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## Boosting Business Performance with Advanced Internal Audit Practices

### *Meningkatkan Kinerja Bisnis dengan Praktik Audit Internal yang Canggih*

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#### Abstract

Penelitian ini bertujuan untuk mengatasi tantangan dalam menciptakan dan meningkatkan sistem audit internal dalam badan usaha. Ini mengeksplorasi peran penting audit internal dalam meningkatkan efisiensi produksi dan mengatur sistem pengendalian internal yang efektif. Terlepas dari pentingnya audit internal, terdapat kesenjangan dalam memahami dampak komprehensifnya terhadap operasi perusahaan. Penelitian ini bertujuan untuk mengevaluasi dan meningkatkan sistem pengendalian internal dan kegiatan audit internal, mengusulkan perbaikan untuk kinerja perusahaan yang lebih baik. Dengan menggunakan penilaian kualitatif dan studi kasus, hasil penelitian ini menggarisbawahi perlunya fungsi audit internal yang kuat untuk menyederhanakan operasi dan meningkatkan efisiensi organisasi. Temuan ini menyiratkan bahwa peningkatan praktik audit internal dapat memberikan kontribusi signifikan terhadap keberhasilan dan produktivitas bisnis secara keseluruhan.

#### Highlight:

- Peran Audit Internal: Kunci dalam meningkatkan efisiensi produksi dan operasi perusahaan.
- Penilaian Sistem Pengendalian: Mengevaluasi sistem pengendalian internal pada badan usaha.
- Proposal Perbaikan: Merekomendasikan peningkatan aktivitas audit internal dan kinerja perusahaan.

**Kata Kunci:** Audit Internal, Sistem Pengendalian Internal, Efisiensi Bisnis, Operasi Perusahaan, Peningkatan Audit

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## Introduction

Although the internal control system (INT) is an integral part of the management of any company, regulatory requirements for its organization did not exist until the end of the 20th century.

Due to the unscrupulous functioning of the external audit, a series of scandals, such as false conclusions on the reports of bankrupt companies, problems with the organization of internal audit and other forms of control, have led to an increase in the relevance of internal audit.

Today, Uzbek companies should not only avoid risk, but also anticipate it. There is a need to use an effective internal control element that provides managers with reliable information about the company's activities. This item is an internal audit service. Today, internal audit has become more relevant all over the world. Great attention is being paid to its development, because internal audit is an effective means of improving the competitive advantage and the quality of the company's activities.

### Literature Review

Russian scientists Sonin A. [1], Alborov R.A. [2], Bychkova S.M., Itygilova E.Yu. [3], G.B. Polyak, A.A. Savin, D.V. Sotnikova [4], Kovaleva O.V., Konstantinov Yu.P. [5], Burtsev V.V. [6] carried out by foreign scientists such as

Current aspects of problems related to the creation and improvement of internal audit are reflected in the scientific articles and researches of Uzbek scientists published in recent years. In particular, Tulakhodjayeva M.M. [7], Dusmuratov R.D. [8], Khasanov B.A., Aliboyev Z.A., Zokirova M.SH. [9], Karimov N.F. [10] some issues of improvement of internal audit were considered. First of all, let's comment on concepts such as "Accounting system" and "Internal control system" from the point of view of regulatory legal documents. The above concepts are defined as follows in the national standard of audit activity of the Republic of Uzbekistan No. 12 "Assessment of accounting and internal control system during audits" [11].

*Internal control system* - control of financial and economic activities by the management of an economic entity and efficient maintenance, assets and h accounting documents to be saved provide , error and fraud prevention and detection , accounting of records ani q and full ligi and own and in q reliable financial information preparation It 's been a long time since I have been there organizational activities , methods and actions ( internal means of control) sum index" [7].

## Method

clarifying the role of an effective internal control system and internal audit in economic entities , i.e. controlling the financial and economic activities of an economic entity and efficient holding , assets and h accounting documents to be saved provide , error and fraud prevention and detection , accounting of records ani q and full ligi and own and in q reliable financial information preparation It 's been a long time since I 've been there organizational activities , methods and methods and approaches such as quantitative and qualitative, induction and deduction, space and time, analysis and synthesis logical analysis were used in the process of researching the issues of performing actions .

