

ROLE OF INTERNAL AUDITING IN INTERNATIONAL COMPANIES

B. B. Khalilov

Asia International University

ARTICLE INFO.

Keywords: finansial, auditors, business.

Abstract

This article explains internal auditing, how it has evolved over the past 50 years, and how it must continue to evolve in the future to accommodate not only the changing business environment but the public impact on the auditing profession's independence when external auditors perform such services for audit clients in international companies.

<http://www.gospodarkainnowacje.pl/> © 2024 LWAB.

Factors such as business developments, and a history of financial disasters influence the public's internal audit expectations and hence development. While there is no worldwide generally accepted method of internal auditing, there is a growing body of knowledge about what internal auditing should encompass. The Institute of Internal Auditors (IIA) has made great progress in helping to develop a comprehensive body of knowledge about internal auditing. The historic basic role of internal audit has been to test on an interim basis the operations of internal controls within a business organization to see that they are operating effectively and efficiently. The external auditors are also concerned with the effectiveness of internal controls because it is the primary basis on which they base their audit strategy, that is, the nature, timing and extent of their substantive audit tests. What are internal controls? In essence they are systems of checks and balances to determine whether management's policies and procedures are being carried out effectively, whether financial transactions are being reported properly, and whether the assets of the organization are being protected. Internal controls on an entity-wide basis consist of the "tone at the top," the accounting system, risk evaluation and monitoring by management. An effective internal audit department became part of the overall internal control structure within an organization. It was important, therefore, to recognize that the internal auditors would not only be part of management but also a check on management. To achieve this objective it was recognized that a certain "independence" would be required of the internal audit function. Internal auditors function best when they are required to report directly to the Board of Directors and/or the Audit Committee of the Board of Directors. In many situations, the internal auditors report to both executive management and the Board and/or Audit Committee. When the internal audit functions properly its work may be relied on by the external auditors in developing their audit plan and in reducing their control testing in connection with their audit. In the current post-Enron business environment it is imperative that internal auditors focus their attention on "tone at the top," that is, how top management conduct themselves with regard to policies of the organization including such matters as personal expenses, related-party transactions, and self-dealing. If top management does not observe policies with respect to protecting a company's assets, how can all of the employees be expected to comply with protective policies. In the United States, the internal audit professional has grown from being a verifier of data and fraud identifier to being a member of the management team. The auditor is an active participant in the risk management

process. For example, internal auditors are also used as active participants in acquisitions and divestitures because internal audit resources can be leveraged to avoid costly consultants' fees, identify potential problems, and prevent unnecessary expenditures. Auditors are also becoming "management advisors charged with developing new process flows and controls in the redesigned operation as well as gathering and reporting key performance information and monitoring operations stability during the transition." The internal auditing function can be executed in many ways. Some companies consider it essential for management trainees to spend time in internal audit if they are being groomed for management positions. For example, General Electric feels management trainees cannot advance within their company if they have not spent some time in the audit function. Some companies also consider the internal audit experience a prerequisite to advancement. Truly progressive companies realize the value that internal audit brings to the management process. Fortunately, the number of companies valuing the contributions being made by internal auditors is increasing. In the United States, the increased pressure on audit committees to provide independent reviews have in some cases led to greater recognition of the internal audit function. There are distinct differences in internal audit practices between countries as well as companies, so it is difficult to generalize about internal audit practices globally or even within the United States. This is largely due to the different national context within which internal auditing operates. There is a relationship between how management perceives internal audit's role and the major area of internal audit work. In some countries, where management is reported to have a deeper understanding of the business value of internal auditing, operational audits are considered as important as financial audits and internal control reviews. The scope of internal audit work also reflects the different business priorities in each country. In Japan, highly industrialized and heavily populated, internal auditors emphasize compliance audits that address environmental management, hazardous substances, and product and service safety. Australian businesses, however, have responded to increased competition by adopting a quality perspective in their attempt to provide customer value. As a result, internal auditors undertake a significant amount of quality systems audit work. For example, some companies still have their internal auditors function as detectives/verifiers. Auditors mainly count and reconcile financial records, and their work supports that of external accountants. Others have their internal auditors establish their programs in concert with public accountants' needs, but emphasis is also placed on helping management identify business risks and analyze cost-benefit trade-offs. Internal auditing, also referred to as management auditing, is generally thought of as the periodic evaluation of internal controls and management efficiency and effectiveness. Early on, internal auditors focused on protection of company assets and the detection of fraud. As noted in the 2013 National Industrial Conference Board Report, "Auditors concentrated most of their attention on examination of financial records and on the verification of assets that were most easily appropriated. A popular idea among management people a generation ago was that the main purpose of an auditing program was to serve as a psychological deterrent against wrongdoing by other employees." The internal audit role has changed considerably, adapting to significant changes in the world of business. Technology has allowed many manual tasks to be automatically checked. Furthermore, businesses' need to curtail costs and increase efficiency took on greater importance. Cost versus benefit trade-off was quickly evident in management's expectations of the internal audit function. To offset the costs of attracting qualified individuals to the internal audit function, it was important for auditors to provide input valued by management, such as operational reviews. The IIA best described the broad role of internal auditing in its 1975 Statement of Responsibilities of Internal Auditing. According to that publication, the management services provided by internal auditors include:

- Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and operational controls
- Ascertaining the extent of compliance with established policies, plans, and procedures
- Ascertaining the extent to which organizational assets are accounted for and safe-guarded from losses of all kinds

- Ascertaining the reliability of accounting and other data developed within the organization
- Appraising the quality of performance in carrying out assigned responsibilities

There are various ways these responsibilities can be modified and executed. An internal auditor can have a large staff, located centrally or dispersed throughout the world. The staff can have numerous specialists for areas such as products, technology, or compliance requirements. Conversely, the audit staff can be mainly generalists that hire specialists via external auditors or consulting firms to provide required skills. Some companies have totally outsourced their internal audit function to external accounting firms. This trend is fueled by the growing interest in general outsourcing, the belief that public accountants have deep knowledge and skill in performing the audit function, and the realization that internal audit salaries may have to increase significantly to attract qualified individuals. In recent years, the major accounting firms have created Internal Audit Services departments to service both audit clients and nonaudit clients in response to outsourcing needs of companies. However, there has grown to be a perception that the external audit function has compromised its independence (a key standard under generally accepted auditing standards) when it undertakes the internal audit function for an audit client. It has been alleged that as a result of such undertaking the external auditors become too closely associated with management of the company. Studies have indicated that users of financial statements, such as credit grantors have greater confidence in the independence of outside auditors, when they use different staffs for the external and internal audit functions. Nevertheless, the American Institute of Certified Public Accountants (AICPA), under pressure from the Securities and Exchange Commission (SEC) and the audit failure environment resulting from the Enron case and others, has set forth guidelines in its Interpretation 101-13 under Rule of Conduct 101, Extended Audit Services. These guidelines indicate that independence would not be impaired if the audit firm did not offer to act and does not act in a capacity equivalent to a member of client management or as an employee. Pressure still exists from regulators and congressional sources for public accounting firms to disassociate their internal audit services for publicly held audit clients. Nevertheless, it has been held by certain users of financial statements that benefits may be derived from having the external audit firm perform internal audit functions. Such benefits include greater understanding of the business and the key audit risks and therefore improved overall audit quality. Nevertheless, the Sarbanes-Oxley Act of 2002 prohibits the performance of internal audit services by audit firms for their public company audit clients. It is quite clear, however, that the major accounting firms will nevertheless continue to perform internal audit services for nonaudit clients and nonpublic companies. Regardless of whether internal audit services are outsourced or handled internally, the role of internal audit must be sufficiently dynamic to accommodate the changing views of management, the need to provide continuous value and innovation, a focus on sensitivity to risk and controls, and an emphasis on business strategy. All of these requirements have forever changed the role of internal audit, and, consequently, the expectation gap between management and the internal audit function is narrowing as companies go through periods of dynamic growth and ever increasing change. There is no one perfect way to execute the internal audit function internationally. Some companies are organized on a decentralized basis and employ local auditors for full-service branches that handle their own accounting. In such cases, the home office expects local management to handle all financial problems, including local inflation and changes in foreign exchange issues, in reliance on the knowledge of local management to plan for all contingencies. Accordingly, top management and audit committees believe that they are best served by local auditors who understand the local environment and the related customs and regulations. The drawback to this method involves a more restrictive advancement pattern for internal auditors hired locally. Some international organizations have centralized control over their foreign operations to the extent that key financial decisions, including planning for inflation and foreign exchange issues, are dictated and controlled by the home office. In such situations the internal control function is centralized, and the internal audit function is similarly centralized or regional auditors are employed for this function. As a result, more experienced personnel and/or specialists in areas of foreign exchange

