

ISSUES OF ORGANIZING AUDIT UNDER CONDITIONS OF THE DIGITAL ECONOMY

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Abstract:

The article is devoted to the consideration of the issues of organizing audit activities in the digital economy. In addition, the article reveals the theoretical issues of the audit, its practice, methods used and audit process under the conditions of economy digitalization.

Keywords: audit, audit activity, digitization of the economy, “Big Four”, audit service.

Introduction

Active digital transformation of the economy makes an impact on various businesses and the audit sphere is no exception. Auditing the large amount of data generated by digital technologies makes the work of auditors difficult. Under these conditions, ensuring the quality of services provided by auditors remains an urgent issue.

Audit activities in Uzbekistan are developing and improving year by year. The legal basis of audit activity is also being improved and strengthened. A clear example of this is the adoption of the Law №-677 of the Republic of Uzbekistan “**On audit activities**” signed on February 25, 2021. This law is considered a statutory act that meets the international norms on the organization of auditing activities in our country. Article 3 of this law states that “**audit activity** is the business activity of audit organizations on the provision of audit services” [1]. One of the main requirements of the law is the adjustment of audit activities to the conditions of the digital economy.

Literature Review

There is the issue how the audit activity is organized under conditions of the economy digitalization? In such conditions, changes occur in the organizational aspects and methodology of audit activities and audit inspections. In this regard, the following comments of V.A. Yakimova (2020) can be cited: “Within the current environment, paradigmatic changes are taking place in audit, its form is changing from traditional to intellectual audit, and its methodology relies on technologies as well.” [2]. This is an indication of the gradual transition to digitization of the audit.

Under conditions of the economy digitization, it requires development of a digital audit model. According to the chairperson of the Accounts Chamber of the Russian Federation A. Kudrin (2020), it is possible to shift to a digital audit in Russia within 3 years. He writes that the first priority is to digitize the financial audit. In the opinion of A. Kudrin we create a digital audit model, which means that when the auditor goes to the object, he will be ready with all the data sections for the inspection [3].

From the point of view of V.V. Pankov (2019), the traditional audit of the information in the reports did not meet the current requirements. Therefore, it is time to search for new decisions. Continuing his opinion, V.V. Pankov came to the conclusion that the methodology of the future audit is based on a risk-oriented concept [4]. So, under conditions of the digital economy, it is expected that there will be great changes not only in the theoretical issues of audit, but also in its practice, method and audit process.

I.I.Meliev and B.M.Dagarov (2020) suppose that in order to achieve the goal of organizing and conducting remote audit services, not only the use of IT technology tools, but also advanced automated audit programs, financial analysis programs, the introduction of electronic digital signature service and can be achieved by appointing an auditor who confirms the quality of the audit services provided.[5]

Kh.Kh. Saydivalieva (2020), having studied the analytical software of the international auditing company Deloitte «Optix», smart platforms of KPMG «Watson», «Clara», as well as such software as Microsoft Excel, CAAT, GAS, ASL, Outlier Analysis, Benfords Law Analysis, widely applied drones, digital audit, data mining, robotization of audit operations, blockchain, artificial intelligence, analytical programs and their application in the auditing process, has proposed their efficient use in the audit performance. [6]

In the opinion of Z.N. Kurbanov (2020), within the framework of the digital economy development, new objects of accounting appear and require improvement of its methodology. This also applies directly to the audit. [7]

D.V. Varlamova and L.D. Alekseeva (2020) defined digital audit: “Digital audit is the creation of necessary conditions for audit at each stage of product creation”. [8]

N. Kozlova (2021) thinks that “Digitalization of audit is the complete remoteness of audit in enterprises”. [9]

From the point of view of A. V. Petukh and M. F. Safonova (2019), “With the development of digital audit, there is also a transformation in the technology of conducting the audit”. [10]

According to N.A. Antipenko and D.Yu. Busygin (2019), a new object of accounting has appeared in the conditions of the digital economy - a digital sign (token). It follows that transactions involving a digital sign must also be audited.[11]

Analysis and Results:

Audit activities generally include audits and services rendered.

In this regard, Article 31 of the Law №677 of the Republic of Uzbekistan “**On audit activities**” stipulates that audit organizations provide audit services in the form of audit inspections and similar services.

Article 33 of the law stipulates that audit organizations provide the following similar services:

Putting into operation, restoring, maintaining and financial reporting, including financial reporting according to international financial reporting standards;
performing the duties of the audit commission (inspector) of a legal entity, trustee of investment assets;

advising on accounting and financial reporting issues;
when a tax consultant is available in the state of the auditing organization or by engaging him on the basis of the terms of the contract, providing advice on the application of tax legislation, preparation of calculations and declarations on taxes and fees;
financial analysis and financial planning, including preparation of business plans, economic, financial and management consulting;
conducting seminars and conferences on accounting, auditing and financial reporting, taxation, analysis of financial and economic activities and financial planning;
automation of accounting and financial reporting, development of recommendations on information security of financial information. [1]

In our country in 2021 the amount worth 312.2 billion UZS was received from auditing services in our country, of which 67.6 percent from audit inspections and only 32.4 percent from other services provided [12]. This indicator is the following in the Russian Federation by the end of 2021: 58.2 percent of the total income comes from audit inspections and 41.8 percent is the share of other provided services. As of January 1, 2022, there are 3400 auditing organizations, which include 17000 auditors working. In 2021, the income received from audit activities amounted to 62.0 billion rubles and 76570 clients were rendered audit services [13]. As can be seen from the above, it is necessary to increase income from the provision of other services in our country from audit activities. This is crucially important in the digital economy.

