



**The Ministry of Education of
Azerbaijan Republic**

**How important is audit for large scale
businesses?**

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Acknowledgements

It is not easy to express my feelings because completing my thesis is almost the last step to be graduated as "SABAH Alumni". I would like to thank to all of my tutors who did their best to support and give knowledge about accounting and finance environment. I am aware of that experience which I've got from my dean, tutors and lecturers will give me a great chance to build up my career. I am also grateful to all members of Economic University, "SABAH" faculty, mostly Prof. Adalet Muradov, PhD. Aida Guliyeva as well as my supervisor Aynur Jabbarova for their support and motivation.

And also I am grateful to my precious family and friends who supported me with all the difficulties during my life and support me in every aspect of my life.

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Introduction

1.1. Research background and motivation

In modern life, almost everyone is aware of that accounting has become one and the most crucial parts of every the business. In the organizational structure of businesses, accounting has an important role. We can not imagine any businesses without financial statements or transactions. The aim of each business is to make a profit and minimize its expenses and costs. It is similar to the main function of the economy; proving demands by using fewer resources. In other words, making an optimal decision. But controlling and reviewing accounts and statements have influences making principal decisions in the businesses before representing publicly.

An audit provides unintentional opinions and assessments of firms' records through financial statements, processes, and procedures. Pithy parties, such as shareholders, possible future investors, and creditors, who could be interested in investing in a company, review its audit reports. These reports help them to decide approach ways to the company. So it is acceptable to say that auditing is as essential as accounting has been being in any type of businesses.

1.2. Aim of the research and research questions

The aim of this research is to make clear importance of the audit and audit procedures in any size of the businesses, especially large size ones. It is essential to clarify all financial statements of the organization are fair representation of all financial information related to the organization under IFRS, US GAAP, or national rules of governments. To evaluate and check all financial transactions should be done by an independent person with transparency and intently.

Following questions will be answered while continuous research:

- What is audit for and how essential is it for companies?

- How can we differentiate or combine International and National Audit Standards?
- Do the large scale businesses need to be audited by internally either?

1.3. Research methodology

Whenever someone starts her way to achieve the goal of herself, she needs a plan as a compass which shows a start point. Almost in every part of the life you need that compass to direct you to your aim. Similarly, each dissertation has its own methodology which includes research methods, research approaches and also its strategy.

As mentioned previous section, the core part of this research for the dissertation is significance of auditing in the organizations. The research approach is done by mostly theoretical perspectives due to limitations of resources.

Audit standards, big audit companies reports are the main sources of practical cases in the research.

1.4. Research structure

This dissertation is planned as below;

First of all, it is starting with some basic information about what an audit is and its types. Then entrance to audit standards and understanding distinctions and similarities between International and National Auditing standards. After that, it is extending audit types and their importance in the firms. At the last paragraph, some practical cases are presented.

Basis of Audit

2.1. Audit and its types

The audit is an independent verification of accounting records and accounting and financial statements of economic entities engaged in the production and sale of goods, services, and business. An audit involves an independent audit of annual financial statements prepared by economic entities in accordance with the applicable law in order to determine the correct, comprehensive and accurate reflection of assets, liabilities, special purpose and financial results. The basis of the audit is the mutual interest of the state, enterprise and its owners (depositors, stockholders).

An audit involves an independent audit of the annual financial statements prepared by economic entities in accordance with the applicable law in order to determine the correct, comprehensive and accurate reflection of assets, liabilities, special purpose and financial results. The basis of the audit is the mutual interest of the state, the economic entity and its owners.

Each direction is divided into different forms and types depending on the size of the object it covers, the characteristics of the subject being applied, the duration of its implementation, the nature of the operations and the organizational features. Audit activity can be divided into internal and external (or independent) audit types, characteristics of the transactions being audited, and operational audit, financial statement auditing, and management audit for the scope of expertise of the business operations covered by the individual and collective forms, specifications.

In common, an audit is an examination of an existing entity, report, or system. There are a number of types of audits that can be managed, including the followings:

- Construction audit. It is an analysis of the costs appeared for a specific construction project. Activities could include an analysis of the prices paid, change orders, overhead costs allowed for reimbursement, contracts granted

to contractors, and the timeliness of completion. The attend is to be sure that the costs incurred for a project were reasonable for the entity.

- Compliance audit. This is an examination of the processes and policies of an organization or department, to notice if it is in compliance with regulatory or internal standards. This audit is most usually used in educational institutions regulated industries.
- Financial audit. This is an analysis of the transparency and fairness of the information contained within an entity's financial statements. This is the most generally used kind of the audit.
- Investigative audit. This is an investigation of a particular area or individual when there is a distrust of inappropriate or fraudulent operation. The intent is to reclaim and option control fissures, as well as to assemble evidence in case charges are to be brought against somebody.
- Tax audit. This is an analysis of the tax returns submitted by a business entity or an individual, to observe if the tax information and any resulting income tax payment are trustworthy. Those audits are usually marked at returns that outcomes in excessively low tax payments, to see if an additional assessment can be made.
- Operational audit. It is an exhaustive analysis of the planning processes, procedures, goals, and results of the operations of a business activity.

It is known that the word "audit" does not refer to a separate concept. Its essence and content can only be established in a close relationship with management, especially in the process of managing the economy. According to the existing tradition, the management function is determined by two aspects of the management system - the object and the subject. The object of management is to understand the level of scientific and technological readiness of the production, the main production facilities, product quality, labor and salary, personnel, financial and credit and other areas. The management entity is based on the identification of some types of

management activities, each of which has its own functional role in the management process. The classification of the management function can result in different content or names as a result of grouping of separate works by different options. But in all cases, control is considered one of the elements of control. Because planning, accounting, analysis, and organizing are both general and separate.

2.2. Financial audit and its essence

An audit is the detailed inspection and evaluation of the financial records of an entity by somebody independent of the entity to determine if they are accurate and in a manner conforming to any appropriate rules (including accounting standards), regulations, and government rules. The financial records include an income statement, a cash flow statement, a statement of changes in equity, a balance sheet, and notes comprising a summary of significant accounting policies and other explanatory notes. That may be done internally by employees of the corporations, or externally by an outside audit firms.

The external auditors get in from outside the entity to investigate thoroughly accounting and financial reports and provide an independent opinion on these reports. Law is in need of that all limited liability companies have their financial statements externally audited by the external auditors.

The internal auditors labor for the organization as internal employees to examine records and help to develop internal procedures such as internal controls; internal controls risk management, internal controls, governance.