planning may be employed. However, the drawback to this methodology is a lack of understanding of local customs, language, and related issues. It is evident that either of the foregoing techniques can be successful. It all depends on how top management enforces its own policies. Indeed, a system that works in one market or under one type of management may not work for another. The impact of technology has been pervasive. In the world of internal auditing, auditors have to become proficient in technology. They also have to be able to audit new applications, become experts in testing data security, and use of audit application modules, and teach other auditors how to take advantage of the data that technology makes available.

References:

1. Alisher, S. (2024). ACTUAL PROBLEMS OF DIGITAL ECONOMY DEVELOPMENT IN UZBEKISTAN. *Gospodarka i Innowacje.*, 46, 366-372.
2. Shadiyev, A. K. (2023). Stages of Development of The Digital Economy in Uzbekistan and Future Plans. *Best Journal of Innovation in Science, Research and Development*, 2(12), 333-340.
3. Шадиев, А. Х., & Давронов, И. О. (2020). Роль развития персонала в повышении эффективности услуг и его влиянии на экономику. *Вопросы науки и образования*, (6 (90)), 15-17.
4. Шадиев, А. Х. (2020). Способы улучшения структуры управления в туризме. *Вопросы науки и образования*, (7 (91)), 29-31.
5. Bazarova, M. S., & Khudaiberdiyeva, O. Q. (2022). IMPROVEMENT OF THE MECHANISM OF INNOVATIVE MANAGEMENT OF FOOD INDUSTRY ENTERPRISES. In *Современные проблемы социально-экономических систем в условиях глобализации* (pp. 464-467).
6. Supievná, B. M. (2023). EFFECTIVENESS OF USING PR-ADVERTISING SERVICES IN THE PROCESS OF PRODUCT DELIVERY ON THE EXAMPLE OF BUKHARA REGION.
7. Supievná, B. M. (2023). MARKETING MANAGEMENT STRATEGY'S IMPORTANCE AND MODERN CONCEPT. *Gospodarka i Innowacje.*, 42, 381-386.
8. Supiyevna, B. M. (2023). TIJORAT BANKLARI FAOLIYATIDA PERSONALNI BOSHQARISHNING O 'ZIGA XOS XUSUSIYATLARI. *Gospodarka i Innowacje.*, 42, 409-414.
9. Supiyevna, B. M. (2024). TIZIMIDA BANK FINANCIAL SERVICE NUMBER: DEVELOPMENT AND OLD TURGAN. *Gospodarka i Innowacje.*, 46, 379-385.
10. Базарова, М. С., Шарипова, М., & Нуруллоев, О. (2021). “РАҚАМЛИ ИҚТИСОДИЁТ” ДА АҲОЛИНИНГ ИШ БИЛАН БАНДЛИГИ ХУСУСИЯТЛАРИ. САМАРҚАНД ДАВЛАТ УНИВЕРСИТЕТИ, 482.
11. Bahodirovich, K. B. (2024). RISK-BASED FINANCIAL INSTRUMENTS: THEORIES AND CONCEPTS. *Gospodarka i Innowacje.*, 46, 373-378.
12. Xalilov, B. (2024). ISSUES OF IMPROVING THE FINANCIAL MECHANISM OF SMALL BUSINESS ENTITIES. *Modern Science and Research*, 3(1), 747-753.
13. Khalilov, B. (2023). FINANCIAL INDICATORS OF BUSINESS EFFICIENCY IN COMPANIES. *Modern Science and Research*, 2(10), 835-839.
14. Khalilov, B. (2023). FINANCIAL ELEMENTS OF BUSINESS STABILITY. *Modern Science and Research*, 2(12), 877-882.
15. Xalilov, B. (2024). COBB-DOUGLAS PRODUCTION FUNCTION AND ITS IMPORTANCE IN BUSINESS MATHEMATICS AND ECONOMIC ANALYSIS. *Modern Science and Research*, 3(1), 754-758.

