

## Issues of evaluating the effectiveness of the internal control system in internal audit

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**Abstract:** This article describes the essence of the internal control system. As a result of the conducted research, internal auditors developed suggestions for improving the assessment of the internal control system.

**Keywords:** internal audit, corporate governance, internal control system, control environment, control procedures.

### INTRODUCTION.

Further development of the internal control system in our country is important for establishing an effective work process in organizations, increasing the work efficiency of employees, establishing management based on the corporate control system, and at the same time forming activities based on the achievement of positive results of the ongoing economic reforms.

### LITERATURE REVIEW

Many economists have expressed their opinions on the essence of the internal control system and its role in enterprise management.

A.Z.Avlokulov, N.Sh.Abdiyeva, B.N.Sayfutdinov said that, “the sustainable development of business entities, the improvement of their financial situation largely depends on the system of internal control they have. The system of internal control involves a continuous process of improvement, substantiation and implementation of development methods, as well as the identification of factors that adversely affect the financial and economic activities of the business entity” [1].

Rick Hayes, Roger Dassen, Arnold Schilder, Philip Wallage point out that, “internal control is necessary not only to maintain accounting and financial reporting, but also to manage the organization. From external auditors to the management of the organization, from the board of directors, large shareholders are interested in internal control. In many countries around the world, the organization's management is required to submit an annual report on the effectiveness of internal control” [2].

According to Carla M. Johnstone, Audrey A. Gramling, Larry E. Rittenberg, “internal control reduces the risk of the organization not achieving its goals. Examples of organizational benefits include ensuring operational efficiency, producing high quality products or providing high quality services, complying with regulatory requirements, and providing reliable financial information to users” [3].

Ibrahim Nandom Yakubu, Mohammed Mubarik Alhassan, Abdul-Nasiru Iddrisu Alhassan, Jamaldeen Adam, Mujeeb Rahman Sumaila said that “in order for banks to operate effectively, safely and sustainably, they must have a reliable accounting system based on an internal control system. An

effective internal control system is an important component of bank management and is the basis for safe and reliable operation” [4].

According to U.S. economists William F. Messier, Jr., Steven M. Glover, and Douglas F. Prawitt, “internal control reflects the extent to which management is performing its management functions. That is, an internal control system is considered reliable when management has established effective control over assets” [5].

However, the issues of improving the efficiency of the internal audit service by improving the internal control system have not been paid close attention to.

## ANALYSIS AND RESULTS

The functions, goals and objectives of modern internal control are widely covered by the Committee of the Sponsoring Organization (COSO), which has been operating at the international level until now. In this, internal control is defined as a process carried out by the director, manager and other employees of the organization designed to provide reasonable assurance about the achievement of the objectives on a large scale, and the achievement of these objectives through categories such as efficiency and productivity of activities, compliance with applicable laws and regulations, and the reliability of financial and executive reports. All employees of the organization are responsible for internal control. The general manager of a department or ministry has overall responsibility for developing and implementing effective internal controls. Internal auditors play an important role in evaluating the correct design, implementation and effective operation of controls and in making recommendations for improving internal control. Internal control also helps to achieve the organization's management objective, prevent and detect wrongdoing.

At this point, the objectives of internal control promoted by the Association of Chartered Certified Accountants (ACCA -Association of Chartered Certified Accountants), one of the famous international organizations, should be:

**Operational efficiency:** Internal controls must ensure that on-site processes run smoothly and operations are free from disruptions. This increases the efficiency of employees' work in organizations.

