Assessment Directions In The Audit Of Financial Statements

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Annotation: This article discusses the issues of evaluating the effectiveness of the internal control system during the audit of financial statements. As a result of the studies, the elements of the components of the internal control system in business entities were clarified. Also, this article describes the components of an internal control system.

Keywords: internal control, internal control system, audit, audit activity, audit of financial statements, international audit standards, fraud.

Introduction. In the current situation, the interest of business owners and managers in the effective and reliable operation of internal control is growing. An internal control system is a set of organizational measures, methods, and procedures used by an entity's management to conduct business in an orderly and efficient manner, to ensure the safety of assets, and to prevent data breaches. A broad interpretation of the goals and objectives of the control functions of management, the diversity of existing forms of organization of the internal control service in practice determines the complexity of developing an optimal structure of criteria for assessing the effectiveness of the internal control system.

Methods for assessing the effectiveness of the internal control system in the audit of financial statements are based on the application of auditing procedures provided for in international auditing standards. One of the ways to improve the internal control system is a process approach to management. Insufficient formalization of the internal control process, the lack of corporate standards and regulations do not allow to address the organizational and methodological issues of the implementation of the control function in the management environment.

REFERENCES
The issues of the system of internal control in business entities are widely covered in normative-legal documents and in the works of economists. In particular, according to Article 21 of the Law of the Republic of Uzbekistan "On Accounting", the internal control is a system of measures established on the basis of the accounting policy adopted by the head of the accounting entity for the purpose of prevention and detection "[1].

In accordance with the International Standard on Auditing No. 315 "Identification and assessment of the risks of material misstatement on the basis of knowledge of the business entity and its environment" a process that is developed, implemented, and maintained by the individuals, management, and other personnel charged with management [3].

According to A.Avlokovulov, Doctor of Economics, the purpose of assessing the system of internal control is to correctly determine the time and scope of the audit. By evaluating the internal control system itself, the client business performance inspection program can be correctly identified. In addition, by evaluating the internal control system, the audit firm can advise the client on its regulation and improvement in the enterprise [4].

According to another group of economists, a well-established system of internal control helps to identify errors and shortcomings in the organization in a timely manner and help it to work effectively [5].

Some scholars have noted: “Accurate assessment of the effectiveness of the internal control system plays an important role in the audit of financial statements. International auditing standards also pay close attention to the issues of internal control system in the quality of audits ”[7].

Economists V. Lakis and L. Giriunas say that in modern economic conditions, one of the most important tools for enterprise management is an effective system of internal control, which serves to create priorities for success among competing enterprises [8].

D.Dimitrievich, V.Milovanovich, V.Stanchich concluded that the system of internal control is a set of actions that control the effectiveness of the company and serves to ensure the achievement of its goals [6].

From the above considerations, it can be seen that a lot of research has been done on the internal control system. However, most studies do not pay enough attention to the factors influencing the organization of the internal control system and research on reducing audit risk in this process.

ANALYSIS AND RESULTS

When conducting an audit of financial statements, the auditor should have knowledge of the internal control system required to conduct the audit. The auditor uses this knowledge to determine the potential misstatement of the financial statements, as well as to plan the nature, timing and scope of the audit.

The auditor shall identify and assess the activities of the audited entity and the environment in which it is performed, including the internal control system, the risk of material misstatement of the financial statements as a result of errors or misconduct by the audited entity's management or employees; should learn enough. Similar requirements are set out in international auditing standards. These requirements are governed by IAS 315, Identifying and Assessing the Risks of Significant Violations Based on Knowledge of the Business Entity and its Environment. The purpose of the auditor's assessment of the internal control system in the audit of financial statements is to identify the risks of material misstatement in the financial statements and to carefully plan and conduct an audit.

