

ISSUES OF DEVELOPING ACCOUNTING AND AUDITING IN SMALL AND MEDIUM BUSINESSES**Muydinov Erkin Dzhamaldinovich**

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Abstract: The article considers the issues of the features of conducting audits in small and medium-sized businesses, which are gaining ground in the economy of the republic from year to year, in the context of the transition to international standards of financial reporting. In this regard, the methodology for conducting audits in small and medium-sized businesses using international standards of auditing developed specifically for this purpose is revealed. The article expresses the author's views on the impact of the digitalization of the economy on accounting and the provision of audit services.

Key words: small and medium-sized enterprises, large business, international standards of financial reporting, gross social product, outsourcing services, digitalization, international standards of auditing, audit risk, factors.

INTRODUCTION

In most countries of the world, small and medium-sized enterprises have a significant share in terms of the total number of operating enterprises and the creation of gross social product. In the USA, small enterprises make up 91.6% of the total number of enterprises, in France - 98.4%, and in Japan - 77%. 36.6% of the volume of industrial products in the USA, 38.8% in France, and 35.4% in Japan are accounted for by small enterprises [1]. Currently, the small and medium-sized enterprise (SME) sector accounts for more than 60% of China's gross domestic product, nearly 50% of tax revenues to the state budget, 62% of fixed capital investment (excluding farms), 90% of domestic trade turnover, 48% of exports, and more than 70% of innovative products, inventions, and technical innovations [2].

In particular, as of April 1, 2024, the number of enterprises and organizations operating in the republic (excluding dekhkan farms and farms) was 469.1 thousand units, of which 401.3 thousand units were small enterprises and microfirms [3]

In January-June 2024, the share of small entrepreneurship (business) in the main sectors of the economy was: in agriculture, forestry and fishery - 96.7 percent, in construction - 74.8 percent,

in services - 40.1 percent, and in industry - 21.9 percent [4]. In most countries, indicators such as the number of employees, trade turnover, and/or the balance sheet value of fixed assets are used to distinguish and systematize small and medium-sized businesses.

In the Republic of Uzbekistan, micro-firms include business entities established by individuals with a total income of up to 1 billion soums during 1 calendar year, and small enterprises include entities with a total income of from 1 billion soums to 10 billion soums during 1 calendar year, as well as enterprises established by legal entities. Business entities with an annual income of from 10 billion soums to 100 billion soums are classified as medium-sized enterprises [5].

RESEARCH METHODS

In the process of writing the article, the methods of analysis, synthesis and deduction, which are considered to be empirical research methods, were used.

RESEARCH RESULTS AND THEIR DISCUSSION

According to the Ministry of Economy and Finance of the Republic of Uzbekistan, by the end of 2024, national accounting standards adopted 25 years ago have been revised to bring them into line with the requirements of current legislation and international standards. Through unification and systematization, a total of 20 accounting documents have been developed in a new edition. 4 of them have been harmonized with IFRS.

- in the second stage, SMEs are recommended to switch to the application of IFRS for SMEs.

The draft National Financial Reporting Standards for 2022 were developed by the Ministry of Finance of the Republic of Uzbekistan for its application in the territory of the Republic. This IFRS contains the main requirements for the preparation of general purpose financial statements and certain principles, rules, procedures and considerations for the recognition, measurement, derecognition and presentation of financial statement elements and the disclosure of information about them.

The transition to the application of IFRS for SMEs over a certain period of time, with maximum adaptation to national standards, represents a gradual formation of sufficient quality financial information required by international standards.

Since a gradual transition to the application of IFRS developed for small and medium-sized businesses is planned in the Republic of Uzbekistan, in order to obtain the expected results from its introduction, we believe that it is necessary to take the following actions now, having studied international practice in this regard. It would be even better if these points were included in the

concept of the development of accounting and auditing in the Republic of Uzbekistan for 2025-2030.

In 22 countries of the world that have allowed the application of IFRS for SMEs, small and medium-sized businesses are given the right to choose in this regard. They can use the full version of IFRS or IFRS for SMEs or the national accounting standards of the country developed and put into practice for small and medium-sized businesses. In our opinion, small and medium-sized businesses operating in the Republic of Uzbekistan should be given such an opportunity.