Then why we do need an auditor's report? Preserving an effective methodology of internal controls is important for attaining an organization's business objectives, acquire authentic financial reporting on its operations, put a stop to fraud and misappropriation of an entity's assets, and reducing its cost of capital.

An audit is vital for every type of business although it is small or large, any kind of industry that is in. Because a main purpose of any organizations is to gain a profit, maximize its revenues, minimize its expenses and costs.

2.3. Purposes and objectives of an audit

The main purpose of the auditor's activity is to determine whether the accuracy of accounting (financial) reports of economic entities and their compliance with the normative acts of financial and economic operations they carry.

Hence, the appointment of an audit involves checking the financial statements for the following purposes:

- Determination of the accuracy or incorrectness of the reports;
- Checking the full, accurate and accurate representation of the financial performance of the expenditure, income and activities in the accounting and reporting period;
- Monitoring compliance with legislation and regulations governing the accounting and reporting procedures, compliance with asset liability estimates and the methodology for assessing equity capital;
- Explaining the best use of basic and special current assets, financial resources and debt sources.

The main purpose of the audit may be to include the obligations under the contract with the customer - to expose the possibilities for better use of the financial resources, to analyze the correct calculation of taxes, to improve the financial standing of the entity, and to prepare measures to optimize the costs, revenues and expenses of the enterprise.

Audit, which is considered to be one of the most important elements of economic governance, is more recent in the market economy relations. Every businessman is in constant contact with the business. In the market economy, accurate records of

economic operations and a strict control system are required. Thus, every attempt to abandon the general control applied in an administrative manner, the head of the household is looking for ways to effectively utilize the integrated management controls independently in the conditions of free-standing conditions. It is important to study the accounting and reporting data and to use the balance sheet figures. In such circumstances it is important to refer to the audit service. Gradually transferring the central management function to the low and middle management body requires a flexible approach to effectively organizing production, to mobilize resources, to mobilize resources, and to apply the latest advances in scientific and technological progress.

Audit activity is governed by legislative and statutory acts, internal statutes, guidelines, methodological aids and other normative documents. Although the audit is considered a new service area for our country, it is a diversified, rich source of activity. To carry out this activity, the auditor should plan its work, develop a comprehensive program, has a regulation, a specific mechanism of action, and a methodology. Otherwise it will not be possible to compete, and the company may become bankrupt. Apparently, market relations require a thorough approach to each economic process and to determine the optimality of the negative and positive factors affecting these processes. In this situation, the knowledge and skills of the managers are not sufficient. There is a great need for assistance in solving such important issues.

Followings are objectives of an audit:

- Accountability

The primary importance for carrying the audit of financial statements frames from the fact that the individuals responsible for the preparation of financial statements are frequently various from the owners of overwhelming organizations.

Nevertheless in small sized managed companies, the owners have direct knowledge of the jobs of their business, management and ownership is naturally separate in the case of large entities that often have thousands of stakeholders. In big-sized companies, shareholders set directors to lead the company instead of them. That departure of ownership and controlling generates the need for external auditing.

Financial statements are the essential beginning of accountability of management fulfillment by the stakeholders. Whereas, as the management is responsible for the preparedness of financial statements, stakeholders have to trust in external inspection by auditors in order to get reliable assurance that the accounts are free from material misstatements and can therefore be relied upon to be representing true and transparent view of the operations of the entity.

- Reliability

Except the needs of shareholders, other users of financial reports may need to set reliance on the financial reports. An external audit is defining of providing a reasonable basis for the users to place reliance on financial reports.

- Scope

Financial audit is conserved to provide a 'reasonable' assurance over the transparency of financial reports. This consequently does not provide undoubted assurance that the financial statements are free from all misstatements. The purpose of audit is confined to provide reliable assurance. Complete assurance is impossible to vouch in most cases due to the specific limitations of audit.

2.4. Differences between auditing and accounting

Most users of financial statements confuse accounting with auditing. It causes because in most case auditing depends on accounting information and almost all the

auditors are aware of accounting procedures as well as accountants. As plenty of auditors are called “certified accountants” or “Certified Public Accountants – CPA” in some countries makes confusion more controversial.

If we compare them by the definitions, accounting is the art of recording, summarizing, analyzing and making reports from financial transactions.

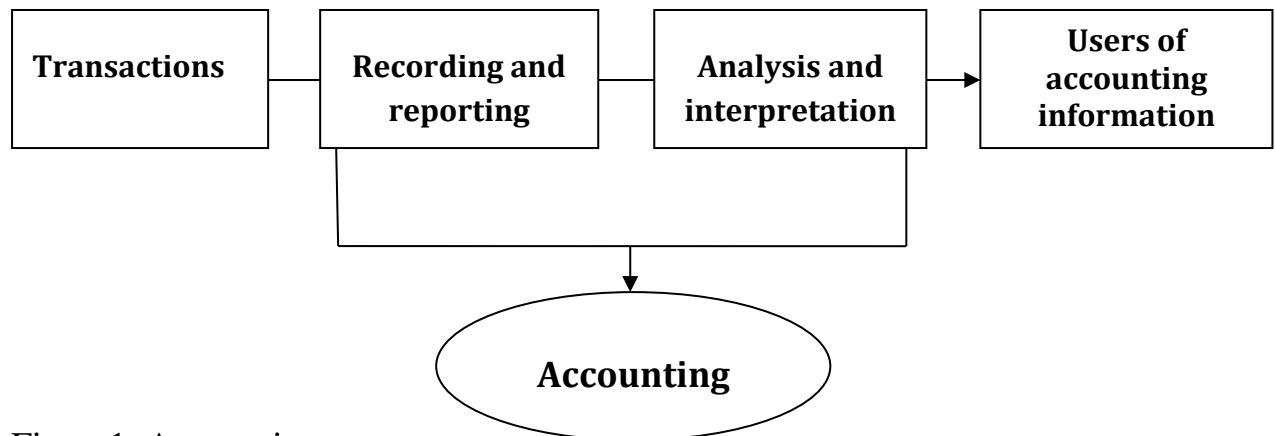


Figure1. Accounting

In the middle of accounting is the double-entry bookkeeping system. Double-entry system is basis of the accounting. It has two sides: debit side and credit side. In the end of the operational cycle they should be equal each other. As shown in Table1 we can see what’s changing in double-entry while making transactions.