16. Khalilov, B. (2024). FOREIGN EXPERIENCE IN PERSONNEL MANAGEMENT. *Modern Science and Research*, 3(2), 974-978.
17. Nafisa, R. (2024). THEORETICAL FOUNDATIONS OF MODERN MANAGEMENT TRAINING. *Gospodarka i Innowacje.*, 46, 265-269.
18. Raxmonqulova, N. (2024). ACTUAL PROBLEMS OF DIGITAL ECONOMY DEVELOPMENT IN UZBEKISTAN. *Modern Science and Research*, 3(2), 340-347.
19. қизи Рахмонқулова, Н. О. (2023). КИЧИК САНОАТ ЗОНАЛАРИНИНГ ХУДУДЛАР ИҚТИСОДИЁТИНИ РИВОЖЛАНТИРИШДАГИ ЎРНИ. " Экономика и туризм" международный научно-инновационной журнал, 6(14).
20. Nafisa, R. (2023). XUSUSIY SHERIKCHILIK VA TURIZM KLASTERI ORQALI HUDUDLARDA TADBIRKORLIKNI RIVOJLANTIRISH. *Innovations in Technology and Science Education*, 2(8), 556-560.
21. Raxmonqulova, N. (2024). THE ROLE OF CYBER SECURITY IN THE DIGITAL ECONOMY. *Modern Science and Research*, 3(1), 111-115.
22. Авезова, Ш. М., & Жумаева, З. К. (2013). МЕХАНИЗМЫ УСТОЙЧИВОГО РАЗВИТИЯ НАЦИОНАЛЬНОЙ ЭКОНОМИКИ УЗБЕКИСТАНА. СЕКЦИЯ 1. Економіка і управління національним господарством..... 9, 12.
23. Примова, А. А., Усманова, Н. Ю., & Жумаева, З. К. (2013). НЕКОТОРЫЕ АСПЕКТЫ ИННОВАЦИОННОГО РАЗВИТИЯ АГРАРНОЙ ОТРАСЛИ УЗБЕКИСТАНА. In *ЕКОНОМІКА І УПРАВЛІННЯ: ПРОБЛЕМИ НАУКИ ТА ПРАКТИКИ* (pp. 199-202).
24. Жумаева, З. К., & Тошев, Ф. З. (2017). РОЛЬ ИНВЕСТИЦИЙ В РАЗВИТИИ ПРОМЫШЛЕННЫХ ПРЕДПРИЯТИЙ. *Ученый XXI века*, 77.
25. Рузметов, Б. Р., & Жумаева, З. К. (2020). АНАЛИЗ ИНВЕСТИЦИОННОЙ СРЕДЫ В РЕСПУБЛИКЕ УЗБЕКИСТАН. In *Современные проблемы социально-экономических систем в условиях глобализации* (pp. 246-250).
26. Жумаева, З. К., & Гафуров, Э. О. (2022). ФИСКАЛЬНАЯ ПОЛИТИКА В ОБЕСПЕЧЕНИИ ЭКОНОМИЧЕСКОЙ БЕЗОПАСНОСТИ ГОСУДАРСТВА. *Редакционная коллегия*, 358.
27. Jumayeva, Z. (2024). THEORY OF SUPPLY AND DEMAND AND ITS MARKET RELATIONSHIP EFFECT. *Modern Science and Research*, 3(2), 426-432.
28. Jumayeva, Z. (2024). WAYS AND METHODS OF DEVELOPING SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP IN OUR COUNTRY. *Modern Science and Research*, 3(2), 433-440.
29. Zamira, J. (2024). IQTISODIYOTDA SUNIY INTELLEKTDAN FOYDALANISH ZARURIYATI VA ISTIQBOLLARI. *Gospodarka i Innowacje.*, 46, 320-325.
30. Bustonovna, D. Z. (2024). CREATIVE THINKING AND ITS APPLICATION IN ECONOMICS.[Data set]. Zenodo.
31. Shamsiya, A. (2023). HR MANAGEMENT AND COACHING IN THE INNOVATIVE ECONOMY AS A METHOD OF BUSINESS MANAGEMENT. *Modern Science and Research*, 2(10), 712-717.
32. Alimova, S. (2024). THE ROLE OF INFORMATION TECHNOLOGY IN THE PERSONNEL MANAGEMENT SYSTEM. *Modern Science and Research*, 3(2), 385-390.
33. Abidovna, A. S. (2024). "PERSONNEL MANAGEMENT" AND "HUMAN RESOURCE MANAGEMENT": HISTORY OF ORIGIN, ESSENCE AND RELATIONSHIP OF CONCEPTS.