In this case, certain tasks are set before state agencies in the field of developing the accounting system in small and medium-sized businesses. In particular, first of all, to develop a state strategy for the development of the accounting and reporting system for small and medium-sized businesses in our country, based on world practice. Secondly, to accelerate the creation of IFRS-based SAFs for small and medium-sized businesses. For this, it will be necessary to modify the legislative framework accordingly.

Since the standard does not specify a specific date for its implementation, countries can apply it from the moment the economic situation and legal framework are created in their country and the need arises. Therefore, since the government recognizes the future use of IFRS for SMEs as a state strategy, we believe that it is necessary to include the following sentence in Article 9 of the Law of the Republic of Uzbekistan “On Accounting” entitled “Regulation of Accounting and Reporting”:

- small and medium-sized business entities, specifying in their accounting policies, prepare financial statements based on the National Financial Reporting Standards (NFRS) or IFRS or a full interpretation of IFRS developed for small and medium-sized businesses.

Strictly align the structure of income and expenses of the SME Accounting Standards developed on the basis of the requirements of the IFRS for SMEs with the Tax Code of the Republic of Uzbekistan;

The IFRS for SMEs should be translated into Uzbek, in agreement with relevant international organizations, so that they can be studied not only by scholars engaged in the theory of international accounting and reporting in our country, but also by practitioners working in this field, researchers conducting scientific work, masters and students.

Include the study of IFRS for SMEs as a core or elective subject in the curricula of higher educational institutions preparing specialists in the areas of “Accounting”, “Audit” and “Taxes and Taxation”, “Economics” and “Management”.

To establish incentives for the work being done on the creation of textbooks, training and methodological manuals for teaching IFRS for SMEs in educational institutions and training centers through grants from state or international funds.

To accelerate the process of training professional accountants who understand and can apply this standard in practice. To this end, develop projects to partially cover the costs of training centers serving entrepreneurs in this direction through state and foreign grants.

It is advisable for the Ministry of Economy and Finance to announce a competition to encourage the development of software for the implementation of IFRS for SMEs in small and medium-sized businesses, especially in their newly emerging areas.

According to the Law of the Republic of Uzbekistan “On Auditing Activities”, small and medium-sized enterprises are subject to mandatory audit if, at the end of the reporting year, they meet two of the following conditions: the balance sheet value of their assets exceeds one hundred thousand times the base calculation amount, the revenue from the sale of products (works, services) exceeds two hundred thousand times the base calculation amount, and the average annual number of employees exceeds one hundred people[7]. If the activities of medium-sized enterprises do not meet the above requirements, they are not subject to mandatory audit.

Currently, in addition to conducting audits and providing related services to SMEs, national audit organizations recommend other services in attracting partners, entering foreign markets, participating in tenders, entering into economic relations with large companies, and depending on the needs of property owners.

In accordance with subparagraph “b” of paragraph 5 of the Resolution of the President of the Republic of Uzbekistan No. PP-3946 dated September 19, 2018 “On measures for the further development of auditing activities in the Republic of Uzbekistan”, from January 1, 2020, audit organizations began to carry out the activities of objects subject to audit by law only on the basis of international auditing standards approved by the International Federation of Accountants and posted on the official website of the authorized state body in the field of auditing.

In this regard, it should be noted that in the Republic of Uzbekistan there are no specially developed standards for auditing the activities of small and medium-sized enterprises.

Therefore, local audit organizations can also use world practice in this regard when it becomes necessary to audit the activities of micro and small enterprises.

In international practice, there is a Regulation on International Auditing Practice No. 1005 entitled “Features of Auditing Small Enterprises”, which can be used for this purpose.

It describes in detail the characteristics of small businesses and their impact on the application of international auditing standards.

International auditing standards contain a single-purpose approach to auditing both a one-person enterprise and a large corporation with thousands of employees. At the same time, the specific features of auditing small businesses can be found in separate sections of a number of international standards.

