

## CONSOLIDATED FINANCIAL REPORTING AND AUDIT QUALITY IMPROVEMENT ISSUES

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### Abstract

In the process of presenting a consolidated financial report prepared in accordance with international standards, conclusions and recommendations are developed on the problems and their solutions that have arisen in the process of conducting an audit, improving the audit quality control system.

**Keywords:** audit process, financial reporting, consolidated financial reporting, external audit, international financial reporting standards, international auditing standards, joint-stock company, audit quality assessment.

### Introduction

#### SIGNIFICANCE AND IMPORTANCE OF THE TOPIC

The main goal of the economic reforms carried out in our country is to accelerate the economic activity of economic entities operating in various forms of ownership, transfer property from state ownership to the non-state sector, and thereby create various self-managed private enterprises. In this case, it is not a secret of using some methods to anyone that the expropriation and privatization of property is carried out by free transfer of property, sale of the enterprise on preferential terms, sale of shares, leasing of enterprises, sale of small enterprises at auction etc. Therefore, it is important to increase the level of integration of our country into the world community, to present the financial report based on international financial reporting standards in accordance with its requirements. As a result of the formation and development of market economy relations, effective organization of financial and economic activities of economic entities with different forms of ownership and provision of professional auditing services is one of the most urgent issues of today.

It is well known that foreign investors are not interested in small enterprises operating in our country, so it is necessary to establish large enterprises, or if not, to increase the branches of small enterprises and turn them into large ones (joint-stock companies). In such conditions, the effective implementation of audit services and audit activities will largely depend on the quality of the audit. Because the quality of these audits is a factor in creating a comfortable environment for external information consumers, including investors.

In the Republic of Uzbekistan, it is important to prepare and present financial statements of joint-stock companies based on international financial reporting standards, to control the quality of their audit during the audit, and to form a quality control system based on international standards and to improve it.

The need for an audit ensures the reliability of key indicators in the process of attracting foreign investors. In this regard, during the audit of financial statements through an external audit, the main attention is paid to the quality of the audit. Because its quality allows an objective



assessment of consolidated financial statements and creates favorable conditions for attracting foreign investors. However, since the issue of international audit quality and the procedure for evaluating the audit quality has not been developed in our country, it is necessary to work on this issue. Controlling the quality of audits depends on the quality of the information obtained by the auditor and the reliability and accuracy of the information collected by the auditor.

Resolution of the President of the Republic of Uzbekistan, registered as a PQ-4611 and dated February 24, 2020 "On additional measures for the transition to international financial reporting standards" joint-stock companies, commercial banks, insurance organizations and legal entities included in the category of large taxpayers, starting from January 1, 2021, organize accounting based on the ISFR (International Standards of Financial Reporting) and prepare financial statements on the basis of the ISFR from the end of 2021, legal entities for which earlier deadlines for the transition to the ISFR are provided for in the legislation cited as an exception [1].

In addition, an appendix on the implementation of this decision is provided, based on this appendix, specific assignments to the higher and relevant bodies and deadlines for the execution of this assignment are given.

In such conditions, attracting foreign direct investments, further increasing the efficiency of joint-stock companies, ensuring the openness, transparency and attractiveness of consolidated financial statements prepared by joint-stock companies for the investors involved, introducing modern corporate management methods creating favorable conditions for strengthening the role of shareholders in the strategic management of joint-stock companies, there is no effective system of external control of the quality of audit organizations' activities, which affects the further development of audit, the importance of management decision-making and audit services in improving the quality of corporate management, work and auditors' wrongdoing hinders the improvement of behavior. In this decision, the task of quality control of annual financial statements of joint-stock companies is assigned to the compliance with the ISFR.

## METHODOLOGY

As we know, it is necessary for every enterprise to submit the financial report at the end of the financial year to the higher authorities. Therefore, whether it is a small business or a large enterprise, it still presents an annual financial report. But large enterprises and companies operating in our country are required to prepare their financial reports based on international standards. In the development of economic diversification processes, long-term relations are one of the important issues for the continuous operation of companies and the availability of competitive products. In this case, the main factor that creates the need for the preparation of consolidated financial statements prepared by companies is the expansion of the range of relations. Currently, one of the important issues is to prepare a consolidated financial report by joint-stock companies and ensure its transparency.