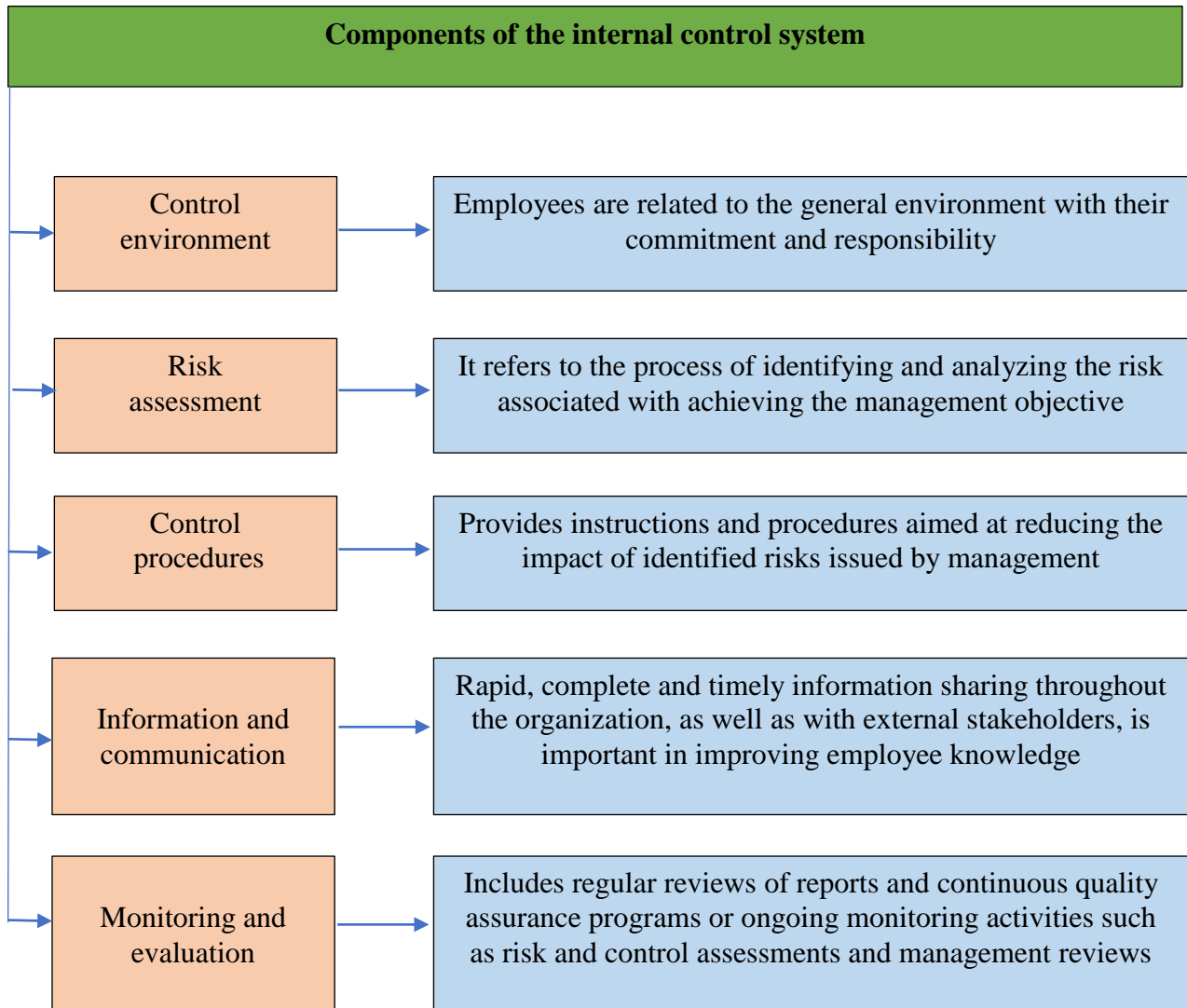
**Safeguarding assets:** Controls should ensure that assets are not misused, that government officials do not misappropriate assets, and that they are protected against theft.

**Prevention and detection of fraud and other illegal behaviors:** Controls must be able to address the varying size and complexity of organizations and the nature of fraudulent practices.

**Completeness and accuracy of financial records:** If financial records are inaccurate and unreliable, an organization cannot provide accurate financial statements. Controls should ensure that the accounting environment and transaction records are accurately reflected in the financial statements.

The Canadian Institute of Chartered Accountants (SICA-Canadian Institute of Chartered Accountants), which is another foreign organization, defines internal control as actions that lead to the best results for the organization in its manual “Criteria of control – CoCo”. Control covers a combination of organizational elements such as resources, systems, processes, culture, structure and tasks.

Developed internal control components developed by the Committee on Sponsoring Organizations (COSO), the Government Accountability Office (GAO). (Figure 1).



**Figure 1. Components of the internal control system<sup>1</sup>**

Internal control components cover the types, reasons, mechanisms, process and results of its implementation. The main focus in forming the composition of these components depends on the expected result of the internal control and may change over time.

The difference between the internal control models developed by international organizations is that in the control objectives for information and related technologies (CobiT) model, internal control is considered as a process that includes procedures, practices and organizational structures that support business processes and objectives. In the Systems Audit and Control Institute (SAC) model of the Internal Auditor Research Foundation, internal control is defined as a system, that is, a

<sup>1</sup> Made by author.

set of functions, subsystems, people, and their interrelationships. In the Committee of Sponsored Organization (COSO) model, internal control is emphasized as a process integrated with business operations.

Studies show that in order to develop an internal control system and establish a management based on a high corporate internal control system, the following should be implemented:

1. The internal audit department of each company conducts continuous research and develops recommendations for the development of the internal control system;
2. The general manager of each company should determine the tasks of his workers in advance. This helps to reduce internal risks;
3. Development of a strategic plan based on staff training by the personnel department to ensure that the organization's employees are ready for external factors (political, social, economic and technological) that affect the organization's activities;

If we conclude by studying the international experiences of the internal control system, the internal control system has existed for a long time as an integral and main part of management, the organization and implementation of the internal control system is mainly carried out in a centralized and decentralized manner, the components of internal control have been developed by international organizations, standards for the internal control system have been developed, internal audit performs the task of evaluating and developing the internal control system, and the procedures for the organization and implementation of internal control in international experience are mainly determined by legal documents.

## CONCLUSION

1. Checks the level of organization of corporate management in joint-stock companies and the effectiveness of decisions made by corporate management bodies, compliance with the legal rights and interests of its participants, and ensures that it is conducted on the basis of legal documents, develops recommendations on it, which leads to the improvement of the management system.

2. If we perfectly introduce the internal audit service in the corporate management of joint-stock companies, it will serve the correct and reliable management of the financial economic activities of the enterprises, the system of paying dividends to shareholders, the improvement of the stock market, the achievement of financial stability of the enterprises, and the effective operation of the joint-stock companies in our country.

3. A well-planned program plays an important role in any activity. The main document used by the head of the internal audit service is the annual program approved by the head of the company. The program should be developed taking into account the importance and status of activities and processes.

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