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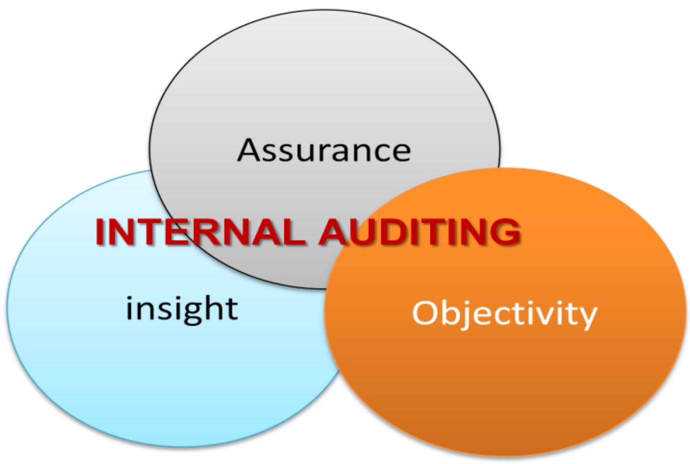
THE ROLE OF INTERNAL AUDIT SERVICE IN EXPORT AND IMPORT OPERATIONS IN CORPORATE GOVERNANCE

Tashmanov Golib Davronovich,
Researcher of Tashkent Financial Institute

Abstract. *This article is devoted to the issues of internal audit which includes corporate risk management, operational activities and risk assessment related to organizational information systems, performance and financial reliability, as well as asset integrity activities. It is the service that guarantees independent functioning of an entity's risk management and internal control processes.*

Key words: *corporate governance, import, export, audit, risk, management, control, financial report, internal audit, business, operation, assurance.*

Introduction. It is not exaggeration to say that internal auditors act as a company's financial supervisors. They are tasked to objectively examine the company's financial reporting and review the operating procedures independently, irrespective of the management. So an internal audit focuses on the company risk management functions, security processes and regulatory compliance among other departments. It should be noted, that the concept of "internal audit" has recently emerged In Uzbekistan. In compliance with the Presidential Decree "On measures for further development of the stock market" (Decree, 2006), the Cabinet of Ministers issued the Decree "On measures for ensuring efficient management of state-owned enterprises in the Fund and accounting of state property". In this regard, the Regulation on Internal Audit Service of companies was approved.



Analysis and discussions. Internal audit should assess the risks associated with the corporate governance, operating activities and information systems of a company in the following areas:

- achievement of the strategic objectives of the company;
- reliability and integrity of information on financial and economic activities;
- efficiency and usefulness of activities and programs;
- asset retention;
- compliance with laws, regulations, policies, procedures and contractual obligations.

Thus, an internal audit is essentially a pre-emptive maneuver to maintain operational efficiency and financial reliability, and to ensure safety to assets. It provides independent assurance that a company’s risk management, corporate governance and internal control processes are operating effectively.

Speaking about the importance of an internal audit of import and export operations, it should be noted that the export/import business is primarily considered to be an expansion of trade boundaries wherein several business models exist. Just like the conventional business, a person with the requisite export/import license can sell his manufactured goods to clients abroad, can act as an intermediary between the local manufacture and overseas buyer or vice versa, and can directly purchase the goods produced abroad and sell them in the domestic market. The export/import business becomes unique with the involvement of various stakeholders and risks, which do not always correspond to the domestic trade.

- Just as written manual is the basis of compliance training program, import and export compliance audit plan is an important subset of that plan that goes into even greater detail.
- By including pertinent policies and step-by-step procedures, you'll prepare your company and employees for the unknown and feel confident in your process should you ever be subject to an export and import compliance audit.

Generally, the parties involved in an internal audit are the auditors, the audit committee, and the departments being audited.

Step 1 – To start with, the internal auditors will randomly sample documents, review manuals and observe how work flows through a department, or the entire company.

