

## Ways to Improve Internal Audit in The Process of Transforming Food Industry Enterprises

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### Abstract

This article describes the scientific-theoretical and methodological basis of transformation of food industry enterprises and the application of internal audit, alternative options for implementation of transformation processes in enterprises are presented, the methodology of applying the "three lines of defense" model in the process of transformation is explained, and food- suggestions on improving the quality of internal audit in food industry enterprises are given.

**Keywords:** food industry, transformation, transformation of food industry enterprises, audit, internal audit, audit quality, audit organizations, internal audit function, principles of internal audit, ways to improve the quality of internal audit, "three lines of defense" model, in enterprises measures to improve the quality of internal audit.

### INTRODUCTION

In the world, special attention is paid to the requirements of ecological and innovative development in the transformation of food production enterprises and improvement of their activities. "60 percent of the economically active population is characterized by the processing of agricultural products in countries with a transition economy, and employment in production through the opportunity to use a new combination of knowledge in developed countries. This has a great impact on the growth of labor productivity and production, transformation processes and the growth of workers' incomes" [1]. From this point of view, the problems of increasing production efficiency on the basis of transformation of the food industry related to complex supply chains are considered as an objective necessity.

Reforms are being consistently implemented in Uzbekistan for the effective development of the food industry, the production and expansion of the range of quality competitive products with high added value, and the full satisfaction of the population's demand for quality food products. In the development strategy of New Uzbekistan for the period of 2022-2026, the goal of "increasing the production volume of industrial products by 1.4 times by continuing the industrial policy aimed at ensuring the stability of the national economy in our country and increasing the share of industry in the gross domestic product" [2] was defined. In this regard, transformation of the food industry, improvement of internal audit in this process, enterprises according to the market mechanism **management and reform** In the implementation of the



strategy , **including** the effective use of state stock packages, expanding the scope of scientific research is an urgent issue today.

## 2.Literature Review

To date, many scientific views on the transformation of the food industry, including the introduction of an internal audit system, have been expressed.

The dictionary meaning of the word transformation, in Latin Transformatio - means change, reorganization , (1) reorganization of content, forms and methods, changing the target direction of activity; (2) one of the methods of substitution means the reorganization of norms of international law into norms of domestic state law [3].

"transformation " was born due to the need to evaluate the qualitative characteristics of fundamental changes in the economic system, which is irreversible and represents the state of transition to new qualitative stages on the way to the formation of the future model. In this case, the leaps characteristic of the revolutionary process occur. It does not always have the same appearance, but often this process implies the occurrence of radical reforms or revolutionary changes, which should be considered not only as a turning process, but also as a stoppage of gradual evolutionary development processes that correspond to the concept of transition.

In the economic literature, transformation has been considered in different interpretations. If we pay attention to the tariff, "transformation is the reshaping of the structure, forms and methods of economic activity, changing its goal directions"[4], so here transformation means the implementation of revolutionary qualitative changes in the evolutionary system. Translated from Latin, the term "transformation" means reshaping, changing.

Transformation is an action characterized by certain changes in certain parameters of the economic system, including the direction, form, intensity, duration and other characteristics of the change process. This form of movement is a certain qualitative aspect of the movement of the system in a certain time and economic space.

Scientists have studied the category "Transformation" in different interpretations. For example, the school of neoinstitutionalism scientists interpret the " transformation " category from the point of view of economic processes . Some of them understand the category of " transformation " as a fundamental change of the economic system as a result of changes in the structure and order of the system , while others consider it as " replacing the individual signs that make up the order with others . " In it , the old order (its separate sphere ) is replaced by a new one " [5] .

Therefore, E. Toffler, who used the concept of "global transformation of society" [6]. opinion is addressed. He approaches the assessment of the change of society from a global point of view, understands the important qualitative changes in the development of society through transformation, each of which is not a continuation of the previous direction of the development of society, but also recognizes that it can radically change, even deny its previous state. This type of movement is characteristic of economic systems. Therefore, the transformation process is also described in terms of the depth of the process of qualitatively changing the systems.



