THE IMPORTANCE OF USING A SYSTEM OF INDICATORS TO ASSESS CONFLICTS OF INTEREST IN AUDITING ACTIVITIE

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ABSTRACT

Conflicts of interest represent one of the most significant threats to the independence and objectivity of auditors. When auditors maintain economic, social, or administrative ties with their clients, the credibility of audit results can be compromised. This study proposes a quantitative system of indicators to identify and assess conflicts of interest in auditing activities. The system includes six key indicators-Financial Dependence Level (FDL), Personal Relationship Index (PRI), Audit Duration Coefficient (ADC), Bonus/Reward Dependence (BRD), Independent Reviewer Difference (IRD), and Audit Leadership Rotation (ALR)-each weighted according to its influence on auditor independence. Using these indicators, a Composite Index (CI) is calculated to classify organizations into low, medium, or high conflict-of-interest risk levels. The results of the analysis conducted across several organizations in Uzbekistan show significant variation in risk levels, with some entities, such as Navoi Construction, exhibiting high risk due to prolonged engagement and strong financial dependencies. The proposed indicator system enhances the transparency of the audit process and serves as an effective tool for early detection and prevention of auditor bias.

Conflicts of interest in auditing are one of the factors that most negatively affect the objectivity and reliability of the auditor's professional judgment. These situations usually arise when there is a direct or indirect economic, social or administrative relationship between the auditor and the audit client. According to the results of monitoring conducted by the Department for the Development of Auditing Activities under the Ministry of Economy and Finance of the Republic of Uzbekistan in 2021-2023, 11 out of 42 audit reports contained various forms of conflicts of interest between representatives of the audit organization and the management of the client enterprise.

Conflicts of interest distort the auditor's decisions, lead to the formation of unfounded conclusions, and reduce the credibility of the auditing profession before the public. In order to prevent such dangerous situations and identify them early, it is necessary to develop a system of special indicators. This system should be used consistently in audit practice and independently assessed by the audit team during each audit. Based on the above, it would be appropriate to use the following indicator system:

Table 1.

A system of indicators for assessing conflicts of interest in auditing activities

№	**Indicator name**	**Description**	**Evaluation criteria (scores: 0–1)**	**Weight coeffi-cient (W)**	**Indi-cator contri-bution (Score × W)**
1	Financial Dependence Level (FDL)	Financial interests related to the auditor or firm (shares, loans, service fees)	0 – no dependence; 0.5 – service fees make up more than 30% of client income; 1 – direct shareholding, loan, or sponsorship exists	0.25	FDL × 0.25
2	Personal Relationship Index (PRI)	Family or personal connections between the auditor and client representatives	0 – none; 0.5 – friendship or coworker relationship; 1 – family or former managerial relationship	0.20	PRI × 0.20
3	Audit Duration Coefficient (ADC)	Number of consecutive years working with one client	0 – less than 2 years; 0.5 – 2–4 years; 1 – more than 4 years	0.15	ADC × 0.15
4	Bonus/Reward Dependence (BRD)	Dependence of auditor bonuses on audit results	0 – no dependence; 0.5 – based on audit quality assessment; 1 – determined by profit level	0.15	BRD × 0.15
5	Independent Reviewer Difference (IRD)	Difference between audit team and independent reviewer opinions	0 – no difference; 0.5 – minor differences; 1 – significant differences (e.g., KAM not disclosed)	0.15	IRD × 0.15
6	Audit Leadership Rotation (ALR)	Frequency of changing the responsible auditor for a client	0 – rotated every 3 years; 0.5 – rotated every 4–5 years; 1 – same person for more than 5 years	0.10	ALR × 0.10

Overall Conflict of Interest Index

CI=(MBI×0.25)+ (SAI×0.20)+ (ADK×0.15)+ (MMB×0.15)+ (MBF×0.15)+ (ARR×0.10)

Evaluation of the index result:

0.00-0.49 - Low risk, the auditor's conclusion is reliable.

0.50-0.79 - Medium risk, careful analysis is required.

0.80-1.00 - High risk, there is doubt about the impartiality of the conclusion, a possible conflict of interest.

Using these indicators, an assessment table is compiled for each audit case and an overall risk index is formed. For example, in 2023, when the analysis was conducted based on these indicators in the audits conducted against "Chust District Construction Department" and "Agrokimyo Savdo" LLC, MBI 0.6; SAI 0.4; ADK 0.8; The MMB was 0.5; the MBF was 0.7. As a result, the overall conflict of interest risk was assessed as high (over 3.0).

Table 2.

Conflict of Interest Index Analysis

№	Organization	FDL	PRI	ADC	BRD	IRD	ALR	CI (Composite Index)	Risk Level
1	Agrochemical Trade	0.5	0.5	0.5	0.5	0.5	0.5	0.50	Medium
2	Mingbulak Construction	0.0	0.5	0.0	0.5	0.5	0.5	0.30	Low
3	Mingbulak Farmers' Market	0.5	0.0	0.5	0.5	0.5	0.0	0.35	Low
4	Navoi Construction	1.0	0.5	1.0	1.0	1.0	1.0	0.90	High
5	Chust Construction	0.5	0.5	1.0	0.5	0.5	0.5	0.575	Medium
6	Namangan Agrochemical	0.0	0.0	0.5	0.5	0.0	0.5	0.20	Low

The results of the analysis show that the level of conflict of interest affecting the professional judgment of auditors varies in different organizations. For example, in the organizations “Mingbuloq construction department” (0.300) and “Mingbuloq dehqon bozori” (0.350), this indicator is low, which means that subjective or self-interested decisions are less likely to be made in the formation of the audit opinion. This indicates that the mechanisms for controlling conflict of interest for these organizations are working sufficiently.

In the organizations “Agrokimyo Savdo” (0.500) and “Chust Qurilish” (0.575), the risk level is medium, which requires a careful approach to the audit opinion. In particular, if accounting services work with the auditor on the basis of mutual financial interests, the objectivity of the opinion may be at risk.

It follows that it is necessary to strengthen control over indicators that determine conflicts of interest in organizations (MBI, SAI, ADK, MMB, MBF, ARR), analyze the independence of the audit team for each case, and increase transparency in decision-making. Especially in high-risk organizations (for example, Navoi Construction), rotation, independent review, and audit quality control by audit management and supervisory bodies should be strengthened. Based on this system of indicators, organizations should form a “conflict of interest risk rating” at the beginning of each audit activity. Through this approach, auditors will be aware of possible errors in their activities and will increase caution in decision-making.

Conclusion

The findings of this study confirm that conflicts of interest have a tangible impact on the reliability of audit conclusions and the professional reputation of auditors. The use of a structured system of indicators enables auditors and regulatory authorities to identify and measure such conflicts objectively. Applying the proposed index across audit engagements helps determine the degree of independence and guides appropriate risk mitigation strategies. For organizations with medium and high conflict-of-interest scores, it is recommended to strengthen internal control mechanisms, ensure periodic auditor rotation, and increase oversight by independent reviewers. Implementing this system as part of standard audit procedures will not only improve the quality and credibility of audit opinions but also promote ethical behavior and public trust in the auditing profession.

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