IMPROVING THE MECHANISMS FOR DEVELOPING AND IMPLEMENTING INTERNAL STANDARDS IN AUDIT FIRMS

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Annotatsiya. *Maqolada auditorlik firmalarida ichki standartlarni ishlab chiqish va amaliyotga joriy etishning riskka yo'naltirilgan mexanizmi taklif etilgan. Normativ-huquqiy hujjatlar, Auditning xalqaro standartlari hamda sifat menejmenti standartlari qiyosiy va tizimli tahlil qilindi. Natijada ichki standartlarni diagnostika, risklarni baholash, loyihalash, aprobatsiya, joriy etish va monitoring bosqichlarida shakllantirish modeli ishlab chiqildi. Taklif etilgan mexanizm auditorlik topshiriqlarini bir xil tartibda bajarish, hujjatlashtirish sifatini oshirish va aniqlangan kamchiliklarni muntazam bartaraf etishga xizmat qiladi.*
Kalit so'zlar: *auditorlik firmasi, ichki standart, audit sifati, sifat menejmenti, audit riski, monitoring, ishchi hujjatlar.*
Abstract. *The article proposes a risk-based mechanism for developing and implementing internal standards in audit firms. Regulatory documents, International Standards on Auditing and quality management standards were examined using comparative and systems analysis. A six-stage model covering diagnosis, risk assessment, design, pilot testing, implementation and monitoring was developed. The proposed mechanism is intended to standardize audit engagements, improve documentation quality and ensure the continuous remediation of identified deficiencies.*
Keywords: *audit firm, internal standard, audit quality, quality management, audit risk, monitoring, working papers.*

INTRODUCTION

The reliability of an auditor's opinion depends not only on professional judgement but also on whether each engagement is planned, performed, documented and reviewed through consistent procedures. The expansion of audit services, the growing complexity of clients' information systems and the risk-based nature of modern auditing make internal standards an essential component of an audit firm's quality management system. Such standards translate general professional requirements into practical algorithms, responsibilities, templates and control points applicable to the firm's engagements [1].

In Uzbekistan, auditing is regulated by the Law "On Auditing Activity", while the procedure for recognizing International Standards on Auditing (ISAs) for application in the country is established by the relevant government resolution [2]. Therefore, the methodological foundation of a firm's internal documents should be described as the ISAs recognized for use in Uzbekistan, rather than as an undefined set of separate national audit standards. Internal standards should also reflect the requirements of International Standard on Quality Management (ISQM) 1, which requires a proactive, risk-based and firm-specific quality management system [3].

Practice shows that the mere existence of internal regulations does not guarantee audit quality. Problems arise when documents copy general standards without adapting them to the firm's size and

client portfolio, when working-paper forms are not unified, when staff are insufficiently trained, or when monitoring results do not lead to timely revisions. The research problem is therefore to identify a mechanism that connects regulatory requirements, quality risks, practical audit procedures and continuous monitoring within a single cycle.

The purpose of the study is to develop scientific and practical proposals for improving the mechanism for preparing, implementing and regularly updating internal standards in audit firms. The scientific novelty lies in the proposed six-stage mechanism and in linking every internal standard to four mandatory elements: a quality objective, an identified quality risk, a documented response and a measurable monitoring indicator.

MATERIALS AND METHODS

The study is theoretical and applied in nature. Its information base consists of the legislation of the Republic of Uzbekistan governing auditing activity, ISAs, ISQM 1, ISQM 2 and recent professional literature on audit quality management [1–10]. The methods of comparative analysis, systems analysis, content analysis of regulatory documents, logical generalization and process modelling were used. Comparative analysis identified the relationship between international requirements and firm-level procedures; systems analysis was used to combine policies, working papers, responsibilities and monitoring into one mechanism; process modelling determined the sequence of implementation stages.

The analysis was conducted according to three criteria: compliance with professional standards, applicability to the specific conditions of an audit firm and verifiability through documented evidence. This approach avoids presenting internal standards as formal documents and makes it possible to assess whether they actually influence the performance and review of audit engagements.