Debit		Credit	
Assets	↑	Assets	↓
Liabilities	↓	Liabilities	↑
Equity	↓	Equity	↑
Expenses	↑	Expenses	↓

Table1. Debits and Credits system

Cash accounting records cash inflows and outflows in the period in which they appear. Accrual accounting records revenues (income) and expenses in the period to which they are attributable rather than when cash payments come and go. For

example, a receipt written in May for April's utilities would appear as an April expense under the accrual method and as a May expense under the cash method.

The core goal of accounting is to make available to use for a company with clear, comprehensive, and trustworthy data about its economic processes and status of its assets and liabilities. This information is showed in the formation of accounting reports like the balance sheet, income statement, shareholders' equity statement, and cash flow statement. Accounting reports can be useful in following cases;

- Understand and reapportion internal resources of the company to make sure its financial stability
- Evaluation profitability of the company's economic activities
- Understand the organization's cash inflows and outflows
- Substantiate conformity of a company's economic activities to government regulations

Internal users of accounting reports are managers, shareholders, and employees. External users of accounting reports are investors, suppliers, creditors, and government.

However, auditing is a systematic process of impartially gathering and evaluating financial and non-financial transactions to determine their transparency and accuracy.

An auditor should have sufficient knowledge about accounting, and also have to be able to collect audit evidences and give an explanation for them. This is the point which makes an auditor and an accountant differ.

In other words, an auditor checks an accountant's work for shareholders, the management and people who need that financial information such as suppliers, creditors, employees and so on.

The following Table2 help to distinguish auditing from accounting:

Accounting	Auditing
A continuous process carried out through the year	An one time activity after the closure of accounting period
No prescribed qualification is required to be an accountant	She or he must be the member of Institute of Chartered Accountants to become an auditor
An accountant is an employee of the company	An auditor can be an internal employee or an external professional
An accountant gets regular salary for her or his work	An auditor gets remuneration for his or her work(audit fees)
Accounting is concerned with recording of business transactions systematically	Audit is concerned with confirmation of reports prepared by an accountant
Accounting proceeds auditing	Audit succeeds accounting

Table2. Difference between accounting and auditing

Audit Standards

3.1. The purpose of audit standards and its purposes

When preparing audit standards, the requirements of local statutory and regulatory acts and the existing international experience should be taken into account. Audit standards are normative documents for individuals and legal entities carrying out audit activities. The high level of auditing standards positively affects the quality of auditing expertise and at the same time gives correct direction to the audit results.

In addition to planning its activities, the audit has the appropriate operations and accounting records for the implementation of the program. The auditor should establish specific relationships with the entity in which the inspection is conducted and provide specific practical proposals for the improvement of the entity's economic and financial activities. An auditor should have sufficient evidence to provide evidence of evading economic irregularities, financial irregularities, and economic offenses with criminal activity during the audit and expertise work. An auditor has the right to use a separate expert as an expert to clarify any out-of-court cases in the financial and financial transactions. All such rules must be developed and applied in order to regulate the hallway, build relations and integrate it into a single standard. When it comes to auditing standards, adequate rules for auditing activities are understood. These guidelines are developed and presented in the form of international audit standards, national audit standards and internal audit standards. The essence of these standards is that independent auditors and audit firms should establish their activities in accordance with these rules and standards. However, the auditor is not limited to these rules when carrying out audit and expertise. Long-term experience shows that in the economic and financial activities, there may be cases of discrepancies and shortcomings beyond those rules. Therefore, the auditor should take these rules into an account, and should take into account the specific characteristics of the audited entity.

The following principles must be observed when developing audit standards:

1. Audit should be conducted by persons with appropriate professional skills.
2. The auditor should be independent of his own opinion.
3. The auditor should carry out the audit properly and professionally and make an objective audit report.
4. Audit plan and program for auditing audits.
5. The auditor shall have sufficient information on the internal control system of the customer in order to plan his / her specific activities.
6. The auditor should collect sufficient evidence of auditor's evidence during audits to provide an opinion on the accuracy of accounting (financial) reports.
7. The auditor should indicate in his / her opinion whether the report meets the accounting rules and regulations.
8. The auditor's report shall reflect the circumstances that led to the change in the accounting policy of the comparative party in the previous reporting period.
9. If the auditor's report fails to provide the opinion, the information in the accounting (financial) report shall be deemed appropriate.
10. The auditor should make notes on the accuracy of the accounting (financial) statements in his or her opinion and indicate the reason for not having an audit opinion.

3.2. International standards

In some countries, it has been permitted to develop their national standards on the basis of international audit standards. As an example, it can be Australia, Cyprus, Brazil, India, the Netherlands, etc. Some countries have not been allowed to develop their national standards. They can only use international audit standards as their own

standards. Some of them are Malaysia, Fiji, Sri Lanka, Nigeria and others. Developed countries have their own national audit standards in Canada, Great Britain, Ireland, and the United States.

International standards of auditing are understood as the international standardization and regulation of auditing activities. In the preparation of these standards, a number of international institutions, including the International Federation of Accountants of England, the International Committee on Audit Practices of England, have played an important role. The International Federation of Accountants, which includes the national accounting organizations of 130 countries, plays an important role in the development of international auditing standards. The main purpose of auditing in the development of international standards is to prepare uniform rules for auditing and expertise, to develop it among the world countries, to prepare its auditory and audit methodology in a uniform position based on the uniform international accounting and financial reporting framework.

The 30 international audit standards developed by the International Audit Practice Commission and adopted by the International Federation of Accountants are as follows:

1. Purpose and general principles of financial reporting auditing;

The purpose of these auditing standards is to provide guidance on general principles and objectives governing the audit of financial statements and defining standards.

2. Terms of the Transaction Agreement.

An auditor's response to changes in the terms of a transaction that may reduce the credibility of the audit, There are at the request of the auditor's standards, and the issuance of recommendations and non-negotiation of the terms and conditions of the transaction with the customer.

3. Quality control of auditor work.

The purpose of these auditing standards is to provide quality assurance recommendations and define standards in relation to:

- a) Audit procedures and policies of the auditor in general;
- b) Procedures relating to the tasks assigned to the auditor's assistant during auditing;

4. Documents.

The purpose of audit standards is to provide guidance on documenting and evaluating the standards of financial performance.

5. Fraud and mistakes.

The objective of auditing standards is to provide guidance on the auditor's responsibilities for fraud and error reporting during audits of financial statements and to define standards.

6. Consideration of laws and regulations in the audit of financial statements.

The objective of auditing standards is to provide guidance on the obligations of the auditor to take into account the laws and regulations of the auditor during the audit of the financial statements and to define the standards.

