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The Evolution of Auditing: Historical Development, Regulatory Framework, and Modern Practices

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Abstract: In this state, the concept of audit accountability and its basic aspects are analyzed and studied. It is also defined by the type of auditor's analysis and analysis of basic features. Certain basic legal regulation of auditor's work and service and author's opinions.

Keywords: audit activity, audit, law, control, voluntary audit, mandatory audit.

It is known that any event, incident, or object arises due to certain necessities, regardless of the time and place of its occurrence. According to sources related to auditing, the following conditions have led to its emergence: the misalignment of interests between information providers (administration) and information users (state authorities, banks, shareholders, creditors), resulting in conflicting situations where the administration may provide incorrect information. This can lead to unfavorable economic conditions or crises due to decisions being made based on inaccurate information. The need for specialized knowledge to verify the accuracy of economic information, as well as the lack of expertise, time, and resources among information users to directly assess and determine the quality of the information, contributed to the formation of auditing services aimed at addressing these issues. The primary task of auditing was to provide impartial opinions on the reports presented to information users. Additionally, auditors were independent from the enterprise's administration and free from its influence[1].

According to some sources, the profession of accountant-auditor began to take shape in the mid-17th century in European joint-stock companies due to the need to resolve contentious issues between shareholders, creditors, and tax officials. At that time, there was a growing demand for specialists who operated independently and provided accurate conclusions about the production and financial activities of enterprises. As a result, laws on "Mandatory Audit" were enacted in England in 1862, in France in 1867, and in the United States in 1937[2].

The formation of the foundations of a market economy enhances the role of types of financial control carried out without the direct participation of state regulatory bodies. As noted above, non-state types of financial control include internal firm (corporate) control, control by commercial banks over client organizations, and audit controls [3]. Internal firm financial control is carried out by the economic services of the enterprise, institution, firm, or corporation—such as accounting, finance departments, financial management services, and others—over the financial activities of their own enterprise, branches, and subsidiaries. Internal control services continuously monitor the efficiency and appropriateness of the use of funds (personal, borrowed, and attracted), compare planned financial results with actual financial results, analyze them, provide financial evaluations of investment projects, and oversee the financial condition of the enterprise. Internal control monitors the entire process of capital investment. One form of internal control, known as "post-audit," involves comparing the planned financial results in the finance department's business plan for each stage of production-

[1] Dusmuratov R.T. "Fundamentals of auditing". Textbook. "National Encyclopedia of Uzbekistan" State Scientific Publishing House. Tashkent. 2003. 7 pages.
[2] Karimov A., Islamov F. and Avlokhlov A.: International audit. Textbook. Toshket- 2015. 39 pages

Volume: 3 Issue: 8 | Aug–2024 ISSN: 2720-6882
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investment activity with the actual situation, identifying and addressing the causes of discrepancies, seeking ways to reduce costs, and improving financial planning methods[3].

Since financial control is a form of control carried out in monetary terms, it is implemented in all areas of the process of social reproduction and is observed in all processes of cash flow movement, including in the process of perceiving financial results. Therefore, the object of financial control is monetary relations.

The subject of financial control consists of the following financial indicators:

Revenues and expenditures of budgets at various levels;

Volumes (amounts, scales) of tax payments;

Incomes of economic entities;

Transaction costs of economic entities, and others[4].

Many of the above financial indicators, which are the subject of financial control, are calculated indicators. This, in turn, necessitates checking (controlling) their accuracy and reliability in accordance with the applicable regulatory documents[5]. Financial control serves as the form through which financial functions are carried out. It is aimed at ensuring the interests and rights of both the state and all other economic entities.

In economically developed countries, financial control is divided into two interacting yet independent areas: 1) state financial control, and 2) non-state financial control.

State financial control is a comprehensive and purposeful system of economic and legal activities carried out by specific governmental authorities, based on the main laws of the state. The country's Constitution plays a decisive role in the organization of financial control. Its legal regulation depends on the type of state, its socio-political orientation, the level of economic development, and the ratio of forms of ownership. State financial control is directed at monitoring the value proportions in the distribution of GDP. This control applies to all channels of movement of financial resources related to the formation of state financial resources, ensuring their complete and timely receipt, and their targeted use.