## Results and Discussion

In the conditions of modernization of the economy and various forms of ownership, increasing the efficiency of management, diversifying the requirements of the network economy, and reforming the management system, internal audit has a great functional significance.

It has many advantages in managing the activities of economic entities, effective use of existing financial resources and fixed capital, determining prospects for sustainable growth, and solves any problems in the competition. This, in turn, has a direct impact on increasing the economic indicators of economic entities operating in the economy of our republic, and on the macroeconomic indicators that ensure their stable operation.

Currently, improvement of internal audit is carried out on the basis of various evaluation approaches in many cases. Therefore, in the conditions of modernization of the economy, which takes into account the specific aspects of economic entities, improving the internal audit methodology that meets the requirements of the market economy is one of the urgent tasks.

In our opinion, the theoretical and practical aspects of organizing and conducting internal audit in business entities have not been sufficiently researched. Fuller use of the internal audit institute's capabilities leads to an increase in management efficiency in economic entities.

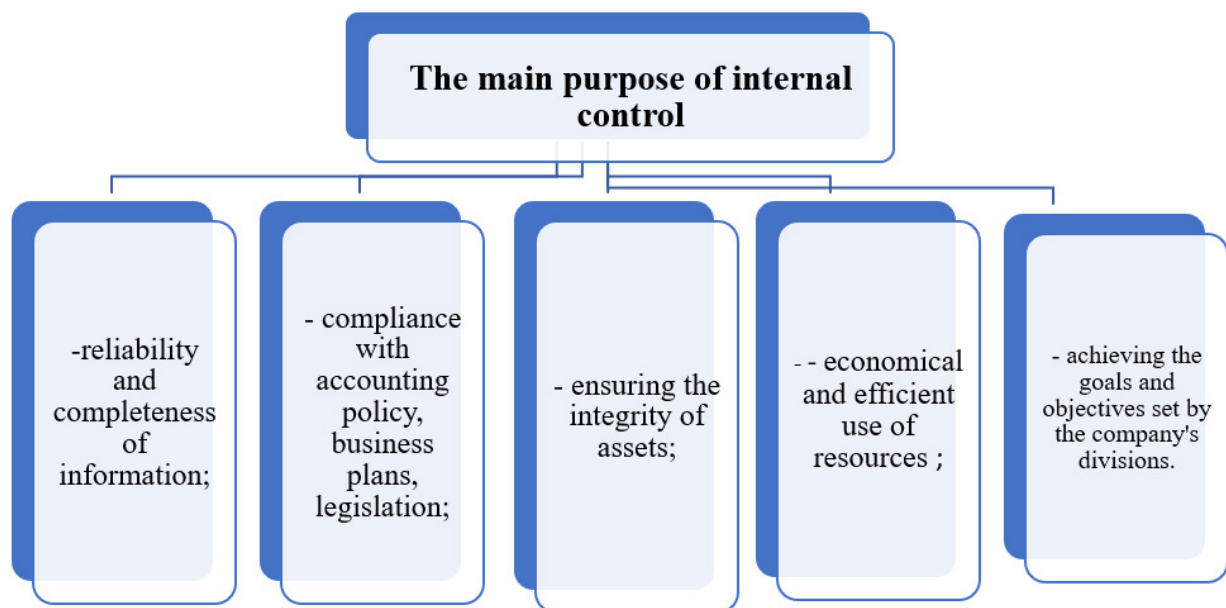
It should be noted that with the development of market relations in Uzbekistan, internal audit as an advanced form of internal control is becoming extremely important in the corporate management system of economic entities.

In the present period, when Uzbekistan is rapidly integrating into the world economy, special attention is paid to the transition to international financial reporting and auditing standards. Internal audit has many advantages in managing the activities of economic entities, in effective use of existing financial resources and fixed capital, in determining prospects for sustainable growth, and ensures the effectiveness of management decision-making.

And this is hison the other hand, as noted, by improving the economic activity of economic entities, it allows to have a positive effect on the macroeconomic indicators of the country.

