

Development of Audit Services for Cotton Textile Clusters

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ABSTRACT

As a result of fundamental reforms carried out in the agrarian sector in our republic, a number of new economic entities were formed in the field of cotton growing in recent years. Textile clusters today must produce competitive products not only in the domestic market, but also in foreign markets, as well as apply strong competitive strategies. In such a strong competitive environment, audits conducted by internal or external auditors, especially at the request of consumers and partners, allow clusters to reveal their advantages over other companies. Audits conducted in business entities can be classified in different ways. Most importantly, when organizing audit services, we can divide them into internal and external audit services for clusters. In fact, if the auditor is paid by the company for the performance of audit services, it is called internal audit, and if the company performs audit services without receiving a salary, it is called external audit. In the study, factors such as studying the effect of the audit on improving the cluster activity, determining the frequency of the audit, and determining the duration of the cluster activity audit were analyzed. In the future, it was analyzed how the development of information technologies will affect the organization of audit services.

KEYWORDS: *Audit, cotton cluster, reform, foreign market, databases, financial statements, internal audit, external audit, effectiveness, financial conditions, financial report, international accounting standards.*

Introduction

Today, as a result of the reforms carried out in the agrarian sector of our republic, new economic forms, including cotton textile clusters, are gaining a place not only in the domestic market, but also in foreign markets. Also, cotton textile clusters, on the one hand, are producers of raw materials, and on the other hand, they produce high-quality industrial products and export them to domestic and foreign markets. Therefore, further development of cotton clusters is being supported by the state, for example, at the meeting held by the President, "... regulation of contracts between the cluster and farms and putting the account books in place, cotton and tasks were given to the agencies responsible for coordinating all cultivation"¹... The development of the activities of cotton clusters requires proper control of the processes from raw material production to final product production, that is, internal audit services should be organized. Of course, it is desirable to reduce the human factor in establishing an internal audit system, and widely use information technologies. On the one hand, this reduces costs, and on the other hand, it reduces the human factor in the effective operation of the audit system

Also, in most of the literature, large high-accuracy databases have been created and analyzed to identify financial crises in enterprises, to identify various illegal activities observed in financial markets, and to forecast stock markets, but the possibilities of using new modern technology are significantly lagging behind. As a result of the development of information technologies, it was possible to develop high-probability forecasts without monographic observations of large volumes of

¹ <https://president.uz/uz/lists/view/5831>

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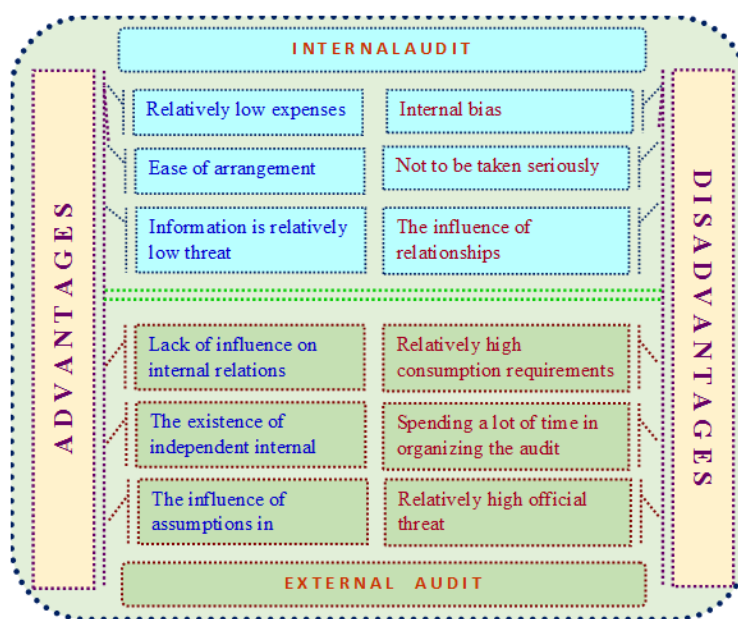
information, but through rapid processing of existing data².

During the Covid-19 pandemic, many traditional financial statements have been abandoned, and audit services have also changed. It was requested to conduct face-to-face communication in an online system, as well as conduct audit services in a virtual form. Remote audit services can be relatively inexpensive, but in this region there is a need to coordinate financial and accounting documents. Because the auditor cannot carry out all the processes in a video or visual form, and also the forms of keeping accounting reports are different in different enterprises. This creates the need to work in a unified system of national standards for accounting reporting and proper organization of audit services. In this way, it is possible to organize audit services in production enterprises and ensure their effective operation.