Currently, in countries with developed market economies, audit institutions with their own organizational and legal infrastructures are operating. The auditing profession has been known by different names in various countries[6]. For example, in America, it is known as a public accountant; in France, as a chartered accountant or commissioner of accounts; in Germany, as a commercial inspector or book inspector; and in Anglo-Saxon countries, as an examiner of a company's financial activities.

The development of auditing was greatly stimulated by the global economic depression of 1929-1933. During this period, many joint-stock companies and other enterprises faced crises. As a result, the need arose to strictly define the procedure for confirming reports, particularly balance sheets and profit and loss statements, and to have their accuracy and fairness independently verified by auditors.

Thus, the term "audit" is derived from the Latin word "auditing," which literally means "he is hearing" or "listener"[7]. In Professor M.M. Tolakhodzhaeva's book "The Financial Control System in the

[3] http://staff.tiiame.uz/storage/users/58/presentations/dlkhesBswk0TaT3douWQ2vS7AIiFGnVZYT0a0app.pdf
[4] Financial law: Textbook / E. Khojiyev, O. Kamalov, B. Ortikov. - T.: The Ministry of Internal Affairs Academy of the Republic of Uzbekistan, 2012. – 89 p
[5] http://staff.tiiame.uz/storage/users/58/presentations/dlkhesBswk0TaT3douWQ2vS7AIiFGnVZYT0a0app.pdf
[6] Askarov, J. "Theoretical and legal aspects of audit activity in Uzbekistan" Web of Scientist: International Scientific Research Journal 3.8 (2022): 234-240.
[7] Ahmedkhanov K., Yakubov I. Fundamentals of auditing. Textbook. Tashkent-2010. 91 pages.

Volume: 3 Issue: 8 | Aug–2024 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

Republic of Uzbekistan," audit is defined as follows: "Audit is the examination of the financial statements of an enterprise or related financial information by independent qualified specialists to draw conclusions regarding the compliance of these statements or information with the law and other regulatory documents."

The definition of auditing activities and the auditing profession is provided in the new edition of the Law of the Republic of Uzbekistan "On Auditing Activities." According to Article 3 of the Law, auditing activities refer to entrepreneurial activities conducted by auditing organizations in providing auditing services, and an auditing organization is a commercial entity that conducts audits and provides related services. An auditor is an individual who holds an auditor's qualification certificate. Auditing activities are understood to mean the entrepreneurial activities of auditing organizations in conducting audits and providing the professional services specified in the Law.

Accordingly, there are two methods in practice for the regulatory and legal regulation of auditing activities: the first method involves legal regulation through legislation, meaning that a law is passed to regulate relationships related to existing auditing activities; the second method is contractual-legal regulation, which involves regulating the relationships that arise between the auditor and the client based on the contract established between them.

Specifically, when we speak of the term “audit,” economists and legal scholars generally refer to independent auditing inspections, which are considered entrepreneurial activities. Based on the analysis of legislation, scientific literature, and practices, as well as the analysis of the legislation of foreign countries, the term "audit" can be used in two meanings: first, audit refers to the general name for all services included in auditing activities; second, audit refers specifically to auditing inspections.

It is noted that auditing services have characteristics that distinguish them from other types of services, in addition to the general characteristics and features typical of such services. It is also mentioned that the list of these services is expanding in modern times, including services such as forensic auditing (identifying disputes and fraud in corporate governance and organizational legal and financial matters), due diligence (forecasting a company’s financial condition), and others. This raises the issue of creating and regulating the legal basis for these types of services[8].

The examination of banks by external auditors and the reliability of financial reporting are factors that indicate the presence of a trustworthy banking service under market economy conditions. In this regard, the Basel Committee on Banking Supervision’s development of requirements for external audit and standards for banking supervision, the creation of various criteria for determining bank ratings such as SWOT analysis, CAMEL rating, BOPEC—the Fed’s BHs rating system, and the national rating agency “Axbor-Rating” demonstrate the importance of transparency in banking activities and financial reporting. Each bank is rated based on the results of its annual financial report, highlighting the importance and role of auditing services and inspections. Therefore, the objective of auditing inspections of banks and banking groups should be to determine the compliance of accounting laws and international financial reporting standards with the bank's financial information and other financial data.