Internal control is a process aimed at the achievement of the company's goals and the results of the management's actions on planning, organization and monitoring of the company's activities in general and departments separately.

Internal control is useful only when it is directed towards achieving specific objectives, and it is necessary to define this objective before evaluating the results of the control.



**Figure 1. The Main Purpose of Internal Control**

The concept of internal control includes several components: [12]

First, it is the internal environment of the enterprise, that is, ethical requirements, management style, decision-making process, change of authority and sense of responsibility, policy towards employees, authority of employees and, most importantly, attitude of the management apparatus of the enterprise to internal control;

Secondly, identification, analysis and management of risks that are on the way to the achievement of the company's goals;

Thirdly, day-to-day implementation of control: accounts and reports, division of powers, rights to assets and monitoring;

Fourthly, access to information - suitable information should be available to whoever needs it, and the functions assigned to him should be within the scope of obligations;

Fifth, necessary monitoring to determine the effectiveness of the internal control system.

Many economic entities around the world suffer from inefficient use of various resources.

These resources include human, financial, and material resources, as well as the lack of information necessary to make the right decisions, unknowingly and intentionally making mistakes in reports, and outright fraud by employees and managers. Such problems can be eliminated by creating an effective system of internal control within the enterprise.



The concept of internal control is not a new concept, it has been in the language since the beginning of the 18th century and has evolved over the years. As a system of control of enterprise activity, it was formed at the beginning of the 20th century as a combination of three elements. They consist of: distribution of powers, staff turnover and account analysis.

Later, the functions of internal control were expanded and reshaped as an organization and coordinated actions aimed at ensuring the integrity of assets, verifying the reliability of account information, improving the efficiency of operations, the guidelines of the company's policies and the correct implementation of transactions. Thus, the new functions took the concept of internal control beyond the scope of simple accounting issues. By the end of the 20th century, having gone through evolutions and expanding the scope of its function, internal control has become a means of control over risks, in which its function is closely combined with the function of risk management

The goal of the enterprise is not to create a control system that can fully guarantee the absence of deviations, errors and inefficiencies in work, but to create a system that can help work efficiency, identify and eliminate deficiencies in time. Because resources directed to excess control by the enterprise can be used to achieve other goals and tasks. However, even a well-structured and organized system of internal control will need to evaluate its performance, both in terms of achieving the set goal and in terms of cost-effectiveness. Internal audit serves to achieve this goal.

The demand for internal audit in large enterprises has arisen due to the inability of the top management to deal with the daily control of the enterprise's activities and the lower management structure .

Internal audit provides information on activities and confirms the reliability of managers' reports. Internal audit is mainly necessary to prevent the loss of resources and to implement the necessary changes within the enterprise.

The growing interest in internal audit in the world is due to several factors. First, internal audit can increase the efficiency of the company's activities, which is currently not so much, it is possible (it is possible to achieve it), but it does not have enough capacity. Secondly, even the largest firms can face bankruptcy. Thirdly, the presence of good corporate governance, which is one of the indispensable links in enterprises - internal audit, is a positive call for potential investors, which changes the investment attractiveness of the enterprise.

Internal audit is a control system that monitors compliance with the established procedure of accounting in the economic entity, organized for the interests of its owners and regulated by its internal documents, and the reliability of the internal control system.

The International Institute of Internal Auditors defines internal audit as follows: "...the activity of providing independent and impartial assurances and issues aimed at improving the performance of enterprises. Internal audit uses a systematic and consistent approach to evaluate and improve the effectiveness of risk management, control and corporate governance processes, and provides an overview of the enterprise's own will help him achieve his goals."

The decision that a company needs an internal audit is made by their owners. This decision is determined by many factors, first of all, it concerns the division of business management and ownership functions, the size and structural branching of the company, and the level of risk related to the company's activities.

An internal audit is an assessment of the reliability and effectiveness of existing internal controls, and an internal auditor is a person who conducts such an assessment in an unbiased and professional manner. In other words, internal audit is a department that evaluates all aspects of the company's activities within it and gives confidence to the company's managers about the reliability and effectiveness of the existing control system.