According to the recognition of E. Toffler, "This is the process of replacing the structural features of one economic order with similar features of another order, as a result of which the entire economic system changes radically. Changes in the economic order in some states and countries can occur for various reasons: they can be the result of successive evolutionary processes (endogenous transformation) or conscious actions of people (exogenous transformation)" [6].

In the process of transformation of enterprises, full transition to the principles of market relations in the field in which they operate, development of measures to create a competitive environment and attract the private sector, modernize the market and trade complexes, maintain them at the level of sanitary and hygienic requirements, form the necessary infrastructure for market activity it is one of the important tasks that need to be solved today [7].

Currently, in the process of transformation of industrial enterprises, a lot of attention is paid to the improvement of internal audit. According to the new definition of internal audit, it focuses on corporate governance in enterprises, in particular, its bodies, the supervisory board and executive directors. This definition reflects the internal audit function in a broader sense.

While the legal basis of internal audit is improving and changing in our republic, based on the principles and tasks of internal audit in international practice, recognizing it as an important element of corporate management, a number of suggestions are made .

For example, O.O. Barakaev made a number of scientific proposals and practical recommendations on internal audit to the draft Law of the Republic of Uzbekistan "On State Internal Control and Internal Audit". Including:

Internal audit is an unbiased and advisory (recommendation) activity that serves to achieve its goals through a systematic approach to risk management, internal control and evaluation of the effectiveness of their management aimed at increasing the efficiency of the enterprises.

The internal audit report is a document that consists of detailed information on the progress of the internal audit assignment, deviations from the established order of the budget plan, violations in financial statements, as well as other information obtained as a result of the internal audit assignment, and is sent to the head of the enterprise and the internal audit facility [8].

According to foreign scholars, in connection with the audit, the requirements of the concept of quality are considered in accordance with the requirements of the regulations (audit standards, rules of professional ethics of auditors). This approach gives rise to the consideration of formal features" [9].

A.V. Feigenbaum's statements on the definition of quality are given. Quality should be defined in terms of customer satisfaction. Quality is determined by the customer, not the engineer, marketer or manager. It is based on the actual evaluation of the product or service by the consumer in relation to his requirements [10].

Professor A.Z. Avlokulov said that after the legal basis of the audit is created and the organizational basis of the audit activity is fully formed, the main attention should be focused on improving its quality indicators. Quality indicators of audit services serve to increase the effectiveness of the audit [11].



Russian scientist V. T. Chaya, focusing on this issue, emphasizes the following: one of the important problems in the development of audit activity is the issue of ensuring the quality of audit work, especially the conceptual basis of quality control is not fully developed [12].

A.M. Ribakova came to the conclusion that to ensure the informational and economic security of the business, audits should be carried out qualitatively [13].

### 3. Research Methodology

Food industry enterprises according to market mechanisms in the implementation of **management and reform strategy , including** We will consider the directions for the organization of the internal audit service and the application of the "three lines of defense" approach when placing the share of state stock packages under trust management .

Ensuring the effectiveness of any enterprise's activities is carried out through reliable and effective internal control and risk management systems. The responsibility for the continuous operation of these systems is assigned to the management of the enterprise, and the management of the enterprise tries to introduce a comprehensive system of risk management and internal control, taking into account the specific characteristics of the industry.

The continuous and stable development of Uzbekistan, whose economy is growing rapidly, directly depends on the effective functioning of these elements. These goals will be achieved through the creation of a modern corporate management model in the economy and the improvement of its main body and element, in particular, internal audit, due to the changing corporate management models .

The provisions of the Cadbury Code (Cadbury Report), published in 1992, were developed to improve internal mechanisms based on the assumption of interrelationships between corporate governance, internal control, auditing and the quality of financial reporting .

In order to focus on the issues of effective risk management, the " three lines of defense" model for internal audit was developed .

The "Three Lines of Defense " model was adopted in 2013 by the International Institute of Internal Auditors ( The IIA ) developed by. This model coordinates the risk management and internal control processes by clearly defining and separating the relevant tasks and responsibilities. The "three lines of defense" model is represented in Figure 1.