International auditing firms (such as Deloitte’s "Optix" analytical software, KPMG’s "Watson," and the "Clara" smart audit platform, as well as SAAT, GAS, ASL, Outlier Analysis, Benford’s Law Analysis software in conjunction with Microsoft Excel) are widely adopting advanced technologies such as drones, digital audits, data mining, robotic process automation in auditing operations, blockchain, artificial intelligence, and analytical software. The effectiveness of these technologies in auditing inspections is being studied, and their application in the practices of national auditing organizations is possible.

[8] Saidivaliyeva H.Kh. "Contractual-legal regulation of auditing activities", ...Abstract. - Tashkent, 2020. - 12 p

Volume: 3 Issue: 8 | Aug–2024 ISSN: 2720-6882
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The purpose of adopting the new edition of the Law "On Auditing Activities" was to consolidate and systematize the documents regulating auditing activities in Uzbekistan into a single normative document. According to this law, an individual with an auditor's qualification certificate is recognized as an auditor. Additionally, a new concept of "ranking" has been introduced, which envisages the formation of a regulated list of auditing organizations grouped according to specific indicators characterizing the activities of auditing organizations. The principles in the field of auditing activities—independence, impartiality, and integrity, professional competence, and confidentiality of information—have also been established, along with the requirement that auditing activities should be conducted solely on the basis of international standards for auditing, quality control, analytical inspections, assurance engagements, and related services. These standards are published by the International Federation of Accountants' International Auditing and Assurance Standards Board[9]. The procedure for recognizing international auditing standards for their application in Uzbekistan is determined by the Cabinet of Ministers. A commercial entity that conducts auditing inspections and provides related services in accordance with the law is considered an Auditing Organization. These organizations will have their rights and obligations, including a taxpayer identification number.

The law also introduces the following: internal quality control of auditors' work—a system of organizational measures aimed at ensuring that auditors and employees comply with the requirements of this law, as well as external quality control of the work of auditing organizations—a system of measures aimed at detecting and preventing violations of this law and auditing standards by auditing organizations, which will be implemented by the authorized state body together with the national public associations of auditors[10].

The Ministry of Finance of the Republic of Uzbekistan is the authorized state body in the field of auditing activities. The Ministry implements the state policy in the field of auditing activities, represents the interests of the Republic of Uzbekistan in international organizations in the field of auditing activities, develops, approves, and implements regulatory documents regulating auditing activities within its authority, determines the procedure and regulations for the work of the qualification commission, conducts qualification exams for auditors with the participation of national public associations of auditors, issues, reissues, extends, and terminates the validity of an auditor's qualification certificate, approves a model program for improving auditors' qualifications together with national public associations of auditors, maintains the register of Auditing Organizations and the register of Auditors, and ensures the improvement of the information system of the "Audit" software complex designed for electronic cooperation with national public associations of auditors, carries out external quality control of the work of auditing organizations together with national public associations of auditors, and analyzes the development of auditing services.

In conclusion, auditing and the emergence and development of auditing activities are closely linked with historical processes and have evolved in response to political-legal, financial-economic demands. The emergence and development of auditing and auditing activities are unique to each country.

As entrepreneurial activities, auditing activities have their specific features and characteristics. Therefore, according to the legislation of the Republic of Uzbekistan, auditing activities can only be divided into mandatory and initiative-based auditing inspections, as well as professional services. However, dividing auditing activities into internal and external categories is illogical. This is because "internal audit" is not considered an entrepreneurial activity, while, as mentioned above, auditing activities are considered entrepreneurial activities. According to the Regulation "On Internal Audit

[9] Law of the Republic of Uzbekistan "On Auditing Activities". National database of legal documents, 26.02.2021, No. 03/21/677/0155. https://lex.uz/docs/5307886

[10] Law of the Republic of Uzbekistan "On Auditing Activities". National database of legal documents, 26.02.2021, No. 03/21/677/0155. https://lex.uz/docs/5307886

Volume: 3 Issue: 8 | Aug–2024 ISSN: 2720-6882
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Service in Enterprises" approved by the Cabinet of Ministers on October 16, 2006, No. 215, "internal audit" is carried out by the structural unit of the enterprise and is not considered an entrepreneurial activity. Considering the above, it is possible to divide "audit" into internal and external types of audits rather than dividing "auditing activities."

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