Gospodarka i Innowacje., 46, 336-343.

34. Alimova, S. O. FEATURES OF THE STRATEGIC MANAGEMENT SYSTEM OF INDUSTRIAL ENTERPRISES.
35. Hakimovich, T. M. (2024). XODIMLARNI BOSHQARISHDA KPI SAMARADORLIGI TAHLILI. *Gospodarka i Innowacje.*, 46, 270-273.
36. Hakimovich, T. M. (2023). BOSHQARUVCHILARNING SAMARADORLIKKA ERISHISHDAGI PROFESSIONALLIGI. *Gospodarka i Innowacje.*, 42, 421-425.
37. To'rayevna, S. N. (2024). O 'ZBEKISTON RESPUBLIKASI IQTISODIYOTINI RIVOJLANISHDA INVESTITSIYALARNING O 'RNI. *Gospodarka i Innowacje.*, 46, 258-264.
38. Sodiqova, N. (2024). ECONOMIC POLICY IN THE FIELD OF YOUTH EMPLOYMENT: FOREIGN EXPERIENCE. *Modern Science and Research*, 3(2), 330-339.
39. To'rayevna, S. N. (2024). TADBIRKORLIK SOHASINI MALAKALI KADRLAR BILAN TA'MINLASHNING ASOSIY YO'NALISHLARI.
40. Sodikova, N. (2024). OTMda "Iqtisodiyotda axborot-kommunikatsiya texnologiyalari va tizimlari" fanini o 'qitishda raqamli texnologiyalarning o 'rni. *Modern Science and Research*, 3(1), 1-4.
41. Ibodulloyevich, I. E. (2023). TADBIRKORLIK FAOLIYATINI TARTIBGA SOLISH SODDALASHTIRILADI.
42. Ibodulloyevich, I. E. (2024). DAVLAT BOSHQARUVI ORGANLARIDA RAHBAR XODIMLAR MEHNATINI TASHKIL ETISH VA SALOHIYATINI OSHIRISHNING NAZARIY ASOSLARI.
43. Ibodulloyevich, I. E. (2024). ZAMONAVIY MENEJMENT TIZIMIDA RAHBARLIK USLUBLARINING TASNIFLANISHI.
44. Ibodulloyevich, I. E. (2024). ZAMONAVIY MENEJMENT TAMOYILLARI VA USLUBLARIDAN FOYDALANISHDA RAHBAR MEHNATINING AHAMIYATI.
45. Ibodulloyevich, I. E. (2024). ISHLAB CHIQRISHDA RAHBAR MEHNATINING ASOSIY O 'RNI VA KORXONALAR IQTISODIY FAOLIYATIGA TA'SIRI. *Gospodarka i Innowacje.*, (45), 311-315.
46. Ibodulloyevich, I. E. (2024). RESPUBLIKADA XIZMATLAR SIFATI VA RAQOBATBARDOSHLIGINI OSHIRISH ORQALI XIZMATLAR EKSPORTINI RIVOJLANTIRISH ISTIQBOLLARI. *Gospodarka i Innowacje.*, 46, 247-251.
47. Ikromov, E. (2024). DIRECTIONS FOR IMPROVING THE ORGANIZATIONAL AND ECONOMIC MECHANISMS OF INCREASING THE QUALITY AND COMPETITIVENESS OF SERVICES. *Modern Science and Research*, 3(2), 803-810.
48. Ikromov, E. (2024). THEORETICAL APPROACHES TO THE DEVELOPMENT OF MODERN MANAGEMENT AND ITS METHODS. *Modern Science and Research*, 3(2), 811-819.
49. Ikromov, E. (2024). USE OF FOREIGN EXPERIENCES IN THE ORGANIZATION OF MANAGERIAL WORK IN PRODUCTION ENTERPRISES AND ITS IMPROVEMENT. *Modern Science and Research*, 3(2), 820-828.
50. Ikromov, E. (2024). FOREIGN EXPERIENCES OF SERVICE SECTOR DEVELOPMENT. *Modern Science and Research*, 3(2), 794-802.
51. Akbarovna, N. N. (2023). MULKCHILIK MUNOSABATLARINING JAMIYATDAGI TUTGAN O'RNI.
52. Naimova, N. (2024). DIGITALIZATION IN OUR COUNTRY'S EDUCATION SYSTEM AND