7. Planning.

The objective of the audit standard is to provide guidance on the preparation and reporting of financial statements.

8. Business community.

The purpose of the audit standard is to determine the nature of the business combination. Why is it important to understand business combinations for auditor and audit team? Why is it relevant to all phases of the audit and how should the auditor be applied? comments on the association and tenant application.

9. Significance in Audit.

The main purpose of the auditing standard is to provide recommendations and standards for auditor risk compliance and compliance.

10. Risk Assessment and Internal Control System.

The purpose of the auditor is to present the audit risk and its components to accounting and internal standard systems, including risk management, risk management systems and unrecognized risk reporting.

11. Computer Information System Audit.

The purpose of the audit standard is to define the standards and procedures in accordance with the requirements of the computer information system.

12. Audit of service providers.

The purpose of the audit standard is to give recommendations to the client auditor and to determine the standards used by service organizations.

13. Audit evidence.

The purpose of the auditor standard is to give recommendations on quantitative and qualitative audit qualifications, as well as procedures for obtaining audit evidence to be obtained during financial incentives audit.

14. Audit evidence - Review of specific items.

The objective of an audit standard is to provide recommendations and standards for making supplements to the International Standards on Auditing Evidence for disclosure of specific financial statements and other information.

15. First Auditor Review - Primary Balance.

The objective of an audit standard is to define a standard and define the standards for auditing financial statements for the first time or in the previous period.

16. Analytical procedures.

The purpose of the audit standard is to give recommendations on the use of analytical procedures in auditing and defining the standard.

17. Auditor selection.

The purpose of the audit standard is to provide guidance on the use of auditor selection procedures and other means of audit selection to collect audit evidence and define the standard.

18. Significant Assessment Audit.

The objective of an audit standard is to define the auditor's recommendations and standards for evaluating significant financial statements.

19. Related parties.

The objective of the auditor standard is to provide guidance on the audit procedures and responsibilities of the auditor, regardless of whether they have been included in the major IFRSs or the related IFRSs. .

20. Next Events.

The objective of an audit standard is to provide guidance on the auditor's position regarding subsequent events and to define the standard.

21. The probability of uninterrupted operation in the entity's operations.

The objective of an audit standard is to provide guidance on the auditor's responsibilities and the determination of the standard that the probability of an entity's continuing involvement with the entity is considered to be the basis for the preparation of the financial statements when the financial statements are audited.

22.Management information.

The purpose of the auditor's standard is to evaluate and document the information provided by the management of the entity's business as an auditor's evidence and to provide guidance on the auditor's action and the determination of the standard when the management refuses to provide relevant information.

23.Use the outcome of another auditor's work.

The purpose of this standard is to issue recommendations and standards for the circumstances in which an auditor compiles an auditor's report on the financial statements of an entity by using the results of another auditor's audit of one or more of the financial information included in the accounting (financial) accounting of economic entities.

24.Review of the Internal Audit.

The purpose of the audit standard is to provide recommendations for external auditors and to define the standards when considering internal audit procedures.

25.Use of the expert's work.

The purpose of the audit standard is to provide recommendations on how to use the expert's work as an auditor's evidence and define the standard.

26.Auditor's Opinion on Financial Statements.

The purpose of the Audit Standard is to provide guidance on the form and content of the auditor's review of the financial statements of an independent auditor and to define a standard.

27.Comparison.

The purpose of the audit standard is to provide guidance on the auditor's responsibilities during the comparisons and to define the standard.

28. Other information in the audited financial statements.

The purpose of the auditor's standard is to provide guidance on the review by the auditor of the other information that is reflected in the audited financial statements and other information that is not required by the auditor's opinion.

29. Auditor's report on auditing the private auditor.

The purpose of the audit standard is to provide recommendations on specific auditor assignments and define a standard.

30. Verification of Future Financial Information.

The purpose of the Audit Standard is to provide guidance on the preparation and testing of future financial information, including better assessment and assertion-based verification procedures, and defining the standard.

3.3. Azerbaijan National Audit Standards

The Law of the Republic of Azerbaijan "On Audit Service" defines the organization of auditing services in the Azerbaijan Republic, the legal basis for its implementation, the functions, rights and duties of the auditors.

The President of the Republic of Azerbaijan Ilham Aliyev "regarded as the brightest manifestation of the policy implemented by our national leader Heydar Aliyev in the field of market economy, providing financial transparency in the society and in the market infrastructure system, regardless of the form of ownership and organizational and legal subordination of this law, all enterprises, institutions and organizations. According to the law, the audit is an independent verification of accounting records and accounting and financial statements of economic entities dealing with the production and sale of goods, services and business.

To audit, analyze, and write in the financial and economic activities on the contractual basis, establish accounting records, approve the integrity of the report and

provide other services in the field of financial and economic relations in accordance with the auditor's professional activities (statutory objectives of the auditor) service is considered.

The auditor's service does not exclude the possibility of state authorities to audit the activities of economic entities within their authority. Auditors and auditing organizations may be liable for property liability in accordance with the legislation of the Republic of Azerbaijan and the terms of the contract concluded with the customer, if they fail to fulfill their duties properly.

A license issued by an auditor or an auditor may be revoked by the Chamber of Auditors in the following cases:

- Three times poor quality audit in the calendar year;
- Gross violations of the legislation of the Republic of Azerbaijan at the time of audit;
- The release of the right to hold certain positions in the financial and economic relations with the auditor or to engage in certain activities, as well as the sentence of the court, which implies the punishment for the crime of mercenary proceedings;
- When the fact of submission of inaccurate information by the auditor for obtaining the license after its issuance is revealed;
- Information obtained during the audit, except for the cases provided for by the legislation, is transmitted by the auditor to third parties without the consent of the manager of the business entity;
- When the auditor conceals the circumstances that are provided by the legislation and excludes the audit.

In accordance with the procedure provided for in the Audit Service, the auditor's service shall be provided on the one hand by an independent auditor or auditor, and on the other hand, by the customer, with the content, duration of the inspection, the

amount of consulting services, the amount and procedure of payment, as well as the responsibilities of the parties based on contract. The customer is responsible for ensuring that the auditor has all the necessary conditions for completeness and quality of his / her professional duties. The auditor is not dependent on his client, as well as any third party interested in the matter.

The organization and implementation of auditing activities in the Republic of Azerbaijan started with the adoption of the Law of the Republic of Azerbaijan "On auditing services" of September 16, 1994. According to this law, the Chamber of Auditors of the Republic of Azerbaijan was established. The Chamber of Auditors is an independent financial institution that regulates the state regulation and development of auditing services in the Republic, overseeing the property rights of the proprietors, the interests of the state and economic systems, auditors, and overseeing the activities of independent auditors and auditors.

