

THE IMPORTANCE OF INTERNAL AUDIT IN THE CORPORATE GOVERNANCE SYSTEM

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**Abstract:** Currently, the emergence of risks associated with fraud at enterprises is aimed at the role and mechanism of the internal audit service in order to meet the needs of internal and external users for reliable, objective information. The importance of ongoing research lies in the fact that it increases the reliability of the results of the internal audit service, ensures the independence of the auditor and increases its objectivity and reliability.

**Key words:** internal audit, corporate governance, principles, risk management, business process, internal audit report

**INTRODUCTION**

In the international landscape, internal audit methodologies are undergoing continuous refinement, primarily to bolster risk management and internal control frameworks. In the United States and Europe, contemporary auditing focuses on securing regulatory compliance, mitigating risks, and ensuring the integrity of financial reporting. These established practices are vital for companies competing in the global marketplace. Consequently, there is a pressing need to develop robust methodologies that refine audit processes and modernize how findings are communicated.

In countries like Canada and Germany, internal audit functions are increasingly structured around risk assessment. By tailoring audit activities to a company’s specific risk profile, auditors can produce more precise and actionable insights. This shift ensures that reports do not merely highlight existing problems but also offer strategic recommendations for risk mitigation. To further improve the profession, it is essential to prioritize the advancement of these risk management methodologies.

An effective internal audit service is a cornerstone for achieving an organization’s strategic objectives. By enhancing operational efficiency and safeguarding assets against emerging threats, internal audit fosters long-term economic sustainability. To achieve this, the integration of modern technologies and innovative tools is paramount. The adoption of automated systems, advanced analytics, and Artificial Intelligence (AI) can significantly accelerate audit cycles while increasing accuracy, ultimately elevating the overall quality of the audit system.

The clarity with which audit results are presented is crucial for informed managerial decision-making. Reports must be transparent and easily digestible to facilitate thorough analysis, problem identification, and the implementation of corrective measures. Ultimately, the high-quality presentation of audit findings serves as a catalyst for an organization’s strategic growth and long-term success.

**LITERATURE REVIEW**

There are a number of laws, decrees and resolutions related to the internal audit service in the Republic of Uzbekistan, which determine the organization of the internal audit service and the implementation of its activities in joint-stock companies..

Legislative documents define the status, tasks, rights, obligations of the internal audit service and all important issues related to its organization. National regulatory legal acts regulating internal audit activities in Uzbekistan are extensive and cover various aspects of the activities of joint-stock companies. In particular, the organization of internal audit in joint-stock companies is tied to the balance sheet value of their assets [1], and in limited liability companies, the organization of internal audit is tied to the balance sheet value of assets and the presence of a state share in the authorized capital [2].

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Also, the Regulation "On Internal Audit Services at Enterprises", approved by the Cabinet of Ministers of the Republic of Uzbekistan, establishes uniform requirements for the organization of internal audit and the methodological foundations for organizing its work [3].

Internal audit is the activity of conducting independent and objective examinations to assess the effectiveness of processes within an organization, establish control over financial and operational activities, and develop recommendations [4]. The concept of internal audit is based on ISO 19011:2018 and standards developed by the Institute of Internal Auditors.

Among foreign scholars, Sawyer defined internal audit as "an advisory service that assists management" and emphasized its role in strategic decision-making. Later, these ideas were developed by Pickett, who viewed internal audit as a system that integrates risk management, internal control, and governance processes[6].

Empirical research conducted in recent years has shown that the effectiveness of the internal audit service is largely related to the specific characteristics of the organization, the internal control system and the skills of the auditors. In studies conducted by Arena and Azzone, the size, independence and technological capabilities of the internal audit service were identified as the main factors affecting effectiveness[7].

Sarens and De Beelde found that the stronger the relationship between management and auditors, the greater the acceptance and implementation of audit findings[8].