It is important to note that company managers should know that internal auditors are not responsible for the creation of a reliable and effective system of internal control and its maintenance.

The main purpose of the internal audit is to help the company's managers to effectively perform the tasks assigned to them, to instill confidence in the company's managers that the company's assets are being used in the most effective way to achieve the goals and objectives of the company and its divisions.

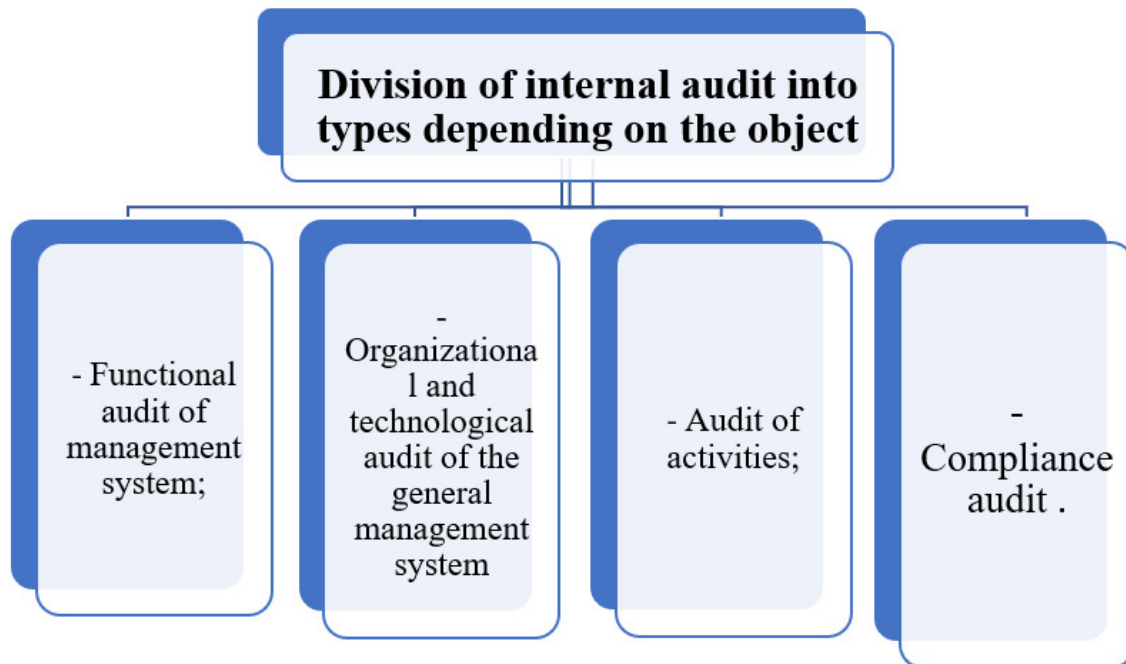
The tasks of the internal audit are determined by the management, based on the requirements of the departments and the enterprise:

- a. control of the state of assets and prevention of losses;
- b. confirmation of execution of control actions within the system;
- c. analyzing the effectiveness of the internal control system and processing information;
- d. assessment of the quality of information provided by the management information system.

There are two main differences between an internal audit and an external audit:

1. external audit traditionally focuses on confirming the reliability of financial statements of companies and transactions and events that can significantly affect the company's statements;
2. internal audit is aimed at assessing the existing control systems of the company and the activities of its various departments, marketing, production, sales, finance, etc.;
3. external audit primarily serves the interests of the company's customers, in the broadest sense of the word - goods suppliers, consumers, creditors, tax authorities.

Internal audit primarily serves the interests of the company's owners. Although an effective system of internal audit cannot completely replace external audit, it allows to reduce the cost of external audit by the company.



**Figure 2. Division of Internal Audit Into Types Depending on The Object**

*The functional audit of the management system* focuses on the assessment of production and its effectiveness in various functional sections. As an example, we can take the audit of the operations of the departments that took place in the section of their functions.

*The organizational-technological audit of the management system* by the internal audit service is focused on controlling the appropriateness of the organizational and technological aspects of the various levels of management.

