

ISSUES OF ORGANIZING THE AUDIT UNDER CONDITIONS OF THE ECONOMY DIGITIZATION

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Abstract:

The article covers the issues of organizing audit activities in the Republic of Uzbekistan under conditions of the digital economy. In addition, the article investigates the theoretical issues of audit, its practice, methods, and the audit process and the major changes in reliance upon the conditions of the economy digitalization.,

Keywords: audit, audit activity, digitization of the economy, “Big Four”, audit service.

Introduction:

Audit activity in our country is developing and improving year by year. The legal basis of audit activity is also being improved and strengthened. A clear example of this is the adoption of the Law №LRU-677 “**On the audit activity**” of the Republic of Uzbekistan signed on February 25, 2021. This law is considered to be a legal and statutory act that meets the international standards for the organization of audit activities in our country. Article 3 of this Law stipulates that “**Audit activity** is the entrepreneurial activity of auditing organizations on the provision of audit services” [1]. One of the main requirements of the law is the adjustment of audit activities to the conditions of the digital economy

Literature review:

So, how can audit and audit activities be organized under conditions of the economy digitization? In such conditions, changes occur in the organizational issues and methodology of audit activities and audit inspections. In this regard, it is appropriate to mention the opinion of V.A. Yakimova (2020): “Under current conditions, paradigmatic changes are taking place in audit, its form is changing from traditional to intellectual audit, and its methodology is also based

on technologies” [2]. This is an indication of the step-by-step transition to digitization of the audit.

It requires the development of a digital audit model under conditions of the economy digitalization. According to the Chairman of the Accounts Chamber of the Russian Federation A. Kudrin (2020), it is possible to move to a digital audit in Russia within 3 years. He writes that the first priority is to digitize the financial audit. Continuing the opinion of A. Kudrin, we create a digital audit model, which means that when the auditor arrives at the facility, he will be ready with all the data for the inspection [3].

From the point of view of V.V. Pankov (2019), the traditional audit of the information in the reports did not meet the current requirements. Therefore, it is time to search new decisions. Moreover, V.V. Pankov has come to the conclusion that the methodology of the future audit is based on a risk-oriented concept [4]. Therefore, under the digital economy conditions it is expected that there will be great changes not only in the theoretical issues of the audit, but also in its practice, techniques and audit process.

According to I.I. Meliev and B.M. Dagarov (2020), to achieve the goal of organizing and conducting audit services remotely, it is possible to achieve not only the use of IT technology tools, but also introduction of advanced automated audit programs, financial analysis programs, electronic digital signature service, and the appointment of an auditor who confirms the quality of the provided audit services [5].

H.H. Saydivalieva (2020) has conducted a comprehensive research on the issues of the audit digitalization, stating that the advanced technologies such as drones, digital audit, data mining, robotization of audit operations, blockchain, artificial intelligence, Deloitte “Optix” analytical software, KPMG “Watson”, “Clara” smart audit platform, as well as SAAT, GAS, ASL, Outlier Analysis, Benfords Law Analysis programs together with Microsoft Excel are widely used in the activities of international audit companies and she proposes to use these technologies in the domestic practice [6].

In the opinion of Z.N. Kurbanov (2020), in the context of the developing the digital economy, new objects of accounting appear and require improvement of its methodology. This also applies directly to the audit [7].

D.V. Varlamova and L.D. Alekseeva (2020) defined digital audit: “Digital audit is creation of necessary conditions for audit at each stage of product creation” [8].

N. Kozlova (2021) imagines the digitization of audit as follows: “Digitalization of audit is the complete remoteness of audit in enterprises” [9].

From the point of view A.V. Petukh and M.F. Safonova (2019): “The technology of conducting the audit is also undergoing a transformation with the development of digital audit” [10].

According to N.A. Antipenko and D.Yu. Busygin (2019), a new object of accounting has appeared in the conditions of the digital economy - a digital sign (token). Thus transactions involving a digital sign must also be audited [11].

Analysis and results:

Audit activities generally include audit inspections and services rendered.

In this regard, Article 31 of the Law №LRU-677 of the Republic of Uzbekistan “**On Auditing Activities**” stipulates that audit companies provide audit services in the form of audit inspections and other allied services.

Article 33 of the Law stipulates that audit companies provide the following allied services:

arranging accounting, compiling, restoration, handling of the financial reporting, including financial statements according to international financial reporting standards;

performing the duties of the audit commission (inspector) of a legal entity, trustee of investment assets;

advising on accounting and financial reporting issues;

when a tax consultant is available in the staff schedule of the audit company or by engaging him on the basis of the terms of the contract, providing advice on the application of tax legislation, preparation of calculations and declarations on taxes and fees;

financial analysis and financial planning, including preparation of business plans, economic, financial and management consulting;

holding seminars and conferences on accounting, audit and financial reporting, taxation, analysis of financial and economic activities and financial planning;

automation of accounting and financial reporting, development of recommendations on information security of the financial data [1].