In addition, they will look for signs of inadequate asset management, fraud and also test risk management controls. They typically analyze documents outlining a company's mission, objectives and related performance, then determine how well these goals are being met. Using various assessment techniques, an internal auditor shall examine the efficiency of internal control procedures and determine whether employees comply with them.

These assessments can be completed after reviewing documents such as responsibility flowcharts, control policies and results of the previous audits. When gathering information for their final report, internal auditors will observe operations first, take notes, review official documents and interview employees.

Step 2 – Next, the internal auditors prepare a report listing their findings, and send it to the audit committee. The report includes a summary of the procedures and techniques used for completing the audit, a detailed description of findings and suggestions for improvements to internal controls and procedures.

Step 3 – Finally, the committee reviews the report, and suggests suitable improvements to the departments concerned.

The main benefits of an internal audit to a company include the following:

Increase in productivity as well because internal audit is an objective assurance and consulting activity designed to add value and improve a company's transactions. It can help a company accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluating and improving the efficiency of risk management, control, and governance processes.

Confidence to stakeholders: an internal auditor reports to executive management that important risks have been evaluated and necessary improvements have been highlighted. This executive management and relevant boards shall demonstrate that they are managing a company effectively on behalf of their stakeholders.

Detection of frauds: regular internal audits assess a company's monitoring measures and help disclose evidence of fraud, waste or abuse. The frequency of internal audits will depend on the department or process being examined. For example, in manufacturing, daily audits may be required, while for human resources, an annual review may be quite adequate.

Quality control: internal auditors play the role of combining assurance and consulting. Assurance informs the management how well systems and processes are designed to keep the company's goals on track. Consulting advises the management on how to improve those systems and processes if and when necessary.

Reasonable corporate governance: internal audits evaluate a company's internal controls, including its corporate governance and accounting processes. They ensure compliance with laws and regulations, accurate and timely financial reporting and data collection. Moreover, they help maintain operational efficiency by identifying problems and correcting lapses before they are discovered in the process of an external audit.

There are three major components to include in the scheduled plan of an internal audit:

❖ Identify everyone who should be notified in case of an audit.

❖ Identify where appropriate records and documents regarding import/export operations are located or stored.

❖ Identify how the internal audit plan fits into export and import management and compliance program.

Furthermore, internal audit, to some extent, ensures efficiency of export/import operations because an audit of company's export/import procedures will show who's doing what they're supposed to, who's not, and what types of training you need to provide to make sure about an adequate performance of the whole office.

▣ Another aspect to consider: Things change. Products change, regulations change, trade terms change, customers change, employees change. Nothing in business stays the same forever.

▣ Internal audits help you see what's working well and help you gauge the current reality of your business. You can then make any necessary amendments to adapt your business to best practices.

For successful implementation of export/import operations you have to stay current with import/export product classification numbers. Making sure your documents are accurate. If not, your goods may get held up in customs, and you might not get paid on time. You should also verify that you're providing all the documentation your foreign customers need. In addition, your activity should be in compliance with a Free Trade Agreement. You should be auditing the rules you're using to ensure your goods still qualify under different Free Trade Agreements and to make sure nothing's changed in your sourcing of parts.

There's no one-size-fits-all answer to how you should audit your company's export/import procedures, but there are two important options.

- Internally

The internal audit is a do-it-yourself method that helps you get your hands dirty and work through the process of what your company's procedures should be and how they should be measured.

- Externally

If you don't know exactly how to get started, the right way to audit, or the best metrics to use, an external audit may be helpful to you. A third party or consultant, for example, ensures a fresh set of eyes and objectivity so you can see how to improve your processes (even if they are working).

Conclusion and proposals. The recommendations of the internal auditor should consist of a proper risk of import and export assessments. This, in turn, will prevent sanctions and commercial losses from damaging economic reputation. Internal auditors are attentive to aspects that external auditors do not care about.

- Any company should evolve based on their own risks related to export/import operations (if management has failed to hit the right path in the market)
- In our view, it is necessary to develop internal audit based on the advanced experience of the international community.

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