APPLICATION IN THE DIGITAL WORLD. Modern Science and Research, 3(1), 912-917.

53. Naimova, N. (2024). THE COUNTRY'S ECONOMIC POTENTIAL IN DIGITAL ECONOMY AND E-COMMERCE DEVELOPMENT. Modern Science and Research, 3(2), 234-239.
54. Akbarovna, N. N. (2024). XIZMAT KO 'RSATISH KORXONALARIDA IQTISODIY RESURSLARDAN FOYDALANISH SAMARADORLIGINI BAHOLASH MEZONLARI VA KO 'RSATKICHLARI. Gospodarka i Innowacje., 46, 326-335.
55. Naimova, N. (2024). STRATEGY OF DIGITALIZATION OF INFORMATION AND COMMUNICATION TECHNOLOGIES OF THE STATE TAX COMMITTEE. Modern Science and Research, 3(2), 635-641.
56. Mahmudovna, Q. G. (2024). RAQOBAT STRATEGIYALARI, ULARNI AMALGA OSHIRISHDA INNOVATSIYALARDAN FOYDALANISHNING AHAMIYATI. IQTISODIYOT VA ZAMONAVIY TEXNOLOGIYA JURNALI| JOURNAL OF ECONOMY AND MODERN TECHNOLOGY, 3(5), 15-21.
57. Mahmudovna, G. G. (2024). COMPETITIVE STRATEGIES, THE IMPORTANCE OF USING INNOVATION IN THEIR IMPLEMENTATION. IQTISODIYOT VA ZAMONAVIY TEXNOLOGIYA JURNALI| JOURNAL OF ECONOMY AND MODERN TECHNOLOGY, 3(5), 8-14.
58. Mahmudovna, Q. G. (2024). OLIY TA'LIM MUASSASALARI RAQOBATBARDOSHLIGINI TAVSIFLOVCHI OMILLAR. Gospodarka i Innowacje., 46, 620-627.
59. Mahmudovna, Q. G. (2024). OLIY TA'LIM MUASSASALARI RAQOBATBARDOSHLIGINI OSHIRISHDA INNOVATION FAOLIYATNING AHAMIYATI.