It is known that understanding the internal control system is of great importance in conducting financial audit. In particular, this concept provides a basis for assessing the risk of serious misstatement of audit planning and financial statements and for expressing the auditor's professional views on responding to these risks in the
audit, for example:
- to determine the level of materiality in the inspection process and assess whether the decision on it remains unchanged;
- reviewing the appropriateness of the selection and application of accounting policies and the transparency of information in the financial statements;
- identification of the object of the audit, which requires special attention of the auditor, in particular, the relationship with the parties, the continuity of the organization or the assumptions of management to study the objectives of business operations;
- planning and implementation of subsequent audit activities in order to minimize audit risk;
- assessment of the appropriateness and appropriateness of the audit evidence obtained, as well as oral and written information and explanations of the management of the audited entity.

Figure 1 shows the responsibilities of the external auditor in assessing the effectiveness of controls established by the International Standard on Auditing No. 315, "Identification and assessment of the risks of material misstatement on the basis of knowledge of the business entity and its environment."

Figure 1. On evaluating the effectiveness of controls

obligations of the external auditor

The organization’s control tools include reviewing its ability to prevent or detect and correct significant violations. The auditor should evaluate whether the risk of material misstatement of the financial statements can be reduced or prevented.

In our view, the auditor should determine the status of the use of controls across the five components of the internal control system: the control environment; the process of risk assessment of the inspected person; information system related to the preparation of financial statements; control procedures; monitoring of control means. The elements of the control environment to be evaluated by the external auditor are shown in

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1 Developed by the author
Figure 2.

The external auditor evaluates the effectiveness of the elements of the control environment by obtaining audit evidence. In gathering audit evidence, the auditor may use the following actions: control, inspection, inquiry, calculation, analytical actions, external confirmation, re-examination. The model of assessment of elements of the control environment by the external auditor shows that the auditor obtains relevant audit evidence on the use of elements of the control environment by combining inquiries and other risk assessment activities, monitoring or reviewing documents.

Figure 2. Elements of the control environment that the auditor should evaluate in a financial statement audit

It should be noted that International Auditing Standard No. 315 instructs the auditor to gain an understanding of the control environment, with particular emphasis on the risk of fraud. According to ISA 240, “Auditor's Liability for Financial Statement Audit Fraud,” fraud is an intentional act by one or more individuals to obtain unfair or unlawful gain from management, management, employees, or third parties [2]. Fraud in the accounting system is characterized by intentional acts or omissions related to the misstatement of financial statements. In assessing the internal control system, the auditor should conduct audits to obtain the information necessary to determine the risk of serious misstatement as a result of dishonest actions. The auditor should ask the management of the audited entity the following questions:

- the situation in which the financial statements of the audited entity are seriously distorted as a result of dishonest actions.

2 Муаллиф томонидан ишлаб чиқилган
dishonest actions;

– the process carried out by the management of the audited entity to identify and respond to the risk of dishonest actions;

– Interaction between management and representatives of the audited entity in the process of identifying risks arising from dishonest actions and taking measures against such risks;

– Interaction between the management and employees of the enterprise being audited from the point of view of management on the rules of conduct and ethical standards of employees.

It should be noted that the existence of a satisfactory control environment is a positive factor in the auditor's assessment of the risk of serious misrepresentation of information and may affect the nature, timing and extent of subsequent actions. In particular, this may indicate a reduction in the risk of dishonest behavior. However, deficiencies in the control environment can impair the effectiveness of control tools.

The auditor must then determine the status of the use of management in the process of risk assessment by the audited entity, the second component of the internal control system. In assessing the organization and application of the risk assessment process, the auditor determines how the management of the entity being audited is to be performed.

The external auditor sends inquiries to the management of the audited entity about the risks of the business and considers these risks in terms of whether they can lead to serious misrepresentation of information. During the audit, the auditor may identify the risk of serious misstatement of information that management cannot identify. In such cases, the auditor determines whether the risk is primarily a risk that needs to be identified by the audited entity in the risk assessment process and, if so, why it is not. If the auditor concludes that there are significant deficiencies in the risk assessment process by the audited entity, the auditor will contact the property owners' representatives.

It is well known that analytical activities can help identify indicators and trends that may reflect unconventional transactions or events, as well as problems with financial reporting and auditing. When performing analytical activities as risk assessment activities, the auditor evaluates the expected performance indicators. If the comparison of the expected results with those calculated on the basis of recorded amounts or calculated amounts leads to normal or unexpected results, the auditor takes these results into account in determining the risk of material misstatement.