As stated in the Law on the Chamber of Auditors, "Audit is an independent verification of the accounting and financial records of the accurate and honest accounting of the accounting records for business entities engaged in the production and sale of goods and services." The audit service is a business venture, fulfills the customer's obligation to service the customer and improve the customer's financial standing.

It is advisable to pass audits of enterprises, companies and state-owned enterprises engaged in entrepreneurial activity in the country in accordance with the International Auditing Schedule and adopted by the world's audit practice and to resolve the need to provide auditor's opinion on their annual financial accounts would have provided control over the implementation of the assigned tasks. It should be noted that at present, some state-owned enterprises are facing the issue of fostering annual financial and economic activity, and the resulting serious shortcomings in their activities.

Thus, the evidence suggests that in the case of a market economy, economic controls, audit controls and other forms of control over the management of the economy should be thoroughly expanded and improved.

Article 13 of the Regulations on the Chamber of Auditors of the Republic of Azerbaijan sets out the responsibilities of independent auditors and auditing organizations as follows:

- Strictly follow the requirements of the legislation of the Republic of Azerbaijan in conducting audit;
- Quality audit of audits and other services;
- Where an entity has a personal interest in a controlled entity, a trustee of a controlled entity, a direct relationship with a person, an enterprise venture, a shareholder, or an equity holder, before providing services to the entity, audit is prohibited, and the customer should be notified;
- verify the accuracy of the customer's accounting and reporting status, compliance with existing laws and regulations;
- inform the customer of the violations of all violations revealed during the audit, accounting and reporting;
- keep the information obtained during the audit (as required by the judicial authorities) at the request of the customer;
- Ensure that the documentation received or drawn up during the inspection is maintained.

Some standards that developed by the Audit Chamber of the Republic of Azerbaijan prepared and approved at various meetings of the Chamber Board the standards are as follows:

1. “An agreement on the conduct of the audit”

This standard was approved by Decision No. 5/4 of the Board of Auditors of the Republic of Azerbaijan dated October 7, 1996. The standard consists of 4 sections and 17 items. The standards contain rules governing relationships between the customer and the auditor (auditor firm) for auditing-audits. Herein, the customer and the executor have the general provisions of the relationship between the auditor and the subject matter of the new entity, the subject matter of the agreements concluded between them, the obligations of the parties, the structure of these contracts and the rules for drawing up the documents to be included in the contract.

2. “Auditor's working papers”

This standard was approved by Decision # 025/03 of 13 November 1996 of the Board of Auditors of the Republic of Azerbaijan. The standard entry, consisting of 2 sections and 15 items, defines the form, content and essence of the business documentation required for the audit, the rules for their compilation and storage.

3. “The final documents of the auditor”

This standard was approved by Decision # 10 \ 2 of the Board of Auditors of the Republic of Azerbaijan dated February 4, 1997. The standard consists of two sections, which outlines the audit results and determines the form, structure, and rules of its preparation of the final act of audit. In this document, the sketch of Form 7 is added. The standard also provides a brief description of the finalization of the audit results in separate sections.

4. “Audit quality control”

This Standard was approved by Decision # 12 \ 1 of May 21, 1997 of the Board of Auditors of the Republic of Azerbaijan. The standard entry consists of 2 chapters and 30 items. The standard defines the rules, types, and principles of control over the quality of audit services provided in the territory of the Republic of Azerbaijan.

5. “Auditor's Responsibility”

Standard of the Audit Chamber of the Republic of Azerbaijan on 26 November approved by Decision No. 15 \ 1 of 1997. The standard entry consists of three chapters, 14 items. The main purpose of the standard is to define the responsibilities of the auditors and the types, extent of the audit and the reasons for the occurrence of the audit during the audit.

6. “Re-audit”

This Standard has been approved by Resolution No 15/2 of 26 November 1997 of the Board of Auditors of the Republic of Azerbaijan. The main objective of the standard is to improve, develop and improve the quality of the audit service. For this purpose, it defines the rules of compliance with national auditing standards and normative legal acts auditing audits and auditing services, used by independent auditors, auditing organizations, branches or representative offices of foreign auditors operating in the territory of the Republic of Azerbaijan. The Standard also defines the rights and powers of the re-audit organization.

7. “Audit evidence”

This Standard was approved by Resolution 16 \ 1a of December 18, 1997 of the Board of Auditors of the Republic of Azerbaijan. The standard input consists of 6 chapters, 16 items. The main objective is to evaluate the deficiencies and shortcomings identified in the audit and to determine the rules for conducting appropriate evidence and procedures for their proof.

8. “Audit Planning”

This Standard was approved by the Resolution No 32/2 of the Board of the Chamber of Auditors of the Republic of Azerbaijan dated March 24, 1999. It defines the order of planning and programming of audits for auditing audits and providing various types of audit services, consisting of standard entry part, 6 chapters, 38 items and 2 additional draft sketches.

9. “Conditions of audit”

This standard was approved by the Decree # 43 \ 1 of December 7, 1999 of the Board of Auditors of the Republic of Azerbaijan. The standard input consists of two chapters, 16 items. The main objective is to define the rules of mutual obligations between the client organization and the auditor during the audit engagement. At the same time, in addition to Annex I, it reflects the proposed form of limited liability that defines the terms of the audit. The requirements of the standards should be taken into account when preparing an official audit opinion for all auditors.

10. “Selecting an Auditor”

This standard was approved by Resolution No. 46V2 of the Board of Auditors of the Republic of Azerbaijan dated January 15, 2000. The standard input consists of four chapters, 29 items and an additional form. The main objective of the standard is to determine the selection and evaluation of relevant economic information for the audit at the site of the audit. The standard also defines the types of auditor selection, procedural rules, and methodological aspects of the selection of the results of the selection.

3.4. Firm-oriented audit standards

Firm-oriented auditing standards incorporate the following elements by providing firms, i.e. auditors, with a single requirement when performing auditor audits:

1. Determination of the purpose of the agreement.

Each audit auditor must be well-planned, professionally and specialized, to provide high-quality customer service, optimally used by the auditors, and gain commercial benefits.

2. Review or Review of Business.

Inspection begins with acquaintance with clients and their performance. Changes that reflect the attitude of the firm to the auditor's audit and to the customers in the legislation, professional standards and business are constantly monitored.