When preparing and presenting a financial report according to international standards of financial reporting, the following steps must be taken:

1. Planning the transition process of ISMR;
2. Development of methods and means of transition to ISMR;
3. Gathering information and preparing financial reports;



4. Preparing experts for consolidated financial statements;
5. Improvement of the process of preparing financial reports on ISMR.

The sequence of actions performed in the above steps is as follows.

The activities to be carried out in the first stage are to determine the purpose of preparing a report on ISMR, to appoint a group of employees responsible for preparing a report on ISMR, to determine the date of transition to ISMR, to determine the powers and responsibilities of the Consolidation team.

In the second stage, development of consolidation methodology and detailed accounting policy and specific methodological instructions for each object of the account, resolution of the organizational issue of the person leading the process of transition to ISMR, development of means of transition to ISMR it will be necessary to develop the necessary information base, transformation and consolidation models for output and data collection.

In the third stage, for collecting data for the reporting period, he completes information documents, transforms financial reports into the financial statements, and consolidates the transformation data of the company in the group for the selected period.

At the fourth stage, training a group of experts on the transformation and consolidation of financial statements based on national standards, conducting an educational course on the theory of ISMR, presenting the main differences between ISMR and NSA (National Standards of Accounting) to the management of the enterprise, collecting data process, it will be necessary to ensure mutually acceptable operation of internal control standards.

At the fifth stage, it is necessary for experts to constantly study international standards, improve the process of preparing financial statements based on ISMR, prepare for automation of financial statements, and conduct mutual optimization of internal control methods in the process of data collection.

General rules of consolidation when preparing a consolidated financial statement in accordance with the 10<sup>th</sup> ISMR, the company consolidates the financial statements of the main and subsidiary organizations by each line by adding analogous items of assets, liabilities, capital, income and expenses.

When preparing a consolidated financial statement, the financial statements of the parent company and subsidiary companies must be drawn up on the same reporting date. If the reporting date of the parent company differs from the reporting date of the subsidiary company, the subsidiary company is required to prepare an additional financial report to the reporting date of the parent company in accordance with the 10<sup>th</sup> ISMR.

In such cases, the impact of significant transactions or events that occurred between this date and the parent company's reporting date is taken into account by making adjustments.

Consolidated financial statements are formed on the basis of the group's uniform accounting policy. If the accounting policy of any company in the group does not correspond to the accounting policy of the group, in such cases, it is appropriate to introduce corrections for the purposes of reporting consolidation.

Therefore, it is important to conduct an audit of consolidated financial statements. Choosing a method that reduces the level of initial inherent risk of the audit, allows to significantly reduce the number of additional checks, management tools and necessary analytical operations.



Currently, in our country, it is necessary to take into account the audit risk in the general set when auditing the consolidated financial report prepared by the joint-stock company.

If the application of analytical procedures during the audit is carried out using highly consolidated financial statement data, the results of the audit risk assessment should only take into account significant misstatements. In such a situation, these results are considered together with other information collected during the identification of significant audit risks, and the consolidated financial statements, including the financial statements prepared by the auditor of the main subsidiary companies, serve as the basis.

In the process of checking the financial statements of joint-stock companies, it is necessary to organize control over the quality of information received and collected by the auditor, as well as analytical operations in the following sequence:

- arithmetical and logical verification of the correctness of financial reports;
- checking the quality of indicators by stages (report, balance on synthetic accounts, turnover sheet on synthetic accounts, general ledger on analytical accounts, turnover sheet on analytical accounts, card, personal account information);
- to control the quality of the audit, all steps recommended for quality control should be performed sequentially.

### LITERATURE REVIEW

If we analyze the opinions and comments expressed regarding the quality control of audit activity and audit risk, we can see the following situation.