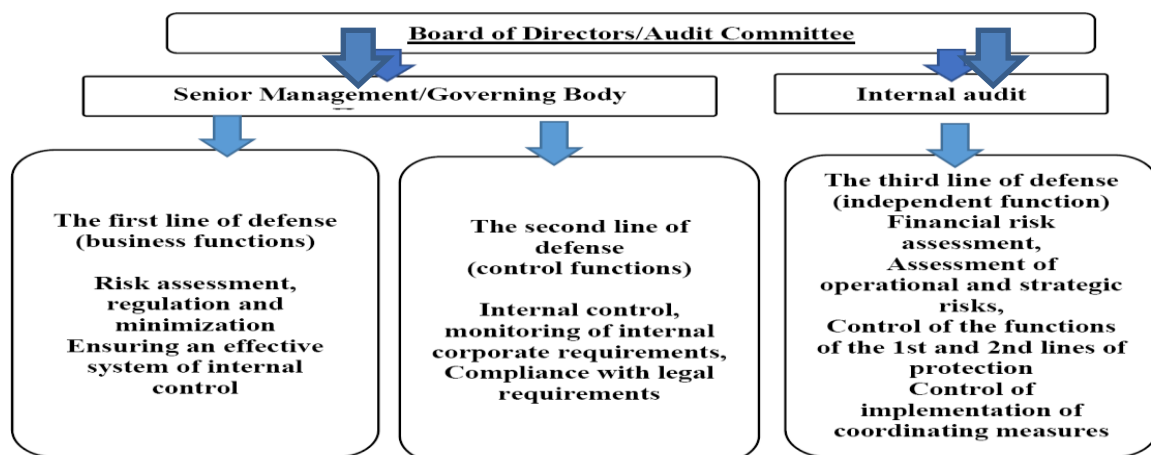


Figure 1. It is a protective line model [14]

The first line of defense. The first line of defense is the structural divisions of the enterprise, which are responsible for the introduction of risk management elements in the decision-making process and the implementation of important business operations. These structural units are risk owners and are responsible for risk identification, management, mitigation, analysis and reporting of key risks. It is necessary for the heads of these structural units to develop, implement and ensure the operation of control procedures for the units under their control.

The second line of defense. Departments responsible for risk management in the enterprise develop and implement methodological approaches in this area, define standards and coordinate the enterprise's risk management activities, including relevant processes, technologies and culture. The competence of these departments does not include the responsibility for timely identification and assessment of risks, as this is carried out by the first line of defense departments. The second line of defense usually includes departments responsible for risk management, internal control system, security, compliance, legal support, etc. They provide continuous monitoring of the development and implementation of control procedures related to the first line of defense, advise on risk management issues and train company employees on this. The differences between the first and second lines of defense are presented in Figure 2.

