



**THE IMPORTANCE OF INTERNAL CONTROL IN IMPROVING THE EFFICIENCY OF CORPORATE GOVERNANCE**

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**Abstract.** The role of internal control is important in the introduction of modern corporate management principles in joint-stock companies. Timely and systematic implementation of internal control serves to effectively use resources, identify lost opportunities in time, and increase operational efficiency. This article reveals the importance of internal control and highlights its importance in improving the effectiveness of corporate governance.

**Key words:** joint-stock company, corporate management, control, internal control, control environment, control procedures.

**INTRODUCTION**

Assessment of the internal control system should be carried out both in the mandatory audit and in the initiative audit. Because the state of the internal control system directly affects the audit risk. Also, when assessing the internal control system, a certain limit of the level of importance is determined, and this limit affects the size of the overall audit plan and program, as well as the amount of procedures used in audit inspections.

The auditor should determine and evaluate the activity of the entity being audited, the internal control system, the risk of material misstatements of the financial statements as a result of fraudulent activities, and sufficiently check for the planning and implementation of further audit activities.

**LITERATURE REVIEW**

In the works of economic scientists, a lot of attention is paid to the evaluation of the internal control system in audits.

According to Ayneshet Agegneu Alemu “internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization’s business objectives will be achieved and undesired risk events will be prevented or detected and corrected based on either compliance or management initiated concerns” [1].

According to a group of economists, “internal control system may be one of the preventing way to decrease earnings quality. Strong internal control can increase dividend and the value of the company” [2].

Ironkwe Uwaoma, Promise A. Ordu said that, “the internal control system ensures the reliability of accounting information used in the decision-making process for management” [3].

Iranian economists said that, “internal control system is a dynamic system that cover a variety of risks and deviations from policies and procedures” [4].

As can be seen from the above-mentioned opinions, the essence of internal control and the purposes of their application are highlighted in the opinions of economists. However, insufficient attention has been paid to the methodological issues of internal control system evaluation.

**ANALYSIS AND RESULTS.**

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When evaluating the effectiveness of the internal control system, first of all, it is necessary to pay attention to the level of importance. Because the level of importance is considered one of the main indicators of the audit and affects all processes of audits. If the effectiveness of the internal control system is assessed as low, the level of importance can be set high. Conversely, if the effectiveness of the internal control system is determined to be high, the level of importance may be determined to be low.

Whether a materiality level is low or high affects the type of audit report and the auditor's level of responsibility. The lower the significance level, the more evidence is gathered and the more reliable the auditor's opinion can be, and an unmodified opinion can be expressed. Conversely, the higher the significance level, the less evidence can be gathered and one of the modified opinions can be selected.

When assessing the internal control system of economic entities, it is necessary to check not only the integrity of assets or the rational use of material and labor resources, but also the extent to which the rules and requirements established in the accounting policy are being followed. In particular, it is necessary to evaluate the cases of inventory valuation according to the method specified in the accounting policy, depreciation of fixed assets based on legal requirements, product cost being determined correctly, and inventory being carried out on time and in full.

An assessment of the internal control system should also consider management's assumption of related party transactions and business continuity. In this process, it is necessary to evaluate the differences between the assumption made by the management and the assumption formed by the auditor.

If the internal control system works effectively in economic entities, it is possible to achieve the indicators set in the business plan. Analytical operations are required by the auditor to assess the indicators in the business plan. There are many methods that can be used by the auditor in audits, but analytical procedures are the most used method in practice. Through this method, it is possible to determine the factors affecting financial and economic indicators and their level of influence. Based on the application of analytical procedures, the auditor has the opportunity to more accurately assess the effectiveness of the internal control system.