3. Evaluating Risk of Mum.

By using the customer's knowledge and understanding the risk, fraud risk, common mistakes are identified and their importance is assessed.

4. Evaluating the internal control system for the development of an audit strategy.

At the initial stage of the audit, an internal control system, that is, is primarily used by the management of the economic activity control system, and then the accounting and control system.

At this stage only the information is evaluated for the development of an audit strategy.

5. Determining the Audit Strategy.

Special risks of major risks are summarized and necessary audit procedures are identified.

6. Independent research plan.

In the plan, the essence of the implementation and sustainability of more effective researches is studied in each case of independent research. Independent research is carried out according to the plan. Depending on the evaluation of its results, the relevant adjustments are made in the plan.

7. Evaluating the effectiveness of the control system.

At the end of the audit, an overview of the internal control system for the overall assessment of the control system and the development of an inspection plan is provided.

8. Completing the Auditor's Audit.

The general report (act) is drawn up and the final results are deduced. More important cases are discussed with customers.

9. Presentation of the report.

An opinion is drawn up in accordance with the audit findings. In addition to the opinion on financial reports, the customer is also provided with a report on the results of the inspection.

The auditor plans an audit after signing an agreement with an economic entity on the audit. Planning - is the development of an audit program that specifies the volume, sequence and sequence of auditing procedures required for the preparation of an audit plan, as well as an audit report on the financial statements of the entity, with indication of the scope of the audit, the types of planned activities and their implementation period.

The auditor's planning of the audit is carried out in accordance with the general principles of audit, as well as the following specific principles:

- The complexity of planning;
- Continuity of planning;
- Optimization of planning;

The completed of the planning of the audit planning envisages the consistency of all stages of planning from the initial planning to the development of the overall plan and program of the audit.

The principle of uninterrupted planning of audit planning is expressed in the assignment of assignments related to the audit team and the stages of the planning on the timing and coordination of business entities.

During the audit period, the auditor should periodically adjust the audit plan and program, taking into account changes in the financial and economic performance of the entity and the results of interim audits.

The principle of optimal audit planning is that in the planning process, the auditor should have the option of scheduling the optimum version of the audit plan and program to be selected on the basis of the criteria set out in the audit.

The auditor divides the planning of the audit into the following key stages:

- general planning of the audit;
- preparation and preparation of the overall audit plan;
- preparation and preparation of the audit program;

The Audit Service uses the International and National Auditing Standards of the Audit Service, the Law of the Republic of Azerbaijan "On Auditing Service" for auditing the financial statements of the economic entity by the auditors or independent auditors operating in the territory of the Republic of Azerbaijan.

The initial stage of audit planning, the principles and procedures for the preparation of the overall plan and program of the audit are determined by the "Audit Planning" national audit standard.

The requirements of the Standard require that the preparation of the official auditor is mandatory for all auditors in conducting an audit, the voluntary audit not required for the preparation of the auditor's report, and the provision of other auditor services. In the event of a failure to comply with the requirements of this standard, the auditor should indicate it in the official report submitted by the auditor to the management of the business entity which issues the audit or other auditor's services.

When preparing the audit plan and program, the auditor should be based on the prior knowledge of the economic entity, as well as the results of the analytical procedures performed. In this case, the auditor should evaluate the effectiveness and

control of the internal control system's business entity and collect sufficient evidence of that objective. When designing an audit plan and program, the auditor chooses methods that allow for accurate identification of the scope of information and the scope and nature of audit procedures.

Importance of audit

4.1. Importance of internal auditing

Internal controls are of particular importance in ensuring the successful functioning of businesses, ensuring daily profitability and ensuring their asset growth. The enterprise is responsible for the preparation and implementation of internal control measures. Ensuring that the internal control system established at enterprises is of permanent benefit depends on the management of the entity.

An organized control system should be economically justified, meaning that an existing control system should be an important tool in preventing losses. The proper organization of an intra-enterprise system of controls can significantly reduce the cost of external audit.

Management of an economic entity controls various types of management methods in the enterprise activity. Here it is possible to check the quality of the employees of the enterprise, compile information on the results of financial and economic activity, compare them with the previous reporting period, and check the activity of separate farms and so on. It is also important to prepare a report on intra-enterprise accounting in this area. Due to management, the internal audit findings give more useful results.

Internal audits carried out by the internal auditor are important in detecting deficiencies and errors and have been instrumental in eliminating them. Internal audit is a form of control created directly within the economic structure of an economic entity and is directly controlled by the entity's management. The system of auditing the financial and economic performance of the audited entity, as well as the management principles of the accounting principles adopted.

Internal audit is an independent, safeguarding and consultative activity. The internal audit functions within the entity as an independent structural subdivision or a staff unit and the internal control body; but only with the head of the corporation or the

board of directors, investigating the issues he or she sets out, and reporting only information about him / her. Internal audit creates a transparent information environment in the entity, creates a more effective and thorough analysis of its performance, and creates a more effective system of business. In a number of countries around the world, internal audit is compulsory for the country's economy and is organized in all enterprises.

Organization of internal audit at the required level will play an important role in preventing the negative aspects of the execution of economic operations by increasing the responsibility of other units and departments operating within the entity, and increasing the responsibility of financial persons for their service duties. Apart from this, internal audit is of great importance in the expectation of existing legislation, being a source of information on a number of key issues for external audit. However, there are some significant differences between internal audit and external audit. Internal audit is usually organized in large and medium-sized enterprises. There are serious problems with the implementation of the existing legislation in this entity, and the need for a more rigorous controlling system in the conduct of entrepreneurial operations is greatly increased. An internal audit is an important tool in preventing unjustified adoption of unproductive services, losses, labor and cash flows, and making reasonable proposals during certain financial difficulties. In short, the internal audit is the organization of internal control in managing the entity and its subsidiaries.

The usefulness of internal audit depends largely on the organization structure. In some cases, the organization of internal controls is entrusted to an enterprise inspector on a public basis, which leads to ineffective conclusions. It is advisable to establish a divisional entity with a free unit unit, Internal auditor service is an organization of internal control of an entity, effectively assisting management in matters relating to all economic activity of the entity and actively participating in the protection of the legitimate interests of the owners. An important factor of the

successful operation of the auditor is its independence and its direct subordination to the head of the enterprise. In order to ensure successful implementation of the assigned function, the Internal Audit Service should be recognized by the specialists who have the highest quality, credibility, ability to fully understand their debt, familiarize with the economic indicators of the enterprise, and collect and analyze regulatory acts and accounting information. At the same time, it is necessary to create the necessary conditions for the persons working in the audit service, to ensure their qualification at the level of modern requirements, and to set high salaries.