Effective presentation of audit results is an important step in increasing the usefulness of internal audit and its impact on the organization. As Reding emphasizes, reports should be clear, concise, and contain relevant recommendations [9]. According to IIA standards, audit reports should meet the following requirements: accuracy, conciseness, objectivity, and user-orientedness.

The internal audit system in the Republic of Uzbekistan is being formed on the basis of regulatory documents of the Ministry of Economy and Finance, the Department of State Financial Control, and other agencies.

K.B. Akhmedjonov's scientific research on the effective organization of the internal audit service included scientific proposals aimed at planning the activities of the internal audit service and preparing the final audit report, improving internal audit standards, improving the process of distributing internal audit powers, and further increasing the reliability of audit results. This scientist defined internal audit as an independent system that provides objective guarantees and advice aimed at increasing the efficiency of financial and economic activities in business entities, and explained internal audit as an activity aimed at ensuring the accuracy of accounting data and organizing an effective internal control system in the enterprise[10].

Sh.I. Ilhomov interpreted the internal audit as an integral and important element of management control[11].

N.F. Karimov emphasized that internal audit helps achieve set goals through a systematic and well-organized approach to assessing and improving the effectiveness of corporate governance, control, and risk management[12].

Recently, more and more attention has been paid to the internal audit function in companies in developed countries of the world. This is due to the global integration of companies and their increasing involvement in financial processes, as well as economic institutions. Their activities must meet global requirements and standards. In particular, companies wishing to place their shares on international markets or obtain loans from them must create an appropriate system of internal control. The function of such systems can be performed by the Internal Audit Committee or the Internal Audit Service.

## ANALYSIS AND RESULTS

Internal audit, which is an integral part of corporate governance, can only benefit a company if it is effective. Since internal audit is carried out in a variety of cultural and legal contexts, which

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differ in purpose, scope, complexity and structure, it is necessary to ensure that internal audit is carried out in accordance with certain common basic principles throughout the world. Such principles, called “Internal Audit Standards”, are developed and published by the Institute of Internal Auditors. They contain basic requirements for the implementation of internal audit, but the standards alone do not provide comprehensive recommendations on how effective internal audit should be carried out.

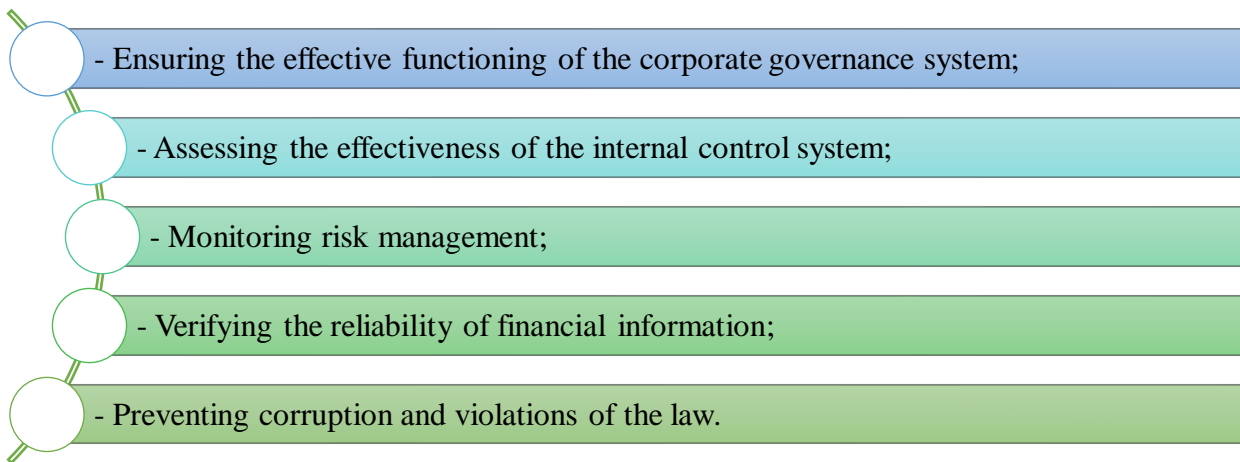
Internal audit is usually an important element of corporate governance and is also based on its principles. Corporate governance is the internal system or tools used to manage and control the activities of a company. Corporate governance describes the concept of practical methods and rules applied by the Board of Directors to ensure accountability, fairness and transparency for all stakeholders.