Monitoring and control is the basis for sending inquiries to the management and other employees of the audited entity, as well as a source of information on the risk assessment process by the audited entity. Such audits typically include:

- monitoring the operations and various areas of activity of the audited entity;
- control of internal control system regulations and accounts;
- study of reports;
- monitoring the reflection of business transactions in information systems that generate data for financial reporting.

The elements of the information systems to be evaluated by the auditor are shown in Figure 4. In the review process, the auditor reviews the steps used to transfer data from transaction processing systems to the General Ledger or the financial reporting system.

Transaction processing systems and financial reporting systems are systems of manual or automated registration, processing and generalization of information on business operations. The auditor should also review the procedures for collecting information related to financial statements of events and events not related
to the entity's business, such as the depreciation or impairment of assets or accounts receivable.

The auditor should understand the operation of the audited entity's information systems related to the preparation and preparation of the financial statements in order to conclude that the audited entity is compliant with the operating conditions.

- The same groups of transactions that are important for financial reporting
- Procedures for recording, processing and reporting business transactions
- Certain items of financial statements related to accounting records, registration, processing and summarization of business transactions
- Information about events and events that do not fall into the same type of transactions but may be significant to the financial statements
- The process of preparing and preparing financial statements

**Figure 4. Elements of information systems that the auditor should evaluate in a financial statement audit**

Monitoring and control of the processes of registration, processing and generalization of business operations can be the basis for assessing the reliability of information systems of the audited entity. Responses to inquiries sent to employees involved in performing or reporting complex or unusual transactions in accounting will help the auditor assess the appropriateness of selecting and applying some of the accounting firm’s accounting rules.

The auditor should have sufficient knowledge of the audited entity's controls to assess the risk of material misstatement at the level required for the preparation of the financial statements and develop follow-up audit procedures to assess the assessed risks. Control actions include the actions taken by the audited entity to ensure that the control activities are performed and that the necessary measures are taken against the risks that may prevent the audited objectives from being achieved. Controlled actions of the inspected entity, performed manually or using information systems, have different purposes and are applied at different organizational and functional levels.

The control procedures to be performed by the external auditor are shown in Figure 5.

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3 Муаллиф томонидан ишлаб чиқилган
5- picture. Control procedures to be evaluated by the auditor in the audit of financial statements

By familiarizing themselves with the control activities of the audited entity, the auditor will primarily prevent or detect serious irregularities in the operations groups, balance sheets, or specific circumstances.

The auditor should identify the main activities performed by the audited entity to evaluate the system of internal control over financial statements. The auditor should identify what the source of information is for the monitoring measures and, on that basis, the circumstances that management considers sufficient to achieve the relevant objectives. Monitoring activities involve internal auditors or staff performing similar functions for many audit entities.

In actions in the field of monitoring, the management of the audited entity may use external information. If the auditor intends to use the information generated for the process by the audited entity for the purposes of the audit, in particular the reports of the internal auditor, the auditor should determine whether the information is sufficiently detailed or reliable for use.

Thus, during the study, elements of the internal control system components that the auditor should examine were identified to assess the effectiveness of the controls. Paying special attention to these elements in audits allows to identify the risk of serious misstatements in the financial statements and to plan the audit prudently.

CONCLUSION

1. In order to achieve their goals, business entities must properly organize their activities and exercise constant control over them. Therefore, the issues of organization of the system of internal control in business entities are widely considered in scientific research. In our opinion, the effective implementation of the internal control system requires the widespread use of advanced scientific
achievements and innovative technologies.

2. In the careful planning and consistent implementation of audits, auditors pay close attention to assessing the effectiveness of the internal control system. An objective assessment of the internal control system allows for the correct determination of materiality and risk levels and the optimal determination of the scope of audit selection.

3. The quality of the work of audit organizations depends on their correct determination of audit risk. Audit risk has a special place in the structure of control risk, the level of which depends directly on the state of the internal control system in business entities. As a result of the research, the application of the above recommendations for the assessment of the internal control system will allow to determine the optimal level of audit risk.

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