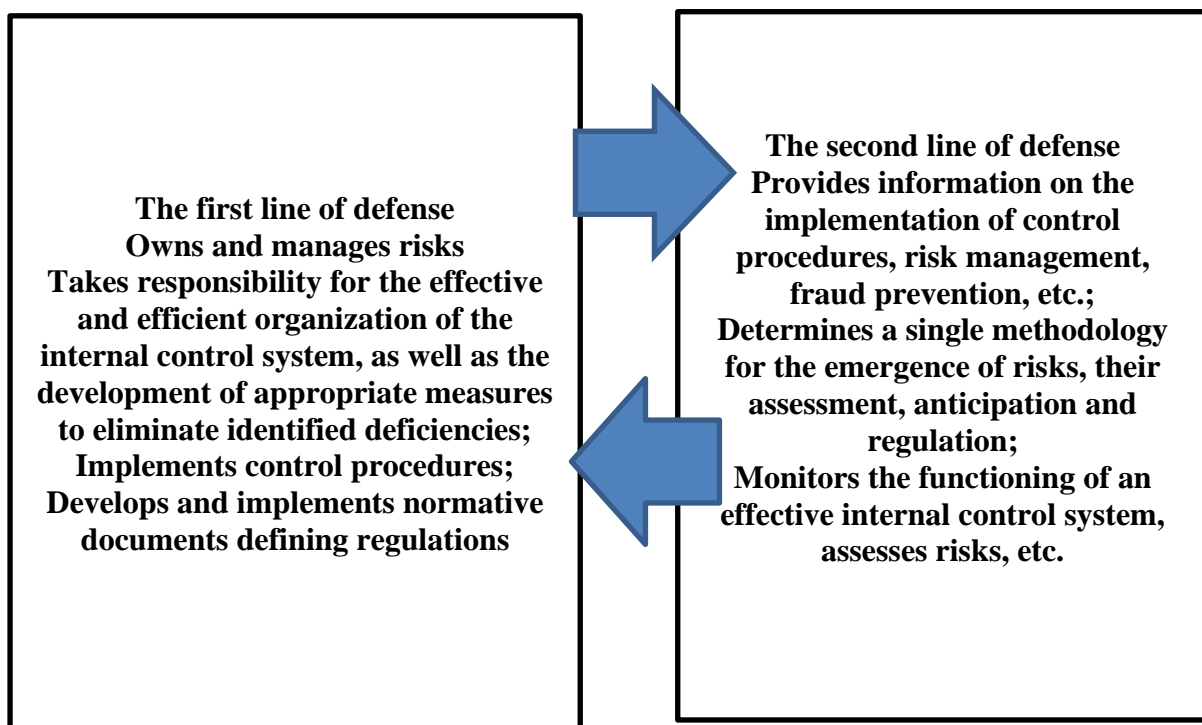


Figure 3. Differences between the first and second lines of defense [14]

The third line of defense. The board of directors evaluates and approves the level of risks of the enterprise, taking into account the strategic goals and tasks in the field of risk management. Audit, risk management and other committees help the board of directors monitor the effectiveness of the organization's risk management system.



#### **4. Analysis and Results**

The internal audit service carries out an independent assessment of the quality of existing risk management processes, identifies cases of rule violations and makes suggestions for improving the risk management system. The Board of Directors will adopt these considerations as a guide for their actions. Under the supervision of the audit committee, the internal audit service monitors the functions of the first and second lines of defense, as well as the implementation of appropriate measures to improve the risk management system.

It will be necessary to clearly define the roles and responsibilities of the persons participating in risk management and internal control processes, to ensure effective cooperation and information exchange between them, as well as to prepare relevant reports. In its activities, internal audit can use the results of the work of other subjects of the internal control system, which monitor and evaluate the internal control system in certain areas of activity.

In order to clearly distinguish the areas of responsibility of the enterprise, a protection map is drawn up. The protection map is a document that reflects the coverage of risks and business processes in the enterprise by control functions, and it also allows for more effective coordination of the work of structural units that perform different control functions.

A protection map may include the following information:

- a list of enterprise risks ;
- a list of business processes in the enterprise ;
- risk owners ( employees responsible for organizational risk management ) ;
- subjects of the internal control system that carry out monitoring/assessment for each risk.

The internal documents of the enterprise are used in the development of the protection map, in particular: the risk and process classification, the risk map and other documents defining the mutual cooperation of the subjects of the internal control system in the fields of activity are used.

#### **5. Conclusions and suggestions**

The objective need to improve the quality of audit activity in Uzbekistan is explained not only by the fact that it has a practical direction, but also from a theoretical point of view. In addition to the development of theoretical, methodological and organizational rules for improving the quality of audit work , it is necessary to develop practical recommendations and conclusions, and to reform audit activities in the Republic of Uzbekistan.

In our opinion, the following measures should be implemented to improve the quality of internal audit:

- extensive use of advanced international experiences in this regard in the organization of the internal audit service;
- development of a model of three lines of defense for internal audit in order to focus on the issues of effective risk management in enterprises;
- to establish that the internal audit reports to the superior body of the enterprise so that it can perform its duties independently and qualitatively;
- further improvement of internal mechanisms based on effective organization of interactions between internal control, internal audit and the quality of financial reporting, etc.



Based on the above, it can be said that food industry enterprises **activities management and reform** according to market mechanisms the implementation of the strategy , **including** the transfer of the share of state stock packages to trust management, the establishment of an internal audit service, and the effective implementation of measures based on the "three lines of defense" approach will ensure the successful implementation of transformation processes in the enterprise.

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