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INTERNAL AUDIT PROCESSES IN LIGHT INDUSTRY ENTERPRISES AND PROSPECTS FOR IMPROVING THEIR EFFECTIVENESS

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Abstract

This thesis examines the role of information and software support in organizing internal audit processes in light industry enterprises. The study focuses on the use of analytical procedures, materiality assessment, audit automation tools and econometric forecasting for textile and sewing-knitting enterprises. Based on international experience and enterprise-level financial indicators, the paper substantiates the need to move from a traditional audit model to a risk-oriented digital audit model. The thesis argues that the practical application of SoftExpert Audit, Audit Sampling, Excel, Stata and EViews can reduce audit time, increase the reliability of audit evidence and improve the quality of managerial decisions.

Keywords: Internal audit, audit automation, analytical procedures, materiality, digital audit, risk assessment, light industry, textile enterprises, financial results, forecasting.

1. Introduction

The development of light industry is one of the strategic priorities of the economy of Uzbekistan. The 2022-2026 Development Strategy of New Uzbekistan sets objectives related to increasing the efficiency of foreign investment, expanding the use of modern equipment and technologies, and raising production volumes in the textile as well as leather and footwear sectors. Such tasks increase the importance of a reliable internal audit system, because enterprises operating in competitive and investment-intensive markets need timely information about costs, assets, liabilities, profitability, risks and deviations from planned indicators.

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At the same time, audit activity in Uzbekistan is being transformed toward international standards. The Presidential Resolution of 19 September 2018 on further development of audit activity emphasized the need to develop the “Audit” software complex of the Ministry of Finance and to establish electronic cooperation between audit organizations, accountants and professional associations. In this context, internal audit should not be limited to formal verification of documents; it should become an integrated analytical function that supports corporate governance and the risk management system of enterprises.

The relevance of the topic is determined by three factors. First, digital technologies are changing the organization and methodology of audit procedures. Second, light industry enterprises accumulate large volumes of accounting, production, cost and sales data that must be processed quickly and correctly. Third, the quality of internal audit directly influences the reliability of financial statements, the control of production costs and the ability of management to make economically justified decisions. Therefore, improving internal audit processes through information systems and analytical procedures is a necessary condition for sustainable growth in the sector.

2. Literature Review and Theoretical Basis

Scientific approaches to internal audit show that it performs not only a control function but also an advisory and analytical function. Researchers note that a digital business environment affects internal audit in several directions: the scope of audit planning becomes broader, the demand for digital data grows, IT risks and cyber-security risks become more significant, and internal auditors are increasingly involved in consulting services. Thus, the modern internal auditor is expected to combine knowledge of accounting, risk management, information technologies and data analysis.

According to the theoretical approach used in the source article, internal audit is carried out by the enterprise itself and is aimed at monitoring the formation of costs, identifying deviations from planned estimates and norms, analyzing the causes of those deviations, determining responsible persons, searching for reserves of financial and economic activity and providing

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information necessary for effective management decisions. This definition is especially important for light industry enterprises where the cost of raw materials, labor, depreciation, rent and credit interest can change the final financial result.

Another important concept is that internal audit supports corporate governance, control and risk management through a systematic and well-organized approach. In this sense, the function of internal audit should be linked with the objectives of the board, executive management, accounting department and operational divisions. Early involvement of internal auditors in robotic process automation initiatives can also help balance process design, governance requirements, risk assessment and control mechanisms.

3. Research Methodology

The methodological basis of the thesis consists of analysis, synthesis, grouping, comparison and ratio methods. These methods are used to evaluate the role of information and software tools in internal audit, to interpret enterprise financial indicators and to formulate practical recommendations for improving audit quality. Analytical procedures are considered as a set of methods that allow the auditor to compare actual data with planned, historical and forecast indicators and to identify unusual changes or risk areas.

The study uses data and examples from light industry enterprises, including “INDORAMA KOKAND TEXTILE” JSC Foreign Enterprise and “BETLIS TEKSTIL” LLC. The first case illustrates the dynamics of sales revenue, production cost, period expenses and net profit margin. The second case demonstrates the relationship between revenue growth and profitability ratios, as well as forecast indicators for 2022-2026. The use of these examples makes it possible to show why internal audit should rely not only on document checking but also on economic analysis and forecasting.

From the methodological point of view, a risk-oriented internal audit model should include: preliminary assessment of materiality; identification of risky accounts and business processes; selection of audit samples; comparison of financial ratios; assessment of cost behavior and profitability; preparation of audit evidence; and reporting of findings to management. In a digital

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environment, these stages can be supported by specialized software, which reduces manual work and improves the consistency of audit procedures.

4. Digital Audit Model and Software Support

Digitalization of the economy makes the creation of a digital audit model a socio-economic necessity. The future development of audit methodology should be based on a concept aimed at managing audit risks. This means that both theoretical issues of audit and its practical methodology must be revised in accordance with the requirements of the digital economy. For light industry enterprises, such revision is particularly relevant because their operations are connected with raw material procurement, production planning, inventory management, payroll, depreciation, sales, export operations and credit obligations.

