	9	
Accounts for accounting of long-term investments	0600	030	3						
Securities	0610	040	3					130	2
Investments in subsidiary companies	0620	050	3						
Investments in associated companies	0630	060	3						
Companies with foreign capital	0640	070	3						

Other long-term investments	0690	080	3						
Accounts for accounting of capital	0800	100	3			100	2		
Construction in progress	0810	100	3						
Purchase of fixed assets	0820	100	3						
Purchase of intangible assets	0830	100	3						
Formation of the main herd	0840	100	3						
Capital investments in land improvement	0850	100	3						
Capital investments in the fixed assets obtained on the basis of the long-term renting contract	0860	100	3						
Other capital	0890	100							
Accounts for accounting of short-term investments	5800	370	6			100	2	130	2
Securities	5810	370	6						
Debts provided for a short term	5830	370	6						
Other current investments	5890	370	6						
Accounts for accounting of income by financial activity	9500			110	4	180	3		
Income in the form of dividends	9520			120	4	120	3		
Interest income	9530			130	4	110	3		

The above-mentioned recommendations enable to significantly reduce the audit risk during the audit process and provide reliable information for external users.

An audit is considered a complex, multifaceted process and various tasks are solved during its implementation. In addition, it involves a certain amount of labour and money. Therefore, it is necessary to pay particular to the methods of conducting an audit and to use it efficiently.

When planning the control procedures of the audit of financial investments, it is necessary to determine the focus areas of inspection, the sequence of actions, and the necessary sources of evidence. With the aim of regulating specific activities and reducing audit risk, it is recommended to develop a special programme for the audit of financial investments.

As a result of the research, we have developed the “Audit plan of financial investments” and “Audit programme of financial investments”. In accordance with the developed plan and

programme for audit, the auditor should check the balance sheet of financial investments at the beginning of the reporting period and at the end of the reporting period, as well as the preliminary documents related thereto.

We have determined that the sequence of audit of financial investment activities should be carried out in three stages (Figure 1).

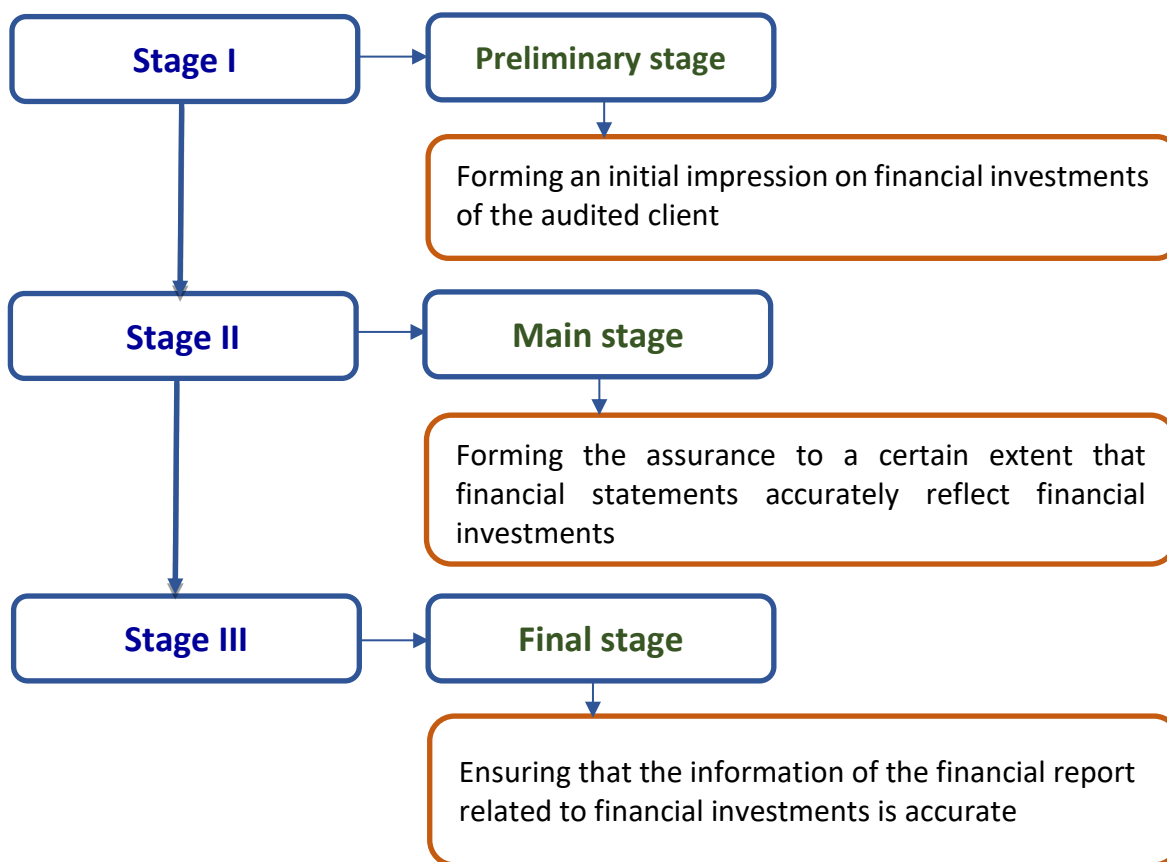


Figure 1. Stages of conducting the audit of financial investments*

** Developed by the author during the research process*

At each stage, the auditor considers relevant issues, as well as possible errors and their impact on the reliability of the data. Audit evidence is essential in the process of the audit of financial investments.

In practice audit evidence includes activities such as monitoring, observing, survey, and counting. These actions are not considered sufficient by an auditor to determine the effectiveness of financial investments and to fully disclose information about them.

Adding additional actions in the process of obtaining audit evidence on financial investments will help to expand possibility of gathering evidence, ensure the adequacy and accuracy of audit evidence, and as a result, increase the objectivity and quality of the audit conclusion.

Conclusion and proposals

From a scientific point of view, it is justified to conduct an audit of financial investments in three stages: a preliminary stage of the audit (formation of a preliminary idea of the financial investments of the audited client), the main stage of the audit (to a certain extent, the formation of a belief in the proper reflection of financial investments in financial statements) and the final stage (formation assurance of the accuracy of financial statements

of financial investments). As a result, this fact enables auditors to systematically formulate their opinion in the process of audit of financial investments. This, in turn, has enabled to draw an audit opinion based on the results of checking the quality of financial investments.

In practice audit evidence includes activities such as monitoring, observing, survey, and counting. These actions are not considered sufficient by an auditor to determine the effectiveness of financial investments and to fully disclose information about them. We have proposed to include the action of “comparison” in the implementation of audit activities. By adding this action, it is possible to determine reliability of information about financial investments by the enterprise in previous years. Herewith the audit organization compares the accuracy of several annual reporting data of the economic entity and checks the consistency of the financial reporting data. In addition, it represents a description of the similarities and differences detected between two pieces of information.

As a result of proposals developed to reduce the audit risk during the audit of financial investments, it is possible not only to reduce the audit risk, but also to provide users with reliable information.

The above-mentioned recommendations enable to significantly reduce the audit risk during the audit of financial investments and provide reliable information for external users.

List of used literature

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