*Audit of types of activities* is focused on multi-faceted, objective analysis of certain types of activities in order to develop economic activities.

A compliance audit is an investigation aimed at determining whether the company's activities and information related to these activities comply with the existing laws or the cases of violation of these laws. The main conditions for conducting this type of audit are verifiable information; focuses on the existence of laws issued by higher authorities.

*International requirements for the organization of internal control.*

Although the internal control system (INT) is an integral part of the management of any company, regulatory requirements for its organization did not exist until the end of the 20th century.

Due to the unscrupulous functioning of the external audit, a series of scandals, such as false conclusions on the reports of bankrupt companies, problems with the organization of internal audit and other forms of control, have led to an increase in the relevance of internal audit.

In our opinion, when developing an internal control system, companies should use the COSO methodology, the

main requirements of which correspond to the following main points: [13]

- a. INT should be documented in a way that is understandable to the auditor;
- b. INT needs to function effectively;
- c. INT performance evaluation procedures must be followed in the company on a regular basis.

315 of Audit International Standard in (AIS). of the auditor financial in the report important broke shows risks entrepreneurship subject and his environment, that's it including entrepreneurship of the subject internal control system to know based on to determine and evaluation task seeing will be released.

Auditor purpose financial report level and due to fraud or error at the submission level significant misstatements of the business entity and its environment, including the internal of the business entity Identifying and evaluating the control system based on knowledge, this way with respect to the risks of material misstatements assessed by framework for developing and implementing response actions is to provide.

*Internalcontrol-* Financial of the report reliability, of activity efficiency and efficiency and aimed at compliance with legislation and legal documents entrepreneurship of the subject goals to be achieved reasonably trust to report provide for management loaded individuals, management and another employees by work to be released done to be increased and held process. "Control tools" the term internal control one or from him more than structural parts each how aspects is relevant.

Control actions in practice by the person being audited It includes many actions and activities beyond the scope of conducting and direct accounting, report preparation: inspection, re-inspection, inventory, visas authorizing documents, drawing up a report, drawing up a document, brochure of documents (brochure), sealing eating, branding, etc.

Any acceptable system of enterprise management assumes that the leader not only gives orders, but also checks how they are carried out. If during the course of normal production activities there are *errors*, deficits and when abuses are discovered, a good leader is not limited to identifying and punishing the guilty persons, but also to determine the reasons for the occurrence of these errors, as well as to determine the specificity of the functioning of the mechanisms that should have prevented the errors in time, but did not do so will try After that, it would make sense to make adjustments to the responsibilities of the employees so that the whole system functions reliably.

315 of Audit International Standard "Entrepreneurship risk financial the report important broke shows from risk much wide But financial the report important broke shows risk entrepreneurship of risk to the composition enters. Entrepreneurship risk changes or complexity may result. To recognize the need for change Inability is also an incentive for entrepreneurial risk to give possible "

No	Causative factors	Explanation
1	Development of new products or services that may not be successful in the market;	Stopping a product without selling it can result in reduced cash flow, reduced profits, and increased storage and other costs.
2	By supporting a product or service even when it is effectively developed insufficient market to support;	Not choosing the right market can also have a negative impact on sales and profits
3	Defects in the product or service that may lead to liability and reputational risks.	Delayed payments for any reason can lead to loss of trust and loss of customers, which can have a negative impact on the financial position.

**Table 1. Entrepreneurship Factors Causing Risk**

1	Work in economically unstable regions, for example, countries with a high rate of currency depreciation or inflation.
2	Activities exposed to market volatility, such as futures trading.
3	Operations regulated by complex legislation.
4	Business continuity and liquidity problems, including the loss of significant customers.
5	Limited access to capital and debt.
6	Changes in the field of business entity.
7	Changes in the sequence of deliveries.

8	Development or offering of new products or services, implementation of new lines of business.
9	Geographical expansion
	Changes in the business entity, such as major acquisitions or reorganizations, or other unusual events.
	Business entities or business segments that are likely to be sold.

**Table 2.** Referring to The Risks of Material Misstatement Situations and Events

Internal audit must be organized in the following organizations: [14]

- a. credit organizations;
- b. professional participants of the stock market;
- c. notary offices;
- d. insurance organizations and leasing companies;
- e. organizations managing investment funds.