RESULTS AND DISCUSSION

The analysis confirms that internal standards should not repeat the text of ISAs. Their function is to operationalize professional requirements. For example, a general requirement to identify and assess risks should be transformed into a firm-approved risk questionnaire, rules for documenting significant risks, a procedure for determining materiality, review responsibilities and evidence of approval. Similarly, requirements relating to audit evidence should be supported by standard working-paper forms, minimum documentation rules and review checklists. This interpretation is consistent with the view that engagement-level factors and firm-level policies jointly affect audit quality [4, 5].

Based on the results, a six-stage mechanism is proposed. Its distinctive feature is the continuous feedback loop: deficiencies identified during monitoring become inputs for the next diagnostic and revision cycle. The mechanism is presented in Table 1.

Table 1.

Risk-based mechanism for developing and implementing internal standards

Stage	Main action	Documented output	Responsible party
1. Diagnosis	Review requirements and current practice	Gap register and process map	Quality manager

2. Risk assessment	Identify and prioritize quality risks	Risk-response matrix	Management team
3. Design	Draft policies, procedures and templates	Internal standard package	Methodology group
4. Pilot testing	Test documents on selected engagements	Pilot report and revisions	Engagement partners
5. Implementation	Approve, train staff and introduce controls	Order, training record, templates	Firm director
6. Monitoring	Inspect application and remediate deficiencies	Monitoring report and action plan	Independent reviewer

At the diagnostic stage, the firm compares existing procedures with applicable standards and identifies duplication, omissions and undocumented practices. During risk assessment, each quality objective is linked to circumstances that may prevent its achievement. The response must be proportionate to the risk: a high-risk area requires more detailed procedures, mandatory review and stronger evidence. This reflects ISQM 1, which does not prescribe a ready-made model but requires each firm to design a system suitable for its nature and circumstances [3, 6].

The design stage should produce a coordinated package rather than isolated instructions. At minimum, the package should cover client acceptance and continuance, ethical requirements and independence, engagement planning, risk assessment, materiality, audit evidence, documentation, consultation, engagement quality review, reporting and monitoring. Each standard should state its purpose, scope, responsible persons, procedure, required working papers, control point and revision date. ISQM 2 should be considered where an engagement quality review is required [7].

Pilot testing is important because a formally correct procedure may be impractical, duplicate another control or require information that is unavailable in a real engagement. Testing on selected engagements makes it possible to evaluate the time required, clarity of responsibilities and sufficiency of working papers before firm-wide approval. Implementation should then combine a management order, staff training, access to current templates and confirmation that obsolete versions have been withdrawn.

Monitoring should assess effectiveness rather than only the existence of documents. Recommended indicators include the share of engagements with complete planning documentation, the number of review findings per engagement, the rate of repeated deficiencies, timely completion of consultations and the percentage of corrective actions implemented by the deadline. These indicators allow management to determine whether an internal standard changes practice and reduces quality risks. The sequence “quality objective—quality risk—response—indicator” also establishes traceability between regulation and practical evidence [8, 9].

For practical implementation, audit firms in Uzbekistan should introduce a digital register of internal standards showing the owner, effective date, version and next review date; use unified electronic working-paper templates; organize annual and change-driven staff training; and document

the root cause of recurring deficiencies. These proposals are applicable to firms of different sizes because the scope and complexity of responses can be scaled to the nature of their engagements. Smaller firms may combine responsibilities, but the monitoring function should remain sufficiently objective.

CONCLUSION

Internal standards are effective only when they transform professional requirements into firm-specific procedures, responsibilities and verifiable documents. The study developed a six-stage mechanism consisting of diagnosis, risk assessment, design, pilot testing, implementation and monitoring. Its scientific and practical significance is the integration of each quality objective with a corresponding quality risk, response measure and monitoring indicator.

It is recommended that audit firms:

maintain a controlled digital register of standards and versions;

create unified working-paper templates for the principal audit processes;

pilot-test new procedures before full implementation;

train staff whenever standards or identified risks change; and revise internal standards on the basis of root-cause analysis and monitoring results. Application of these measures can reduce formalism, increase consistency in audit engagements and strengthen the reliability of audit conclusions.

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