The internal auditor service operates on the basis of the rules of the head of the enterprise or shareholders. It is advisable to accept highly qualified specialists with experience of at least 5 years in the field of high quality, public administration and supervision services for the head of the audit service and leading specialists. In addition to the general rules, internal debtors, their rights and responsibilities should be specified in the functional duty instructions of internal auditors.

The Internal Audit Service in its activity includes the laws, regulations, instructions of the Ministry and the Unions, orders, orders, auditing standards on the organization and conduct of audit, etc. instructional documentation.

The internal audit service and its structure are determined dependent on the nature of the financial and economic activity of the entity and the nature of the control arrangement. The number of employees and salaries are defined in the staff table. Internal auditors perform their functional duties in accordance with a defined job description. They should also expect the ethical standards of auditing activities, that is, to carry out the duties honestly, objectively and transparently, and carry out the audit based on the standards set out by the audit standards.

The internal audit service is conducted on the basis of an internal audit plan. Such a plan shall be approved by the head of the enterprise, prepared by the audit service supervisor. An auditor's supervision over separate economic areas is carried out on

the basis of an approved internal audit program. The audit program is also developed on the basis of a plan drawn up by audit service specialists and approved by the head of that service.

Audit experience shows that the internal audit service organized at enterprises is useful and efficient when maintaining the property, the availability of available resources, accounting and accounting (financial) reporting at a high level.

During the preparation of the internal audit methodology, first of all, it is necessary to familiarize with the rules and principles of control and auditing at the enterprise during the previous period. It should be borne in mind that the methodology for conducting internal audit is somewhat different from the method of audit. It should be borne in mind that prior to the commencement of the audit, in all past years, all ministries and departments have been in charge of inspections by the ministries and affiliated institutions. The following methodology was used for auditing the business and financial operations of the entity and the transactions were audited in a certain segment.

Internal audit is similar to the audit procedures carried out in this area by inspection methodology. These guidelines are characterized by:

- Acquaintance with accounting and internal control system;
- Internal Audit on Cash Flows;
- internal audit of transactions in the bank accounts;
- Internal audit for wages;
- Internal audit of fixed assets;
- Internal audit of non-material assets;
- Internal Audit for Production and Storage of Production Stocks;

- Internal Audit on Finance and Capital Investments;
- Internal Audit on Finance, Funds, Reserves, Loans and Bonds;
- Internal Audit for Taxes Calculation and Payment;

It is possible to check the state of accounting and internal control in enterprises and use national audit standards.

Internal and external audit complements each other and at the same time differs considerably. Internal auditing is an integral and important element of control. Internal auditing does not deal with the daily control of the organization and its subordinate management.

The internal audit provides information on this activity and confirms the correctness of managers' reports. Internal audit is mainly required for the avoidance of loss of resources and the necessary changes to the entity.

One of the major transactions in internal audits is accounting and internal control. In this regard, the auditor should first examine its statutory documents. The organizational and legal form of the enterprise, the founding documents of the founders, the availability of licenses and the profit distribution are determined.

When starting an audit, the auditor should be familiar with the functional guidelines for the organization of the enterprise accounting, the exact definition of the staff, the division of responsibilities between the accounting staff and the performance of the task.

Internal auditing should focus on the legality of documentation, instructions and accounting records, reporting normative acts.

An internal auditor should oversee the audit report that has been audited during the past reporting period and control over the submission of the initial accounting records

of the subordinate divisions, and determine whether the measures to eliminate the deficiencies identified in that act have been met.

After this stage of audit, the results of the implementation of the accounting rules and the results of the internal control system are determined.

It should be borne in mind that the main regulatory documents governing the execution of cash transactions consist of the Law on Accounting and the Rules of conducting cash operations in the national economy of the National Bank of the Republic of Azerbaijan, dated April 6, 1993. These documents include the cash flows, protecting them, preparing cash registers, checking the cash register, and checking the cash discipline.

Followings are main advantages to have an internal auditing system:

- Evaluating the internal controls
- Evaluating risks
- Analyze operations and confirm the effectiveness.
- Review compliance.

The internal audit system performs audit, evaluation and supervision within the entity, and is determined by managers or directors. Directors may establish an internal audit department for the entity's internal audit or apply to various audit firms to conduct internal audits.

The importance of internal audit is that the entity either manages to control both financial activities and operational activity, eliminates errors and omissions, and minimizes potential losses. Also, the enterprise managers create an internal control system because they cannot exercise control directly.

The internal control system has five components:

1. Control environment - covers the scope of the internal audit and is largely determined by the directors.
2. Enterprise risk assessment process. This process includes:
 - Identify business risks based on production reports;
 - Determine the degree of importance;
 - Assessment of probability of occurrence;
 - Identification of measures to prevent the problem.
3. Financial system information system. It is a part of internal control, assets, liabilities, and so on. is a process of recording enterprise transactions and contracts to ensure accountability.
4. Measures of control. These measures are the process of disclosure and elimination performed to prevent errors and mistakes within the entity.
5. Monitoring of internal control. This is a process of continual identification and evaluation of the effectiveness of internal control.

The internal audit system is basically subject to management and presents the report only to them.

4.2. Importance of external audit

External audit is the process of independent checking of the financial statements by external firms or independent auditors. It is usually done for statutory purposes because of governmental requirements. This type of auditing is a periodic audit.

An external auditor should be an independent, third party professional who has an impartial review of the financial reports.

The purpose of the external audit is to confirm that the annual reports are transparent and fair representative of the company's financial situations.