There are two approaches to organizing corporate governance, Principles-based corporate governance. This follows the requirement of “Comply or Explain”. Rules-based corporate governance. Corporate governance standards are approved by law, therefore compliance with them is mandatory. (Sarbanes-Oxley Act (USA)).

In conclusion, it can be said that the internal audit system plays an important role in increasing the efficiency of organizations, improving corporate governance and reducing risks.

Thus, internal audit should bring “added value” that contributes to the achievement of the organization’s goals. At the same time, business theory gives two different answers to the question “what goals does the organization pursue?” According to the stakeholder theory, which prevails in the academic community, a company should take into account and satisfy the interests and requirements of all interested parties (stakeholders) in achieving its goals.

The Corporate Governance Code is an important legal basis for organizing and managing internal audit activities in the Republic of Uzbekistan. This code was adopted in 2015 and establishes modern principles of corporate governance, including requirements for the internal audit service. The Corporate Governance Code defines the tasks of the internal audit service (Figure 1).



**Figure 1. Duties of the internal audit service according to the corporate governance code<sup>1</sup>**

It should be noted separately that the corporate governance code pays special attention to ensuring the independence and accountability of the internal audit service in joint-stock companies. In world practice, a number of international standards play an important role in regulating internal audit activities. They are the legal basis for establishing an effective internal control and risk management system in organizations.

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

The task of the internal audit is based on the identification of existing errors and deficiencies in economic entities before the preparation of financial statements and giving instructions on their elimination.

It should be noted that a properly implemented internal audit system eliminates errors, makes incorrect, useless decisions and minimizes losses as much as possible. This applies to both unintentional and intentional errors.

The subject of internal audit is determined based on the ranking of business processes according to their role in the organization's activities. Two characteristics are of great importance in selecting an appropriate business process for audit purposes: the contribution of the business process to the volume of services provided by the organization and the characteristics of the potential risk arising during the performance of the service.

Business objectives are determined for each sub-process of the business process being audited. Based on these objectives, the functionality and responsibilities of all employees involved in these sub-processes are determined. To do this, each operation performed by employees is linked to the objectives of a separate sub-process and the entire process.

An analysis and assessment of the effectiveness of control procedures for each business process is carried out: the sufficiency or redundancy of existing control points and control procedures is determined; the degree of reduction and prevention of possible risks; the accuracy of risk identification, the level of which is affected by the activities carried out within the framework of the organization's internal control. To assess the effectiveness of individual control procedures, control point testing is carried out. The development of a test program for all operations of each sub-process is intended to provide reliable criteria for assessing the state of the control point. Control criteria are a set of standards that are compared in the process of assessing the effectiveness of the existing internal control system. In the internal audit of enterprises, it is customary to use three control objectives: the efficiency and effectiveness of operations; the reliability of financial (accounting) reports; compliance with legislation and other external regulations and standards. The results of the audit are supplemented by the collection and preparation of audit evidence and supporting information. On the basis of these materials, conclusions are made and proposals for their practical use are developed, provided in the job instructions and regulations of the executives.

### CONCLUSION

In conclusion, it should be noted that a well-organized system of a risk-based approach to internal audit allows you to study the activities of the organization, taking into account internal and external risks, as well as develop the necessary measures to increase the efficiency of the company's activities, taking into account existing practices in the field of internal audit. In international practice, various approaches and models are used to assess the effectiveness of the internal audit service. These models are formed based on the type of activity of the organization, the state of risks, the level of development of the internal control system, and other factors.

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