The issue of audit quality control is primarily organized by International Quality Control Standards (XSNS), which defines quality control standards and establishes a guide to the audit organization's quality control system [2]. According to A.Ibragimov on quality control of audit activity, taking into account the audit practice, the quality of the services provided by the auditor and the quality of the audit conclusion are a direct result of the auditor's professional skills and experience [3]. According to B.A. Khasanov and S.S. Nasretdinov: "The purpose of the consolidated financial report is to form complete information about the property and financial situation of the group of parent and subsidiary companies, as well as the results of their activities. Noting that this report is intended for internal and external users, head of the enterprise, heads of the parent and subsidiary companies, employees of the enterprises included in it, potential investors and creditors, suppliers of goods, buyers, the state, as well as other interested users. 'tadi[4]. In this regard, the Russian economist S. Bychkova, the audit quality is determined by its simultaneous compliance with audit standards and the price of audit services, that is, the economist suggests studying the issue of audit services in quality control [5]. In the same place, if we look at the opinion of D. Pakhomov, he recognizes that quality corresponds to the hidden needs of buyers [6]. V.V. Kovalev, Vit.V. Kovalev "The following factors are the basis for the practical use and further improvement of consolidated financial statements: the absence of obstacles in the use of new accounting methods; awareness of the expediency of business integration processes; approval of the idea of unification by major stock exchanges," he noted. [7]. A.V. Arvachev, the audit of the consolidated financial report is carried out in three stages, and in its initial stage, before signing the contract with the parent



company, he gets acquainted with the organizations that are part of the group, and also analyzes the procedure for preparing the general plan and program of the audit [8].

In conclusion, it can be said that a deeper theoretical study of the quality control of audit and audit activity remains the demand of the time. From this point of view, it is important to study advanced foreign experiences in this regard and apply their conclusions in the conditions of Uzbekistan. Therefore, the quality of the services provided by the auditor and the quality of the auditor's conclusion is a direct result of the professional skills and experience of the auditor. From the above points, we can see that if audit quality control is improved, it not only continuously monitors the effectiveness of the audit quality control system, but also evaluates it. It helps to effectively organize the external audit and internal control system in joint-stock companies, thereby their general activity.

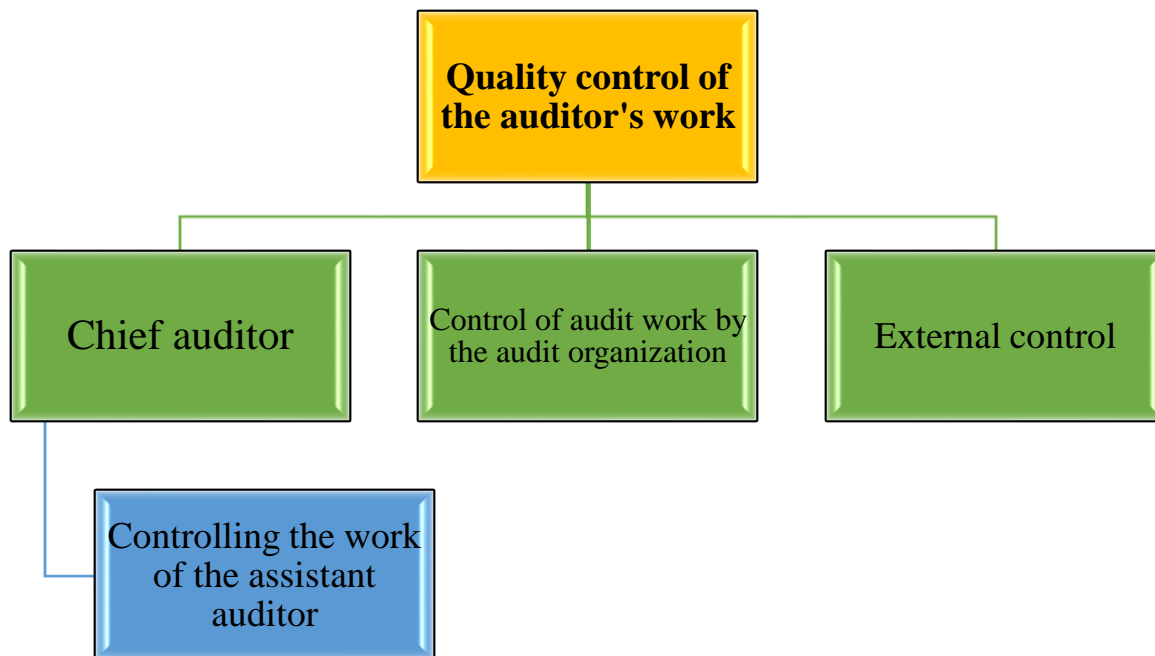
### DISCUSSION OF RESEARCH RESULTS

According to the results of the study, the international audit standard No. 220 "Controlling the quality of the audit of financial statements" was developed for quality control (ISA), where international audit standards are in force in Uzbekistan.