Internal control is carried out in enterprises on the basis of the rules that include the procedure for documenting the information processed by them, the procedure for ensuring the confidentiality of financial information, qualification requirements for the training of suitable personnel, and, most importantly, determining the criteria and signs of unusual transactions.

The term "internal control system" refers to the effective management and control of financial and economic activities by the management of an economic entity, ensuring the integrity of asset accounting documents, preventing and detecting fraud and errors, and ensuring the accuracy and completeness of accounting records. refers to a combination of organizational measures, methods and actions (internal control tools) adopted for the purpose of timely preparation of financial information.

The internal control system includes the control environment beyond the scope of issues directly included in the accounting system. Control environment refers to the awareness and attitude of the company's managers to establish and maintain an internal control system, as well as to understand the importance of such a system.

The control environment affects the effectiveness of controls and includes the following components: [15]

- a. the style and basic principles of enterprise management;
- b. organizational structure of the enterprise;
- c. distribution of responsibilities and responsibilities;
- d. implemented personnel policy;
- e. procedure for preparation of financial statements for external users;
- f. procedures for implementation of management accounting and preparation of reports for internal purposes;
- g. to ensure compliance of the enterprise's economic activity with legal requirements;
- h. with specific features of the organization of the work of the audit commission, internal audit services as part of the management body of the enterprise.

Typically, the functions of an internal audit service include one or more of the following elements:

monitoring of the effectiveness of internal control operations, accounting and internal control systems are part of the management's responsibilities, and it is necessary to always pay attention to it appropriately.

The internal audit service includes checking this system, monitoring their effectiveness, as well as providing recommendations for their improvement; [16]

1. researching financial and management information (an interpretative review of the tools and methods used to collect this information, measuring and classifying this information and drawing up a report based on it, as well as taking a test on the details of the problems, accounting accounts including specific queries regarding residuals

etc.).

2. Control of economy, efficiency and effectiveness, including non-financial resources of the enterprise;

3. Overseeing compliance with regulatory documents and other external requirements of the Republic of Kazakhstan, as well as the management's policies, instructions and other internal requirements.

The role of the internal audit service is determined by the company's supervisory board. Internal audit service is a structural division of the enterprise. The activity of the internal audit service, regardless of its level of independence and objectivity, cannot deny the level of independence required by the external auditor in expressing opinions about the reliability of financial (accounting) reports.

The external audit has a special responsibility for the audit opinion expressed, this responsibility is not reduced when using the results of the internal audit service.

All opinions regarding the audited financial statements are entered by the external auditor.

1	Management's attitude to internal control;
2	Internal conditions of the enterprise, its size, scope and type of activity;
3	Its number and geographical location are different, it has one-part or subsidiary enterprises;
4	Strategic setting of goals and objectives; Level of mechanization and computerization of activity;
5	Availability of resources;
6	Knowledge level of the staff;

**Table 3. Factors Influencing the Internal Control System**

No	Forms of organization of internal control
1	In the form of the audit commission elected at the shareholders' meeting for approval of the annual report;
2	In the form of an internal audit department directly subordinate to the leader;
3	In the form of a control group;
4	In the form of inventory department;
5	In the form of a contract with an audit organization to conduct an internal audit

**Table 4. Forms of Organization of Internal Control**

It should be noted that the internal audit service is now more common in the practice of enterprises in Western countries.

The internal control service is rarely used and the audit service is not used at all.

The head and manager of the enterprise determine how many control bodies the enterprise needs and which one is more important.

The control department of the enterprise is important in decision-making, if the internal control or risk management system is not properly established or works inefficiently, the field of internal audit activity is sharply narrowed, because its task is internal control is to evaluate the effectiveness of the system. In this case, the main task of the enterprise manager is to improve the control system in the enterprise [17].

Inspection. The process of developing an internal control system in an enterprise is complex and takes a long time, and it is necessary to establish a control and audit department in the enterprise, in this case, the control-audit service will detect errors or cases of abuse of position. It should be noted that the audit activity is carried out over the completed activity.