International practice offers several software solutions for audit automation. SoftExpert Audit is one of the systems designed to manage audit activities in a comprehensive way. It allows users to plan and prepare audits, develop audit plans, audit programs and checklists, conduct fieldwork, prepare reports and monitor corrective actions within a single integrated platform. The software can support internal audit, operational audit, IT audit, supplier audit, risk assessment and quality control.

The practical value of such software is that it creates a unified information space for audit-related documents and tasks. It can automate the assignment of tasks, deadlines, notifications, e-mail alerts, approval workflows, preparation of audit reports in web or PDF format and the monitoring of corrective actions. For the auditor, this means faster access to reliable real-time information, better coordination with departments and a clearer audit trail. For management, it means that audit results can be used more effectively in decision-making.

In Uzbekistan, the Audit Planning system and its Audit Sampling application are also used in practice. Although this application is more specialized and does not cover all audit processes, it can be useful for selecting samples and evaluating financial stability in specific audit objects. For light industry enterprises, the combined use of Audit Sampling with broader systems such as SoftExpert Audit may strengthen the audit of production cost, inventory, receivables, liabilities and financial results.

Table 1. Proposed focus areas for digital internal audit in light industry enterprises

Audit area	Main risk	Analytical procedure	Recommended digital tool
Inventory and raw materials	Overstatement, obsolete stock, losses	Turnover analysis, reconciliation, sampling	Audit Sampling, Excel
Production cost	Incorrect allocation of cost elements	Cost-volume-profit analysis, variance analysis	SoftExpert Audit, Excel
Sales and receivables	Uncollected debts, revenue recognition risk	Trend analysis, aging schedule, ratio analysis	SoftExpert Audit, Stata
Financial results	Profitability decline despite revenue growth	Margin analysis, forecast comparison	EViews, Stata, Excel

5. Materiality Assessment in Internal Audit

The principle of materiality is one of the key elements of audit planning and performance. Effective application of materiality enables the auditor to conduct a large amount of verification work within a limited time, summarize results and prepare the audit report and conclusion. International standards on auditing explain materiality through ISA 320 “Materiality in Planning and Performing an Audit” and ISA 450 “Evaluation of Misstatements Identified during the Audit.” These standards require the auditor to consider the significance of misstatements when planning, performing and evaluating audit procedures.

In practical terms, materiality represents the maximum level of misstatement after which a qualified user of financial statements may no longer be able to draw correct conclusions or make correct decisions. In internal audit, performance materiality should be established at a lower level in order to reduce the probability that the total amount of uncorrected and undetected misstatements will exceed the materiality level determined for the financial statements as a whole.



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When determining materiality, audit organizations should consider the absolute amount of the error, the relative amount of the error, the aggregate value of misstatements, the nature of financial statement items, the intended users of reporting information and uncertainties related to going concern or bankruptcy risks. For example, materiality may be calculated as 0.5-1.0 percent of turnover, 1.0-2.0 percent of gross profit, 5.0 percent of profit before tax, 5.0 percent of equity, or 1.0-2.0 percent of total assets. If an identified error exceeds these indicators, it may be treated as material.

Table 2. Simplified materiality assessment variants for audit procedures

Indicator	Variant 1: increase	1: mln	%	Variant 2: increase/decrease	Main interpretation
Cash	1,000.0 UZS	mln	2	1,000.0 mln UZS	Low share but high liquidity sensitivity
Accounts receivable	15,000.0 UZS	mln	30	5,000.0 / 1,000.0 mln UZS	High risk of collectability and recognition
Inventories	34,000.0 UZS	mln	68	24,000.0 mln UZS	Core audit area for light industry
Equity	-	-	-	2,000.0 / 3,000.0 mln UZS	Relevant for capital stability
Short-term liabilities	-	-	-	13,000.0 / 17,000.0 mln UZS	Important for liquidity and solvency
Long-term liabilities	-	-	-	5,000.0 / 4,000.0 mln UZS	Relevant for financial risk
Total materiality	50,000.0 UZS	mln	100	50,000.0 mln UZS	Basis for planning audit work

The suggested approach is useful because the first variant concentrates mainly on current assets, while the second variant also takes into account capital and liabilities. For light industry enterprises, this broader approach is justified, since working capital, short-term liabilities and production inventories are closely connected. A decline in inventory quality, delays in

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receivables collection or growth of interest expenses can quickly affect profitability and cash flows.

6. Analysis of Enterprise-Level Financial Results

The financial indicators of “INDORAMA KOKAND TEXTILE” JSC Foreign Enterprise show a positive revenue trend. Sales revenue increased from 740,430 million UZS in 2021 to 1,418,431 million UZS in 2025. Cost of goods sold also increased, which is natural in a growing production environment. However, the key audit task is to determine whether cost growth is economically justified, whether expenses are properly classified and whether the growth of revenue is accompanied by a stable profitability margin.