The purpose of this standard is to ensure that the audit is in accordance with professional standards and relevant requirements of legislation and regulatory bodies, and that the published audit report (summary) is appropriate to the circumstances.

The requirements of this standard are mandatory for all auditing organizations when conducting an audit, and it provides for the preparation of an official audit report.

Quality control of the auditor's work is carried out in the following forms:



If we consider this issue at the international level, one of the main standards, the international standard of quality control (ISQC), discloses the financial statements of the auditing organization and discloses its obligations under the quality control system for interpretation, assurance and related service contracts. .





International Standard (ISQC) is also intended to help the audit firm in the following matters:

- Understanding what needs to be done;
- Decide whether more effort is needed to gather information to achieve the goal.

Based on the study of the published literature on audit activities, we can get a broader definition of the audit process as follows: "Audit is a process performed by a person with certain qualifications and independent auditing skills, who collects appropriate information. It is a complex process that performs the check and evaluation and gives its conclusions based on the rules of the country, corresponding to the expression of numbers in the economic system.

When classifying an audit, it can be divided into the following specific types:

According to data users;

In accordance with the requirements of the law;

According to the audit object (type of enterprise activity);

According to the aim.

At the same time that business entities are expanding, the increasing complexity of business operations, the strengthening of the control environment in countries and the improvement of information technologies are also affecting the capabilities and responsibilities of internal auditors. Significant differences between external and internal audits are distinguished by their status, main responsibilities and the period of conducting audits. Therefore, the quality of the service provided by the auditor and the quality of the auditor's conclusion is a direct result of the auditor's professional skills and experience.

If the internal audit service is properly organized and the results of the internal audit service are issued on time, the economic efficiency of enterprises will increase. Conducting operational audits by audit organizations and internal auditors allows to evaluate the activities of enterprises and determine the effectiveness of their long-term strategic plans. As can be seen from the above, if the audit improves quality control, it not only continuously monitors the effectiveness of the audit quality control system, but also evaluates it.

It helps to effectively organize the audit and internal control system in joint-stock companies, thereby the general activity of the joint-stock company. In short, in order to modernize economic relations and deepen reforms in our country, especially in order to effectively organize financial and economic activities in the conditions of widespread involvement of the population in business activities, to provide them with advice, guidance, legal and other assistance, shareholding The service needs of qualified auditors for the activities of societies and other types of assistance are increasing. Therefore, it is necessary to further improve auditing activities on the basis of international standards. It will also be necessary to improve the quality of audit services.

## CONCLUSIONS

A deeper theoretical study of audit and audit activity quality control remains the demand of the time. From this point of view, it is important to study advanced foreign experiences in this regard and apply their conclusions in the conditions of Uzbekistan.

In international practice, special attention is paid to improving the foundations of consolidated financial reporting based on international standards of financial reporting. In this regard, it is necessary to achieve a unified methodical order in recognizing, evaluating and reflecting in the



consolidated financial statement the assets, liabilities, income and expenses that are the objects of the financial statement, as well as the transactions affecting their change, a report that meets the requirements of the international standards of the financial statement, the issues of introduction of forms should not be left out. Based on the experience of developed countries, it will be necessary to develop methods for determining the forms of financial reporting by major international auditing organizations and the methods of preparing consolidated financial reporting by parent companies and the procedures for its audit, and using their experience. However, the issues of bringing financial reporting information into a single system of consolidated financial reporting based on international standards are not sufficiently regulated in our country.

At the same time, practical measures to organize the activities of audit organizations are implemented slowly in some cases. The state of work in the audit system does not meet the growing requirements, audit has not yet become a practical tool for realistic assessment of business performance.

Therefore, in accordance with the Law of the Republic of Uzbekistan "On Auditing Activities" and the need to further develop the independent audit system, further increase the quality of the audit services market, use effective methods of management of audit organizations, strengthen and increase responsibility for the results and impartiality of audits indicates.

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