The amount of the revenue received from rendering audit services accounts for 206352,4 mln.UZS, of which 67,6 percent comes from audit inspections and only 32,4 percent from other allied services [12]. This indicator in the Russian Federation is as follows: 58.2 percent of the total revenue comes from audit inspections and 41.8 percent is the share of other services provided [13]. As can be seen from the above, it is necessary to raise the revenue from the provision of other allied services in our country in the total income received from audit activities. This is crucially important in the digital economy.

The analysis of economic literary sources indicate that in the digital economy, the audit methodology will change, the audit will be continuous. Because the information of accounting and reporting based on information technology is constantly verified by auditors, they compile an audit report and issue an audit opinion within the specified period and procedure.

It may be questioned whether there is a legal basis for this. Definitely, in Article 34 of the law entitled “Limitations in conducting an audit” it is specified that “the audit company has no right to conduct an audit of the same business entity for more than seven years in a row”. It follows that the audit company has the right to conduct an audit of a business entity for seven consecutive years. If the audit organization has concluded a contract with a business entity for 5 or 7 years, the audit may be conducted continuously during this period.

We can cite the following examples. The audit of the financial statements of PJSC “Neftyanaya Kompaniya LUKOIL”, the largest of the Russian Federation (2021), has been conducted by JSC “KPMG” audit firm for several years [14]. The same situation is observed in “Uzbekneftgaz” joint-stock company. The consolidated financial report of “Uzbekneftgaz joint-stock company” for 2016, 2017 and 2018 prepared on the basis of the financial statements has been audited by Ernst&Young, one of the world’s four largest audit companies based on International Auditing Standards (IAS). Importantly, a favorable audit opinion was received on June 5 and November 24, 2020 [15].

Under the conditions of the digital economy, the wide application of the practical digital technologies created and used by companies in audits becomes relevant. In this regard, V.A. Yakimova states that the audit firms of the Russian Federation use in their daily practices the following advanced technologies: “Express Audit: PROF”, “Pomoshchnik auditora”, “Audit Expert”; “Audit XP”, “Complex Audit”, “Audit NET”, “IT Audit” and other digital technologies [2].

These digital technologies are being used in practice by major audit companies of the world and the Russian Federation. This indicates that large auditing companies have adapted to the requirements of the digital economy. For example, it is obvious from the volume of services provided to clients by the world's "Big Four" audit companies in 2021 (Table 1).

Table 1 The main indicators of the world's "Big Four" audit companies in 2019 [16]

Companies	Revenue	Number of employees	Income per employee	Year	Location of headquarter
<u>Deloitte</u>	46,2 billion USD	312 028	148 077 USD	2021	Great Britain/USA
<u>PwC</u>	42,45 billion USD	276 005	153 794 USD	2021	Great Britain/USA
<u>EY</u>	36,4 billion USD	284 000	128 169 USD	2021	Great Britain/USA
<u>KPMG</u>	29,75 billion USD	219 281	135 671 USD	2021	Netherlands

The data provided in the table illustrate that "Deloitte" is the company with the highest revenue among auditing companies in 2021. The revenue of "Deloitte" in 2021 amounted to 46.2 billion USD, followed by "PwC", which revenue constituted 42.45 billion USD. It should be noted that nearly 1 million employees work in the "Big Four" audit companies. Based on the considerations above, 99 audit companies and 572 auditors operating in our country should adapt to the requirements of the digital economy.

According to the forecast of the International Economic Forum (World Economic Forum), by 2025 about 30 percent of audits will be conducted using intelligent information technologies [17]. According to the report of the audit firm "Deloitte & Touche", due to the use of digital technologies in audits, the company's revenue increased by 23 percent in 2019, and it is expected to increase by 30 percent by 2022 [18].

Conclusion:

In conclusion it should be noted that significant changes will occur in the organization and methodology of audit in the digital economy. The use of artificial intelligence information technologies in audits is increasing. Herewith his case, it will be necessary to create conditions for the use of digital data for software developers using artificial intelligence technologies and ensure rapid digitization of relevant data of their organizations.

Such changes require appropriate amendments made to the legal regulations related to auditing activities. We propose to develop international audit standards that are suitable for the conditions of the digital economy or to make appropriate changes to the existing ones.

Most importantly, we recommend retraining and professional development of the personnel conducting audits to adapt them to the requirements of the digital economy and conducting internships in foreign countries where the digitization of audits has developed.

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