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In international practice, there is a Regulation on International Auditing Practice No. 1005, entitled “Peculiarities of Auditing Small Enterprises”, which can be used for this purpose.

It describes in detail the characteristics of small businesses and their impact on the application of international auditing standards.

International auditing standards provide a uniform approach to auditing both a one-person enterprise and a large corporation with thousands of employees. At the same time, the specific features of auditing small enterprises can be found in separate sections of a number of international standards.

The desire to introduce and use digital technologies in auditing activities, on the one hand, increases the efficiency and quality of work, saves time, and allows for regular or virtual audits, but on the other hand, it leads to the emergence of new factors that increase audit risk.

Studying numerous books and articles on audit risk issues and analyzing data obtained from many years of practical auditing allowed the researcher to group the factors that currently affect audit risk when auditing small and medium-sized businesses.

In our opinion, they are:

- Changes in legislation
- Transition to a digital economy

- Industry characteristics (internal, inherent risk)
- The emergence of completely new areas of business
- Development of the outsourcing services market
- Internal control system
- Owners of property
- The level of professional competence of the auditor

We will briefly describe each of the factors.

Changes in legislation

The legislative framework that forms the legal basis of auditing in our country is changing in accordance with the recommendations of the amended and (or) newly adopted normative and methodological documents regulating auditing practice on an international scale. This leads to a change in the scope of the concept of "audit", the recognition of new terms, the inclusion of previously non-existent types of services, the introduction of modern technologies in the process of auditing or providing related services, and the introduction of adjustments to the traditional approach to training auditors.

Transition to a digital economy

The strengthening of the policy of digitization of the economy requires the application of complex technologies and artificial intelligence to business processes. This requires specialists who aim to engage in auditing activities not only to understand the essence and principles of advanced information technologies, but also to know how to use them in the process of working with large databases and to be able to comparatively analyze their effectiveness.

In order to apply complex information technologies such as XBRL and block chain, which are currently used by large audit organizations in global audit practice, in our opinion.

1) it is first necessary to recognize these terms in audit legislation.

To do this, it is necessary to include the terms XBRL and block chain in the basic concepts of the Law "On Auditing Activities".

2) The Ministry of Economy and Finance of the Republic of Uzbekistan should create a favorable environment for scientists engaged in the theory and practice of auditing, in cooperation with experienced auditors, to develop methodological manuals on the application of the above-mentioned information technologies in local audit practice, based on world experience.

3) The curricula of auditor training, certification and advanced training courses should include the study of advanced information technologies widely used in the audit process in world practice.

Industry characteristics (internal, inherent risk)

The average statistical audit organization consists of 4-6 auditors. There are more than 50 traditional industries in the Republic of Uzbekistan, where small and medium-sized businesses can be provided with audit services. Each of them has its own characteristics and directly affects the planning and conduct of the audit process.

Limited financial capacity to increase the number of employees prevents audit organizations from specializing in a certain field. An audit organization can provide services to dozens of network enterprises in one season. This situation requires a high assessment of the inherent risk level in determining the overall audit risk.

The emergence of completely new areas of business.

In our country, completely new areas of small and medium-sized business, which are high-risk and require the use of complex technologies in their activities, have emerged and are growing at a significant pace. It is very likely that these new sectors, which are emerging and have a high tendency to clandestine activity, will sooner or later occupy a significant place in the country's economy, will be included by the government in the scope of services provided by audit organizations.

Therefore, it is advisable to take the following actions in this regard right now.

- Inclusion of the "Industry Technology" course in the auditors' training program, which aims to cover the specifics of the activities of newly emerging sectors in the economy;
- Development of measures aimed at encouraging the creation of a manual or research by the Chamber of Auditors of Uzbekistan with recommendations on the methodology of conducting audits in these new sectors and service areas, and organization of international conferences and seminars.

Development of the outsourcing services market.