The process of external auditing is as following Table3:

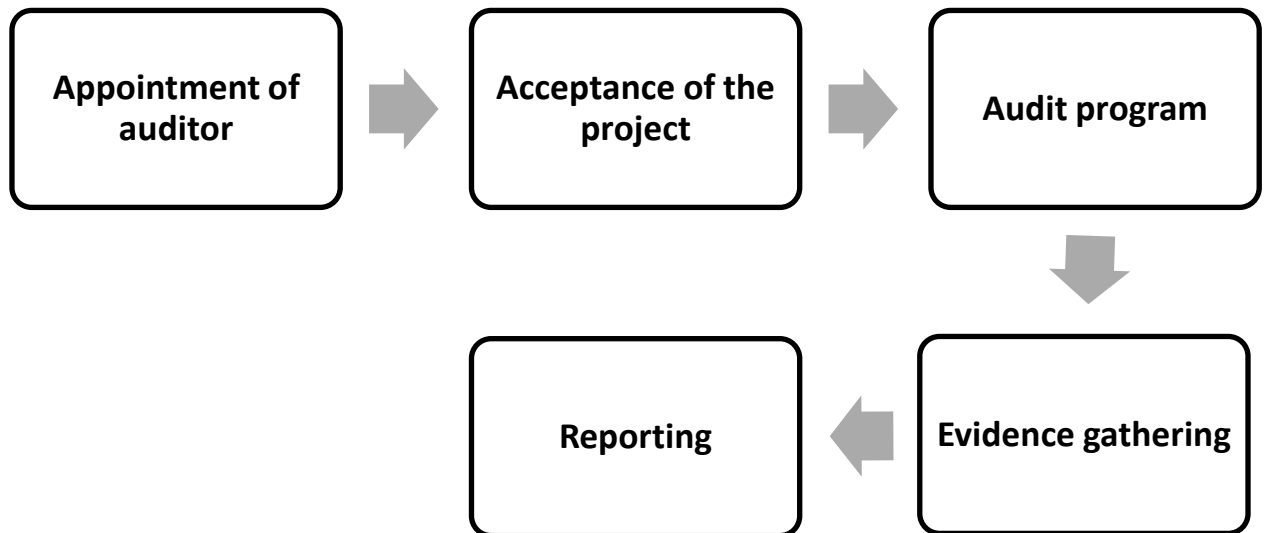


Table3. The process of external auditing

- Appointment of auditor – means hiring somebody who is able to audit the organization and also not working for same company. This step of the process usually is done by the shareholders of the company. They appoint the auditor or the audit firm for realizing auditing. Auditors are habitually chosen based on their qualifications, reputation, and skills.
- Acceptance of the project – it is the following step in the process of external audit. In that part, the auditors should approve that she or he has accepted the appointment.
- Audit program – is where the current external auditing will happen. The auditor will collect related information about financial positions and other needed data in any cases.

- Evidence gathering – they will get evidence in order to satisfy the requirements of auditing program successfully.
- Reporting – After a research and investigation, an external auditor will accept a financial report and assert her or his objective opinion. The findings of the external auditor can powerfully influence the reputation of the company.

That is why the results of the external auditing have unchangeable influence on the companies' reputation.

The main reason of hiring an external auditor is to have a fair assessment of the firm's financial situation. As an external auditor doesn't have any relationship with the company that she or he is checking, they are not biased in any way. So that means the shareholders can get transparent information about their investments through the external auditors.

The importance doing the external auditing can be arranged as follows:

1. Evaluate internal processes in a detailed

Internal auditors cannot check and evaluate the current situation of the company because they are part of the same company. That is why shareholders and management cannot reach exact and fairly representations of the financial statements. Hiring an external auditor is helpful to get transparent information.

2. Double-check internal auditing

In the most cases, internal auditing is done by company's accountant. And it can be caused problems due to illiteracy of accountant on auditing. For disputing such accidents, companies hire an external auditor or make an agreement with the audit firm.

3. Ensure compliance

To check if financial statements are in order with regulations or not, companies ask for help by an external auditor or an audit firm.

4.3. Importance of the audit as a whole

As I mentioned above, all users of business need financial information in related cases. From the employees of the company to the managers, from shareholders to creditors, and also consumers need that information about company. They all have their own reasons to obtain this data.

- Shareholders need to know about how their investment is doing. The company is in going concern or not, the management is successful in their work or not.
- Employees need to get information for their carrier. They will continue to work or the company is going to be bankrupt.
- The creditors and suppliers want to be sure about their debts for not changing as bad debts or irrecoverable debts.
- Consumers should be sure product or any kind of service will not stop for any reason for future uses.
- The management needs that information for planning their vision and mission of the company.

As shown above everyone needs financial information for any reason. So that information should be available for them and also it should be represented fairly. For checking information big size companies are able to use both kinds of auditing.

The requirement for the auditor's service has arisen:

1. The possibility of misinterpretation of information by the administration in case of dispute between the administration and information users (owners, investors, lenders);
2. The consequences of the decisions taken - which can be very serious - dependence on information quality;

3. Requiring special knowledge to verify information;
4. Often, information users are unable to evaluate their quality.

All these initial conditions have led to a public need for appropriate training, expertise, expertise and expertise (auditors) services that are permitted to provide such services. Auditor services are the services of mediators that determine the validity of financial information. The availability of accurate information allows increasing the effectiveness of the capital market and predicting the outcome of various economic events.

Everyone knows that the effectiveness of audits and inspections is proportionate to the degree to which the auditor (inspector) is not dependent on the management of the economic system, where the professional auditing services are rendered by the economic entity - the auditor (inspector). However, external and internal audit of economic systems are interrelated. For example, since internal audit is part of internal control based on external audit, both the auditor risk and the extent of external scrutiny of economic systems are often determined by the level of internal audit.

Modern traditional inspection and control of various large-scale farm systems include the scope of the internal auditor's activity. Frequently, however, auditors have to follow a form-like methodology, but should generally have a different function - a third-party certification function rather than a regulation.

In the market economy, economic entities enter into contractual relations in the use of property and cash, commercial transactions and investment. The reliability of these relationships should be strengthened by the fact that the contract is to receive and use correct financial information for all participants. The accuracy of the information is confirmed by the auditor.

Owners and collective owners, shareholders, stakeholders, and creditors are often deprived of the opportunity to be convinced of the possibility of being independently

convinced, as usually the owners are not allowed to inspect the accounting records and that their relevant experience is well-known in the legitimacy and accountability of all the numerous transactions that are extremely complex there is no need for auditor services.

Independent confirmation of information about the results of business activity and their compliance with the legislation is necessary for the state to make decisions in the field of economy and taxation. Audit audits are also required when the bank or authority considers that the auditor organizations are willing to declare an entity that is the client of the auditor, or if the enterprise ceases to operate for other reasons. Generally, auditors are required to verify the accuracy of the financial statements of government agencies, courts, prosecutors and other competent authorities.

Conclusion

This research has examined and focused the importance of audit mostly in theoretical cases. As a result of research, it can be said that auditing is importance as accounting in any size of businesses.

Financial information is needed almost each level of business related people. It does not matter they are managers, employees, consumers or governments. Every person needs that data for their personal uses. Checking this information is important as well. They have to be fair picture of a company's recent financial situation.

Not only external auditing and also internal auditing system should be provided by the big sized company for better results. Companies should establish an internal auditing system and attract professions to this system.

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