



## AUDIT OF INNOVATIVE ACTIVITY IN ENTERPRISES BASED ON INTERNATIONAL STANDARDS

Ergashev Khudoynazar Khabibullaevich

Associate Professor, Samarkand Institute of Economics and Service, Uzbekistan

Ergashev1962@mail.ru

Marupov Farruxxon Farhod ugli,

Researcher, Samarkand Institute of Economics and Service, Uzbekistan

farrux9697@gmail.com

### Abstract

Currently, in Uzbekistan, as well as throughout the world, the role of corporate reporting of a special type - consolidated financial statements - is increasing. The reasons are well known: the globalization of business, the consolidation of corporations due to mergers and acquisitions, overcoming state borders and the development of transnational corporations, the active entry of Uzbek companies into international stock markets. The purpose of the article is to search the audit of innovative activity in enterprises based on international standards.

**Keywords:** investors, clients, counterparties, shareholders, implementation, competitiveness, integration, principles, methods.

### Introduction

The development of international, economic and financial relations has brought forward among the most pressing issues the issue of reforming accounting in Uzbekistan, bringing its content (principles, methods) closer to the norms accepted in international practice. Work in this direction began back in 1992, when the State Program for Uzbekistan's transition to a system of accounting and statistics was adopted in accordance with the requirements of the development of a market economy [1].

An important stage in this was the adoption of the Concept of Accounting in a Market Economy of Uzbekistan and the Government Program for Reforming Accounting in accordance with International Financial Reporting Standards (IFRS), providing for the gradual transition of business entities to international financial reporting standards [2].

The banking sector of the economy was identified as the flagship of this process, as the most developed and dynamically developing industry.





The transition of banks to international financial reporting standards is caused by the joint desire of the Government of Uzbekistan and the Bank of Uzbekistan to make bank reporting more transparent, open, accessible, and, consequently, the banks themselves - more attractive to investors, clients, counterparties, and shareholders.

According to First Deputy Chairman of the Bank of Uzbekistan: “We must be slightly ahead of Europe in terms of implementation of IFRS in order to maintain competitiveness with the further integration of the Uzbek banking system into the global one, which is inevitable with Uzbekistan’s accession to the WTO.”

The development of international, economic and financial relations has brought forward among the most pressing issues the issue of reforming accounting in Uzbekistan, bringing its content (principles, methods) closer to the norms accepted in international practice [3]. Work in this direction began back in 1992, when the State Program for Uzbekistan’s transition to a system of accounting and statistics was adopted in accordance with the requirements of the development of a market economy.

An important stage in this was the adoption of the Concept of Accounting in a Market Economy of Uzbekistan and the Government Program for Reforming Accounting in accordance with International Financial Reporting Standards (IFRS), providing for the gradual transition of business entities to international financial reporting standards.

The purpose of financial reporting is to ensure that its users, owners, investors, creditors, stock analysts, government agencies, etc. receive an adequate understanding of the financial position and activities of the enterprise and can make management decisions on this basis. In a situation where some enterprises control others, there is a need to consolidate financial statements [4].

Consolidated financial statements are a combination of the financial statements of two or more legally separate companies operating together economically and financially. The purpose of such an association is to obtain information about the group of these companies as a single economic entity without taking into account their formal isolation as legal entities [5]. This reporting gives interested users an idea of the real financial position, financial performance and changes in the financial position of a certain group of companies, considered not from the point of view of their legal status, but from the point of view of real control over their activities.

Consolidated financial statements enable users to make informed decisions regarding a group of related companies. This is due to the fact that a company that controls other companies can make transactions that distort the actual financial position, real financial results and changes in the financial position of individual companies and





their entirety that occurred during the reporting period [6]. For example, it is possible to manipulate the income and expenses of individual companies by selling assets to each other or providing services at inflated or undervalued prices. Although such transactions do not actually change the financial position and results of operations of the entire group of jointly operating companies, they may be misleading to interested users because the individual financial statements of each company do not allow their effects to be identified and addressed.

It is the consolidated statements that give a clear idea of what assets are actually controlled by certain shareholders, taking into account subsidiaries. Typically, individual financial reporting is primarily required by regulatory authorities [7].

The need to compile consolidated reporting arises at that stage of economic development when large companies begin to use their capital to establish control over the activities of other economic entities in order to subordinate them to their interests. This may be due to the need to expand the market for products or gain access to new sources of raw materials. Another reason is the company's desire to achieve more favorable economic conditions: effective taxation by differentiating tax rates, limiting legal liability for obligations.

The preparation of consolidated statements is associated primarily with large transnational corporations (TNCs), whose shares are listed on stock exchanges and whose operations are international in nature [9]. Numerous small and medium-sized companies are in most cases exempt from the need to compile it. At the same time, the significance of consolidated reporting goes beyond purely informational frameworks, since it has very specific users - investors and shareholders. Intracompany transactions can create an unrealistic picture of the activity of a group of companies, its sales, settlements, inventories, and financial results [8]. Consolidated statements present a more objective picture of the operations and financial position of a single economic unit, without replacing the individual financial statements of the group companies, since they reflect its economic relationships. Such reporting can serve as a control function for the parent company and influence its dividend policy. In some countries, such as the United States, consolidated earnings are the basis for declaring dividends (the parent company decides to pay dividends based on the subsidiary's performance) [10].

Undoubtedly, consolidated statements contain important information for making financial and management decisions.

Consolidation issues occupy a worthy place in the system of International Financial Reporting Standards (IFRS). Namely, IFRS is focused primarily on the preparation of consolidated financial statements, since only consolidated statements ensure the





fulfillment of the main goal of reporting - providing reliable and objective information about the financial position of the company, the financial results of its activities and changes in them [11].