The emergence of the possibility of providing services remotely through modern equipment and technologies is causing the outsourcing of accounting services to develop rapidly. The use of such services allows small and medium-sized businesses to save money in a number of areas, such as primary accounting, preparation of financial and tax reports, submission of them to relevant authorities, implementation of payroll transactions, and more, and to share the risks in this regard with the outsourcing company. However, the risk of auditing the client's financial statements prepared by the outsourcing organization is higher than the risk arising from auditing the reports prepared by the accounting department of the business entity. Because, in addition to the traditional work performed during the audit, the auditor will also need to additionally examine the following:

- How did the client choose the outsourcing company providing accounting services?
- What technologies does the outsourcer offer for remote service provision?
- What software does the outsourcer use to manage our client's accounting?
- What is the theoretical knowledge and practical experience of the outsourcing company's employee responsible for servicing our client, as well as their awareness of the specifics of its business processes?
- What are the components and prices of accounting services provided by the outsourcer?
- What are the rights and obligations of the parties in the contract for remote accounting services?
- How is the information about our client stored in the outsourcer, how was the issue of restricting the access of other persons to this information, and how to reserve it?
- What measures have been taken by the outsourcer to reduce the risk of external influence on the client's data?
- Who in the outsourcing company is tasked with providing practical support to the employee assigned to serve the client in case of problematic situations. Is this person truly recognized as an expert in the field?
- How are the terms of compensation for damage caused to the client as a result of poor quality service reflected in the contract, etc.

Each of these, both individually and collectively, has the potential to affect audit risk.

Internal control system in small and medium business enterprises

The main goal of introducing internal control in small and medium-sized businesses is to eliminate the practice of making sharp, scattered and conflicting management decisions. An important task of internal control is to ensure the systematic and appropriateness of management actions. The auditor examines the reliability and effectiveness of the internal control system in SMEs as comprehensively as possible to assess the “control risk” indicator, which directly affects the overall audit risk level. Because a properly organized and effectively functioning internal control system.

- ensures the accuracy and reliability of the information reflected in the financial statements by preventing errors and fraud;
- helps prevent the loss, theft, damage to and misuse of assets belonging to the enterprise.

At a time when the Government of the Republic of Uzbekistan, in order to support small and medium-sized enterprises, provides them with preferences and tax benefits, allocates financial

resources in the form of grants in national and foreign currency, and provides preferential loans, the issue of controlling their legal, targeted and effective use in places is gaining importance.

Because most SMEs, especially small businesses, do not have sufficient experience in correctly accounting for the receipt and expenditure of such large amounts of funds and in keeping complete reports. This situation raises doubts about the accuracy of the income, expenses and financial reporting indicators recognized by the client enterprise in the reporting year.

Property owners

According to Article 11 of the Law of the Republic of Uzbekistan "On Accounting", a business entity, including the head of an SME - in most cases the owner of the property, may independently maintain accounting records and determine the internal control procedure [8]. Property owners who have not read the article itself, or who have not paid sufficient attention to the extent of responsibility behind such a right, in most cases understand accounting records only as accounting for the movement of money in the cash register and accounts, and internal control as preventing theft or damage to the assets of property owners. Therefore, they try to do these tasks themselves or delegate them to their relatives, even if they do not have special knowledge and experience. The irregular and inconsistent maintenance of accounting records by a representative of the owner of the property, who does not have sufficient knowledge and experience in this area, may not reflect the true state of the company's activities. This increases the risk of distorting financial statements.

The level of professional competence of the auditor

Members of society, when they think of a modern auditor, imagine a specialist who has mastered a number of business disciplines, can communicate in the language of businessmen, has the authority to solve a wide range of tasks in any life situation, in addition to accounting and audit and analytical issues, and strictly adheres to ethical standards. Indeed, the more complete the auditor's theoretical knowledge, the higher the practical experience and ability to assess the situation, the lower the level of "detection risk", which is an integral part of audit risk, or vice versa.

CONCLUSION

In the current era of the digitalization of the economy, new industries and sectors are emerging in our republic, based on complex technologies in which small and medium-sized enterprises can operate and which can subsequently be included in the scope of audit. The use of new information technologies and artificial intelligence in auditing practice, which analyze large volumes of data, allows for a significant reduction in manual and time-consuming work. However,

at the same time, this situation leads to an increase in inherent and non-detection risks, which are an integral part of audit risk.

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