The internal audit can see the general perspective of the enterprise and analyze possible events in the future. In other words, audits provide a conclusion on the shortcomings that have occurred, while internal audit evaluates the opportunity and makes suggestions for reducing the possible risk and preventing negative consequences.

Summing up from the above, it should be noted that the existence of an internal audit system in the enterprise refutes the idea that there is no need for internal audit.

There is no definite limit to the internal audit service's structure and number of employees, which will vary according to the following factors:

*The first factor* is the task of internal audit of the enterprise.

*The second factor* is the factors affecting the structure of the internal audit service, the fact that the enterprise is exposed to various types of risks.

*The third factor* is the maturity of the control system in the enterprise.

*The fourth factor* is the large number of branches of the enterprise and their location in different places. Before developing the internal audit service system, it is necessary to ensure the objectivity and independence of the internal audit service.

A centralized internal audit service is appropriate for holding companies that have many concerns and are located in different locations. Its employees can be located in the head office of the enterprise or in its subsidiaries. But in any case, they are functionally subordinate to the head of the enterprise. The internal audit service is subordinate to the head of the internal audit service of the enterprise or the head of the enterprise, regardless of which branch or branch of the enterprise the centralized structure of employees is located [18].

In this type of enterprises, there is a possibility of weakening the management and it reduces the risk that may arise in the independence and objectivity of the internal audit service.

*Outsourcing and co-sourcing* . In addition to the internal audit, it is also possible to carry out an external audit involving an enterprise engaged in this matter or an external consultant. *This is an outsourcing option* , but it is not recommended that the external audit solve the internal audit issues of the enterprise. There is also *the option of co-sourcing* , in which the company can establish an internal audit service system and in some cases involve external expert companies or external consultants. The advantages of using outsourcing and co-sourcing are as follows:

- a. Using the services of experts in various fields;
- b. Using the services of highly qualified audit staff;
- c. Ability to be selective in engaging audit resources.

## Conclusions

An effective internal audit will prevent possible errors and omissions, as well as various fines and unforeseen expenses that may occur as a result of this. For this reason, in our country, there is a need to use the services of internal auditors in order for the enterprise to operate effectively in all aspects and to achieve economic stability. For the effective performance of this task, further improvement of the audit system in enterprises is required. Because the effectively organized internal audit service in the enterprise ensures that the enterprise achieves high indicators

In the effective operation of the internal audit department, it is important to determine the rules, principles, methods, scope of work and the composition of working documents of the internal audit staff. Based on this, in our opinion, the following proposals are of great importance in the effective organization of internal audit in enterprises in our country:

1. Regular improvement of the qualifications of internal audit service employees based on the requirements of international standards and demanding strict compliance with audit standards.
2. It is necessary to adopt the professional standards of internal audit, which express the independence, objectivity and responsibility of internal auditors.
3. It is necessary to adopt the internal standards of the enterprise approved by the management board of the enterprise for the implementation and formalization of the internal audit by the internal auditors. The operation of the internal audit department based on the company's internal standards leads to a partial reduction of audit work processes, an increase in the quality of audits, an increase in the effectiveness of audit work, and the modernization and rationalization of the technology of organizing and conducting audits. As a conclusion, it should be mentioned that the effective use of resources, the organization of accounting and the level of reliability of financial reports are much higher in enterprises with an internal audit service organized and operating effectively in audit practice. Because economic entities work productively only when the internal audit is effectively organized, which is one of the conditions for the efficiency of the entire public production. Of course, the establishment of an internal audit service should lead to a decrease in expenses compared to the absence of an internal audit service. Only then will the effectiveness of the organization of the internal audit in the enterprise become apparent.

To make internal audit in Uzbekistan a perfect internal audit, to amend the Law "On Auditing Activities" by adding an article "Internal Audit Service", in which the definition and tasks of the internal audit service should be determined by legislation. .



The use of outsourcing and co-sourcing is suitable for many enterprises, because many large and small enterprises cannot organize their own audit service system. Organization of the internal audit system requires attracting additional employees and creating conditions for them. This will cause financial damage to the company.

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