In accordance with international standards, consolidated reporting must be based on certain principles and methods (meet certain requirements). The banking sector of the economy was identified as the flagship of this process, as the most developed and dynamically developing industry.

The transition of banks to international financial reporting standards is caused by the joint desire of the Government of Uzbekistan and the Bank of Uzbekistan to make bank reporting more transparent, open, accessible, and, consequently, the banks themselves - more attractive to investors, clients, counterparties, and shareholders.

Most of the principles discussed above, on which consolidated reporting is based, in accordance with international standards, are reflected in Uzbek regulatory documents governing the preparation of consolidated financial statements [12].

Thus, the value of interim consolidated statements may be significantly reduced in the absence of quarterly revaluations of assets. Additional difficulties arise when a subgroup is included in a banking group, headed by an enterprise, since the consolidated statements of such a subgroup are prepared in accordance with the requirements of the Ministry of Finance, which differ from similar requirements of the Central Bank. Here are some of the differences [13]:

- A participant whose capital is less than 3% of the group's capital is considered insignificant;
- There are no provisions for adjusting assets in accordance with their market value on the date of acquisition of the subsidiary;
- It is allowed to reflect a subsidiary credit institution as a dependent one;
- "Business reputation" is defined as the difference between the balance sheet valuation of investments and their nominal value (and not the amount of equity, as established by Regulation No. 191-P and IFRS) [14].

From the above, it is obvious that the existing standards for the preparation of consolidated statements today cannot be considered consistent with IFRS. In addition, regardless of the process of transition to IFRS, the standards of banks and enterprises for accounting and reporting, including consolidated ones, need to be harmonized [15].

Thus, to ensure market transparency and respect the interests of reporting users, primarily shareholders and creditors, the following conditions are needed:





- The preparation of consolidated financial statements and their audit should be mandatory for everyone (it would be advisable to introduce such a norm at the level of federal law).
- Reporting of all participants must be compiled and consolidated according to uniform principles.

The speedy adoption of IFRS as a unified and mandatory standard would make it possible to best ensure the fulfillment of these conditions and solve a number of other problems facing the Uzbek accounting system. However, in accordance with the latest decisions of the Government of Uzbekistan, the transition to IFRS is once again postponed (now until 2027) and will not occur simultaneously for everyone. At the same time, as a result, "double standards" will still apply: international reporting is supposed to be obtained not from accounting data, but from Uzbek reporting through adjustments. There is no doubt that this approach will solve the problem of market transparency and informativeness of reporting, and this problem cannot be overestimated.

### References:

1. Khabibullaevich, Ergashev Khudoynazar. "Theoretical and methodological foundations for the use of innovative technologies in the context of teaching economics." *World Bulletin of Management and Law* 16 (2022): 202-204.
2. Khabibullaevich, Ergashev Khudoynazar. "Audit Of Innovative Activity In Enterprises Based On International Standards." *E Conference Zone*. 2023.
3. Khabibullaevich, Ergashev Khudoynazar. "Audit Of Financial Activities Based On International Standards." *Conferencea* (2023): 151-155.
4. Khabibullaevich, Ergashev Khudoynazar. "Ways To Solve Modern Problems Of Economic Education In Institutes." *American Journal Of Interdisciplinary Research And Development* 15 (2023): 76-79.
5. Khabibullaevich, Ergashev Khudoynazar. "International Tourism And Its Role In The Development Of The Economy Of Uzbekistan." (2023).
6. Ergashev, Khudoynazar, Azizbek Xabibullayev, And Bobir Azimov. "Systematization Of Information About The Mechanism For Supporting Small Businesses In Uzbekistan." *Евразийский Журнал Академических Исследований* 4.2 (2024): 63-67.
7. Azizbek, Xabibullayev, And Ergashev Khudoynazar. "Assessing The Influence Of Internal And External Factors During A Management Audit." *Conferencea* (2024): 68-71.





8. Ergashev, Khudoynazar, And Adelya Nematova. "Current State Of Development Of Uzbek Auditing Standards In Accordance With International Auditing." *Conferencea* (2023): 70-74.
9. Ergashev, Khudoynazar, And Guljakhon Klicheva. "Essence, Objectives And Legal Regulation Of Labor And Wage Accounting." *American Journal Of Interdisciplinary Research And Development* 21 (2023): 124-127.
10. Khudoynazar, Ergashev, And Qilichova Gulbahor. "Practical Application Of Activation Methods And The Dynamics Of The Effectiveness Of Their Use In Economics Lessons In Institutes." *E Conference Zone*. 2023.
11. Ergashev, Khudoynazar. "Modern Teaching Methods Used In Teaching Economics At Institute." *Евразийский Журнал Права, Финансов И Прикладных Наук* 3.10 (2023): 134-137.
12. Khudoynazar, Ergashev, And Pirmanova Nazira. "Audit Of Construction Works In Construction Organizations." *E Conference Zone*. 2023.
13. Ergashev, K., & Marupov, F. (2023). Conditions For Effectively Conducting Theoretical Classes In Economics At Institutes. *Academia Repository*, 4(12), 1-6.
14. Khudoynazar, E., & Rasulbek, P. (2023). Improvement Of The Mechanisms Of Development And Quality Improvement Of Tourism Services. *Genius Repository*, 27, 1-4.
15. Ergashev, K., & Marupov, F. (2023). Quality Of Economic Education In Higher Educational Institutions-Ways To Reform The Teaching System. *Western European Journal of Modern Experiments and Scientific Methods*, 1(3), 21-24.