The analysis of economic literary sources demonstrates that in the digital economy, the audit methodology will change, the audit will be continuous. Because the accounting and reporting data based on information technologies are constantly checked by auditors, they draw up an audit report and issue an audit opinion within the specified period and procedure.

It may be questioned whether there is a legal basis for this. Definitely, Article 34 of the law entitled "Limitations on conducting an audit" specifies: "The audit organization has no right to conduct an audit of the same business entity for more than seven years in a row".

It follows that the audit organization has the right to conduct an audit of a business entity for seven consecutive years. If the audit organization has signed a contract with a business entity for 5 or 7 years, the audit can be conducted continuously during this period.

We can cite the following examples. The audit of the financial statements of the largest PJSC "Oil company "LUKOIL" of the Russian Federation (2021) has been conducted by the audit firm JSC "KPMG" for several years.[14] The situation is the same in "Uzbekneftgaz" joint-stock company. The consolidated financial report of "Uzbekneftgaz" joint-stock company for 2016, 2017 and 2018 prepared on the basis of the IFRS was audited on the basis of International Auditing Standards (IAS) by "Ernst&Young", one of the world's four largest audit companies. It should be noted that a favorable audit opinion was received on June 5 and November 24, 2020. [15]

Under conditions of the digital economy, the wide use of practical digital technologies

created and used by companies in audits becomes particularly relevant. In this regard, V.A. Yakimova proposes the use of such digital technologies as “Express Audit: PROF”, “Pomocshchnik auditora” (“Auditor’s assistant”), Audit Expert, which are used in practice by audit firms of the Russian Federation; Audit XP, “Complex Audit”, IT Audit and other digital technologies [2]. These digital technologies are being used in practice by major auditing companies of the world and the Russian Federation. This indicates that large auditing companies have adapted to the requirements of the digital economy. For example, it can be seen from the volume of services provided to clients by the world’s “Big Four” audit companies in 2019 (Table 1).

Table 1 Key indicators of the world's “Big Four” audit companies in 2019 [16]

Compa-nies	Income	Number of employees	Income per 1 employee	Year	Headquarters' location
Deloitte	\$46,2 billion	312 028	\$148 077	2019	Great Britain / USA
PwC	\$42,45 billion	276 005	\$153 794	2019	Great Britain / USA
EY	\$36,4 billion	284 000	\$128 169	2019	Great Britain / USA
KPMG	\$29,75 billion	219 281	\$135 671	2019	Netherlands

According to the data in the table, “Deloitte” is the company with the highest revenue among audit companies in 2019. “Deloitte’s” revenue in 2019 was **46.2 billion USD**, followed by “PWC”, which revenue was **42.45 billion USD**. It should be noted that nearly 1 million employees work in the “Big Four” audit companies. Based on the above, 104 audit organizations and 676 auditors operating in our country need to adjust the requirements in compliance with the digital economy.

Nowadays blockchain technology has already found its practical application. For example, “Ernst&Young” has developed “Explorer&Visualizer”, the tool designed for in-depth analysis of blockchain transactions. This tool is designed for searching and visualizing the information required in the entire chain of information blocks. The information obtained may be used to comply with legal requirements and to reduce potential risks related to fraud.

The “Big Four” audit firms – “PWC”, “Deloitte”, “Ernst&Young” and “KPMG” launched a pilot project in 2018 with 20 banks in Taiwan to test the financial statements of bank clients.[17]

According to the forecast of the International Economic Forum (World Economic Forum), by 2025, about 30 percent of audits will be conducted using intelligent information technologies [18]. According to the report of the audit firm “Deloitte&Touche”, due to the use of digital technologies in audits, the company’s income increased by 23 percent in 2019, and it is expected to increase by 30 percent by 2022 [19].

Conclusion:

Based on the considerations specified above, we can conclude that fundamental changes will occur in the organization and methodology of audit in the digital economy. The use of artificial intelligence information technologies in audits is increasing. In this case, it will be to create the conditions required for the use of digital data for software developers using artificial intelligence technologies and ensure the rapid digitization of relevant data of their organizations.

Such changes require appropriate amendments to the legal regulations related to auditing activities. We propose to develop international auditing standards that are suitable for the conditions of the digital economy or to make appropriate changes to the existing ones.

Most importantly, we recommend retraining the staff conducting audits to adapt them to the requirements of the digital economy and holding internships in foreign countries where digitization of audits has developed.

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