Audit is a historically formed economic category that has been formed in several forms in different periods. In all periods, the purpose of auditing was interpreted as a control carried out to determine the compliance of economic activities with predetermined goals and rules. At the same time, along with the development of standards for the compliance of the audit activity results with the plans of the enterprise, it is focused on determining how the state of the enterprise during the audit period corresponds to the existing standards³.

In our opinion, audit services are a part of management, and are considered as a chain that ensures the mutual harmony of all functions of management in order for the enterprise to be more successful in the competitive struggle. At the same time, the audit provides an assessment of the results of the integration of management functions. For this reason, we can consider audit as one of the important tools for proper organization of management. It should not be forgotten that in practice, if the audit mechanism is not used, the enterprises will be able to fulfill their assigned tasks only in rare cases. Therefore, the organization of audit services is mandatory for all economic entities.

Accordingly, the organization of the audit has its own advantages and disadvantages in business entities, and it is appropriate to take into account each element when organizing audit services figure 1.



1ST Figure. Advantages and disadvantages of internal and external audit.

² Aslan, T. & Kızıl, C., (2019). İktisadi ve Sosyal Yönleriyle İnovasyon, İKSAD Publishing House. Chapter 5 İnovasyonun Muhasebe ve Denetime Etkileri". s. 159-196

³ Bozkurt, P. (2013). Denetim Kavrami ve Denetim Anlayışındaki Gelişmeler [Audit Concept and Supervision Understanding Improvements]. Denetışim, (12), 56-62

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In Figure 1, we can see that there are relatively few ranks in the audit organized in production enterprises, but the interaction between auditors and employees does not fully ensure the quality of the conducted audit. Although relations between employees have little influence on audit results in external audit, official threats remain high in mutual cooperation agreements. That is, there will be partial threats in the analysis of financial relations between cotton textile clusters and farms, as well as the financial reports drawn up with other economic entities.

Internal audit is an examination of all business activities in the permanent status of the company or outside the company with the status of permanent internal auditor. In other words, this is a type of audit that is carried out by people who work for the company with a salary contract. Internal auditors are those who work in the organizational structure of the company and usually present the obtained information to the management of the company.

In fact, the internal audit is conducted by an auditor who is a permanent employee of the business entity or works in external firms, but is also an employee of the audited enterprise. Simply put, the audit is carried out by concluding an internal contract with the company's own employee. The main goal is to analyze the organization of financial documents belonging to the company and to develop proposals to eliminate the shortcomings. In multi-sectoral enterprises, for example, in cotton clusters, internal audits are relatively different, that is, they include the verification of financial contracts concluded with farms and the financial results of the processing industry. It is worth mentioning that the number of auditors is also important for the effectiveness of internal audit. The number of internal auditors depends mainly on the size of the total production and service sectors of the business entity.

At the same time, the external audit is carried out by auditors of independent audit firms or other organizations that are not related to the organizational and functional structure of the business entity being audited. Their main purpose is to verify the correct and legal maintenance of the financial and accounting reports, as well as to give opinions and suggestions on the effectiveness of the kept accounting reports. In most cases, external audits are conducted in non-governmental organizations based on the requests of clients and founders (shareholders), if they are conducted at the request of clients or international partners, in this case, they are conducted within the framework of (ISO) 9001 and 14001 international certificates can be transferred.

Therefore, in order for the audit mechanism, which is considered an important element of management, to create additional value in production, it is necessary to ensure its operation in accordance with the established criteria and standards. Because, the correct implementation of the audit will show the existing shortcomings, as well as provide suggestions and recommendations for solutions to these problems. Also, economic entities will have the opportunity to see and analyze the specific errors and omissions in their financial and accounting reports. The development stages of the audit are presented in the following table 1 table.

1 table. Developmental evolution of auditing.