Table 3. Revenue, expenses and net profit margin of “INDORAMA KOKAND TEXTILE”, 2021-2025

Indicator, mln UZS	2021	2022	2023	2024	2025
Sales revenue	740,430	871,094	1,024,816	1,205,666	1,418,431
Cost of goods sold	464,378	530,647	599,082	781,296	920,568
Total period expenses	170,911	201,072	251,515	212,173	238,034
Interest expenses	20,312	23,897	29,109	19,962	59,870
Net profit	105,141	139,375	174,219	212,197	259,829
Net profit margin, %	14.2	16.0	17.0	17.6	18.3

The increase in net profit margin from 14.2 percent in 2021 to 18.3 percent in 2025 can be assessed as a positive result. At the same time, the sharp rise in credit interest in 2025 requires additional audit procedures. The internal auditor should test credit agreements, interest calculations, the classification of financial expenses and the economic justification of borrowed funds. This example confirms that audit analytics should not end with the statement of

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revenue growth; it must identify the factors that strengthen or weaken financial sustainability.

The data of “BETLIS TEKSTIL” LLC demonstrate another important audit issue: revenue growth does not automatically mean profitability growth. In 2025, net revenue was more than three times higher than in 2020. Nevertheless, the share of operating profit decreased by 43 percentage points, profit before tax decreased by 6 percentage points and net profit decreased by 2 percentage points. This indicates that the internal audit function should pay special attention to cost structure, production efficiency, pricing policy, overhead allocation and non-operating expenses.

Table 4. Actual and forecast indicators of “BETLIS TEKSTIL” LLC

Indicator	2020/2022	2021/2023	2022/2024	2023/2025	2024/2026
Actual net revenue, thousand UZS	44,073,679	82,466,323	76,045,393	74,245,844	98,945,423
Actual operating profit, %	54	40	42	37	18
Actual net profit, %	7	3	8	11	9
Forecast net revenue, thousand UZS	175,919,309	228,695,101	297,303,631	386,494,721	502,443,137
Forecast operating profit, %	40	34	30	34	50
Forecast profit before tax, %	16	10	6	10	26
Forecast net profit, %	12	7	4	7	19

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Forecast indicators for 2022-2026, prepared through econometric modeling using EViews, Stata and Excel, suggest positive trends in revenue and profitability by 2026. From an audit perspective, such forecasts are valuable because they provide benchmarks for analytical procedures. If actual results significantly deviate from forecast values, the internal auditor should investigate the reasons, including market demand, production losses, changes in raw material prices, exchange-rate effects, credit costs and management decisions.

7. Scientific and Practical Recommendations

Based on the analysis, internal audit in light industry enterprises should be improved in several directions. First, audit planning must be risk-oriented and should begin with the identification of critical business processes: procurement, inventory storage, production, payroll, sales, receivables and financing. Second, the auditor should use materiality not as a formal calculation but as a tool for concentrating resources on the most significant risks. Third, audit evidence should be generated through digital registers, analytical procedures and automated sampling rather than through manual inspection only.

- Introduce a unified digital audit file that includes audit plans, checklists, working papers, evidence, corrective actions and management responses.
- Apply Audit Sampling to select representative transactions for inventories, receivables, liabilities and cost elements, especially when the number of operations is large.
- Use SoftExpert Audit or similar platforms to automate audit planning, task assignment, approval workflows, reporting and follow-up monitoring.
- Integrate Excel, Stata and EViews models into internal audit procedures in order to compare actual results with historical and forecast indicators.
- Develop sector-specific digital accounting registers for light industry enterprises, including raw materials, semi-finished goods, finished goods, production losses, labor costs and overhead expenses.

A particularly important recommendation is to implement the “cost - output volume - profit” chain in internal audit analytics. This mechanism allows the auditor to evaluate how changes in production volume, cost structure and selling prices affect value creation. In the textile and sewing-knitting sector,

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such analysis can reveal whether profitability is formed through real efficiency or only through higher revenue. It can also help management decide where to reduce costs, where to improve technological processes and where to revise pricing or credit policy.

8. Conclusion

The study confirms that internal audit processes in light industry enterprises should be modernized through digital technologies, analytical procedures and risk-oriented methodology. The transformation from a traditional audit approach to an intelligent digital audit model is necessary because enterprises operate with large volumes of financial and production data. Software tools can reduce the duration of audit procedures, decrease the labor intensity of auditors and increase the quality of audit results.

The analysis of “INDORAMA KOKAND TEXTILE” shows that stable growth of revenue and net profit margin should be supported by continuous control over cost of goods sold, period expenses and credit interest. The analysis of “BETLIS TEKSTIL” shows that revenue growth may be accompanied by declining profitability, which requires deeper audit procedures related to production efficiency and cost management. Therefore, internal audit should focus not only on compliance but also on the economic substance of operations and the sustainability of financial results.

The practical implementation of Audit Sampling, SoftExpert Audit, digital accounting registers and econometric forecasting can strengthen the audit of product cost and financial results. As a result, enterprises will be able to prepare audit reports and conclusions in accordance with international standards, increase the reliability of financial information and support effective management decisions. In general, improving internal audit in light industry enterprises is an important factor in increasing investment efficiency, competitiveness and long-term financial sustainability.

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