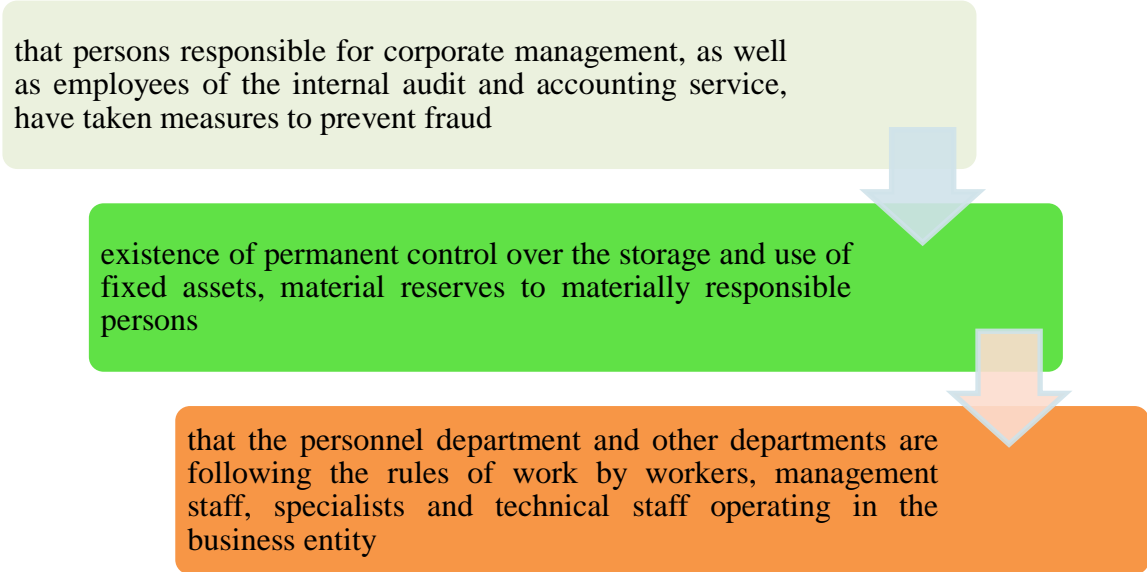
In order to reduce the risk during audits, it is necessary to plan the audit in detail, to check all objects as carefully as possible. Coverage of all objects in audits leads to the detection of fraud and errors and reduces audit risk.

Many methods and tools can be used to assess the effectiveness of the internal control system during audits. However, the most commonly used method in practice is to send a request. This method is applied to the management of the audited business entity, persons responsible for corporate management and materially responsible persons. The auditor may ask these persons questions regarding the following issues (Figure 1).

In international audit standards, the control environment is the first and most important element of the internal control system. The control environment must exist in the economic entity not only in terms of the state of accounting work, but also in terms of the entire activity. The existence of a healthy and fair control environment depends, first of all, on the integrity, honesty and objectivity of the head of the economic entity.

Control procedures are also important in evaluating the internal control system. If the economic subject has been continuously controlled over the operations carried out during the

reporting period, as well as over the assets at the disposal of this subject, the level of application of control procedures can be taken as a positive situation.



**Figure 1. Questions for persons responsible for corporate governance<sup>1</sup>**

Risk management is the next, but difficult to assess, element of the internal control system. Risk assessment is important in audits. Because various changes in the economic situation not only at the national level, but also at the global level, can negatively affect the activities of economic entities and lead to an increase in business risks.

Business risks may increase if the scope of activities of economic entities expands from the territory of one country and their integration at the international level increases. Because the excessive expansion of the scope of activity can lead to a decrease in control over the activity due to the increase of subordinate and subsidiary enterprises.

The final element of the internal control system is monitoring, which requires that the use of control procedures be continuously monitored by those responsible for internal control. Monitoring of controls is carried out through regular inspections or special inspections.

## CONCLUSION

Internal control plays an important role in managing the activities of any business entity. If the internal control system works effectively, it will be easier for business entities to achieve their goals. Therefore, it is necessary to pay special attention to the internal control system in the process of managing the company's activities, to perform control procedures in a timely manner.

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