Period	Basic description of Auditnign	Purpose of auditnign	Audit related organizations
Before the industrial revolution	Audit of all documents and reports	Determining the shortcomings	Reports of the managers of the organization
Until the 1900s	Audit of all documents and reports	Determining the shortcomings	Partners and other types of financial organizations
1900-1930	Auditing of all documents and taking samples in the	Determining the accuracy of financial statements	Credit institutions, insurance companies and the government

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	prescribed manner		
1930-1960	Verification of financial information through information retrieval	Write a conclusion on the accuracy or inaccuracy of the prepared financial statements	Relevant financial segments in the market, shareholders, consumers and government
1960-1990	Checking samples obtained by statistical sampling	Determining the accuracy of financial statements	Partner companies, credit organizations, consumers and trade unions
The period after 1990	The risk of conducting an audit and conducting an audit by processing the received data	Determining the accuracy of financial statements	Shareholders, insurance organizations, trade unions and public control organizations

In Table 1, we can see from the evolution of audit development that the main purpose of audit in all periods is to study and analyze deficiencies in the accounting and financial reports of economic entities. At the same time, in the early period, the audit mostly examined the financial activities of property owners, and in the period after 1930, the audit was conducted mainly on the initiative of partners and credit organizations. That is, economic entities tried to independently analyze each other's financial reports during mutual cooperation. The main purpose of this is, firstly, to determine whether the financial statements of the economic company are kept correctly and to reduce the level of risk in cooperation; secondly, to have accurate information on creditor and debtor debts of the business entity before cooperation. Also, in the 1960s-1990s, when production enterprises expanded and expanded their activities in several sectors, auditing became more complicated and required a lot of time for the audit. Therefore, in this period, the activity of large production enterprises was analyzed with the analysis of small information through more statistical sampling during the audit. As a result of the development of information technologies and the digitalization of financial reports, audits began to be conducted mainly through information processing. In the same period, a sharp turn was noted in the development of audit. It should not be forgotten that the purpose of the audit in all periods is to analyze the financial statements of the company. The national standards for conducting internal audits in our republic were approved in 2022, which set the quality indicators of the internal audit service and the standards for conducting internal audit activities.

According to research, the main purpose of conducting an audit is to improve the current financial conditions of economic entities and to ensure that correct decisions are made in management by identifying negative aspects. According to research, the main purpose of conducting an audit is to improve the current financial conditions of economic entities and to ensure that correct decisions are made in management by identifying negative aspects. In fact, when taking into account several factors when making management decisions, priority is given to the correct management of financial and accounting reports of the economic entity during the audit. Also, in order to obtain the expected result from the audit, several requirements are imposed on the auditor:

- defining the specific purpose of the audit;
- to have a reliable and valid audit system;
- ability to analyze synthetic and analytical account information on asset and liability accounts of the balance sheet;
- transfer the national financial report to international accounting standards.

In general, the number of employees of an economic entity has a great impact on conducting an audit. Therefore, taking into account the large number of employees working directly and indirectly

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in cotton clusters, the audit is very different from other enterprises. This process involves a thorough analysis of the number of employees fired and the number of employees rehired and their associated financial results. In the eyes of auditors, these cases are called audit frequency. So, taking into account the simultaneous operation of cotton clusters with several economic entities, the frequency of audits in this area is much greater. It should be noted that the audit frequency is a measure of the time and effort spent on checking the company by internal or external audits. Therefore, when conducting audits in cotton textile clusters, it is first necessary to correctly group the employees of the enterprise, that is, employees of the processing industry, farmers and service employees.

In conclusion, we can say that in order to be successful in competition not only in the domestic market, but also in foreign markets, it is necessary to ensure that the accounting reports are prepared in accordance with international standards while adapting to the sharp changes in the economy. It should be noted that in many countries the audit concept is developing and the direction of the audit approach is changing. In our country, the audit approach is carried out in parallel with global changes. Taking into account that the cotton textile cluster is a new economic entity in the agrarian sector of our republic, deep scientific research is required to develop the audit in this regard. Also, in order to ensure the correct management of accounting and financial reports and to reduce errors in the field, it is advisable to conduct an internal audit every quarter.

As in all industries, the introduction of digital technologies in cotton textile clusters will reduce the human factor in financial and accounting accounts and facilitate the processing of existing databases. It should not be forgotten that the development of information technologies, on the one hand, facilitates the processing of data, and on the other hand, while increasing the flow of data, it complicates their processing. At this time, the auditor focuses more on analytical audit methods than before. As an auditor, looking at digitization and automation process from a different perspective, this can be a great advantage for the auditor. At the same time, through the development of information technologies and digitization of the field, it is possible to establish remote audit inspections in the future. This allows to save time on the one hand and on the other hands it will reduce audit costs.

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