Academic Journal of Digital Economics and Stability
Volume 7, 2021

ISSN 2697-2212 Online: https://academicjournal.io

Risk Assessment and Internal Control System in Audit

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Abstract

This article examines the risk assessment and internal control system during audits and describes a number of ways in which the auditor should act in such situations. The article also analyses the differences between national and international standards on audit.

Keywords: standard, risk, control, auditor, risk of uncertainty, management risk, net risk.

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Introduction

Uzbekistan should join intergovernmental and international professional audit organizations and take part in the development of international audit standards. This allows certification to be carried out in accordance with the requirements of the standard. These measures will ultimately allow our country to participate more actively in global economic integration. Types and procedures for determining audit risk Both the ISA 400 International Auditing Standard and the Order of the Ministry of Finance of the Republic of Uzbekistan[1] on the approval of the National Auditing Standard of the Republic of Uzbekistan (NAS 12). The International Standards on Auditing (ISA) are issued by the International Auditing Practice Committee (IAPC). The IAPC is a standing committee of the Council of the International Federation of Accountants (IFAC), which was founded in 1977 and is based in New York.FAC brings together over 125 member organizations representing over 1.7 million accountants. Membership of the International Accounting Standards Committee (IASC) based in London, the two organizations are independent from each other, with the first engaged in auditing and the second in accounting.

Methods

Methods of comparison, scientific abstraction, logical thinking, observation and analysis were used in the research process.

Results and discussion

ISA 400 System of Risk Assessment and Internal Control: The specific risk of small businesses may increase as a result of concentration of ownership and management. The risk of the management system is often overestimated, especially since the tasks cannot be divided, in some cases this deficiency is compensated by the implementation of management on the part of the owner-manager, but the likelihood of abuse on the part of the management may increase.[2]

Since the audit of the business of the audited entity is often selective, there is a possibility of audit risk. Audit risk has three components:

1. net risk;
2. management risk;
3. risk of uncertainty.[3]

The auditor should examine these risks, assess them and document the results of the assessment during the course of the work. In assessing risks, the auditor should use at least three of the following levels:

1. high;
2. medium;
3. low.

Auditing firms may choose to use more than three metrics when assessing risk, or use quantitative metrics (percentages or unit ratios) to assess risks. When conducting an audit, the auditor should take the necessary steps to minimize audit risk. In practice, it is inappropriate to

[1]https://lex.uz/docs/-1170850
[2]https://nt-csm.ru/uz/uchebnik-mezhdunarodnye-standarty-audita-tema-standarty.html
[3]https://mos-logist.ru/uz/stil/ponyatie-auditorskogo-riska-i-ego-sostavlyayushchie-ocenka/

ISSN 2697-2212 Online: https://academicjournal.io

nullify audit risk. However, the auditor should strive to minimize risks, and plan and conduct so that the risk of the audience making a wrong decision is low enough. In each specific case, the degree of minimization of audit risk largely depends on the level of interest of external users in the financial statements of an economic entity. The wider the circle of potential users, the higher their interest in the report, the more important it is for the auditor to minimize audit risk. It can be assumed that the reports of economic entities with a large financial volume are more demanding than the reports of industrial enterprises producing homogeneous products. Shareholders, owners and potential investors show less interest in open reporting.

Intra-business risk (net risk) - if the auditor determines the subject of accounting, a balance sheet item, a similar group of business operations, the report of an economic entity as a whole, such violations are detected by the system with a probability of serious errors until it is determined. assume that there is no internal control or such fundings. This risk describes the degree of susceptibility to violation of the material account. accounting, balance sheet items, business transactions of the same type for the audited entity and reports must be audited.The auditor should assess the on-farm risk using his professional judgment at the planning stage. During the preparation of the audit-plan, the auditor should assess such risks in relation to the balance sheet and financial statements. When preparing the audit program, on-farm risks should be assessed, since they exceed a certain level of materiality for accounting and transactions, balances and (or) transactions.When assessing internal risks for the balance sheet and report, the auditor should consider the following factors:

1. characteristics of the industry in which the company operates and the current economic situation;
2. features of the activities carried out by this business entity;
3. the honesty of the employees of the business entity responsible for the conduct of office work and the preparation of reports;
4. experience and qualifications of personnel responsible for record keeping and reporting;
5. the possibility of external pressure on managers and employees of an economic entity to achieve certain indicators of economic reporting at any cost;
6. the ability to manage the activities of the enterprise by its owners.

The auditor should consider the following factors when assessing intra-business risk in relation to clear accounting and similar business transactions:

a. separate accounting accounts, which are distinguished by the presence of deliberate violations;
b. separate accounting accounts, which are characterized by the occurrence of intentional violations due to the high likelihood of their use for abuse;
c. the complexity of business operations, which must be taken into account, the correct design of highly qualified performers;
d. the presence of business transactions, accounting can be fully or partially based on the subjective opinion of the executors;
e. the presence of business transactions, the correct registration procedure of which is interpreted ambiguously by the current legislation;

ISSN 2697-2212 Online: https://academicjournal.io

f. the presence of rare, unusual, non-standard business transactions.

In assessing risk, the auditor can use audit information from previous years, but must also ensure that estimates of the magnitude of this risk made in the previous year are also applicable to the reporting year.

Management risk - accounting and internal control systems that subjectively identify the auditor, is present on a regular basis, individually or within a framework that does not allow for the implementation of necessary violations. Management risk characterizes the level of reliability of the accounting system and internal control of an economic entity. To assess the risk of control, the auditor should clarify the so-called audit procedure of audit procedures. The control test is designed to convince the auditor of the following:

1. whether the accounting and internal control systems provided for in the enterprise are working reliably and whether these systems are capable of preventing and detecting serious misstatements in the financial statements;
2. whether the controls operate with the same effectiveness during the reporting period;

Uncertainty risk is the likelihood that the audit procedures applied during the audit, which are subjectively determined by the auditor, will not allow the identification of factual material violations, individually or in the aggregate. The risk of uncertainty is an indicator of the effectiveness and quality of the auditor's work, which depends on factors such as the procedure for conducting a particular audit, as well as on the qualifications of the auditors and their level of prior knowledge of the auditor. The auditor is required to determine the optimal risk of uncertainty in his work based on on-site risk assessment and risk control, and plan appropriate audit procedures taking into account the risk of uncertainty. The existing feedback is a combination of the risk of unidentified on-farm risks and the risk of control:

1. high values of on-farm risk and control risk are necessary to organize the audit in such a way as to minimize the risk of uncertainty and, thus, reduce the overall audit risk to an acceptable value;
2. low indicators of on-farm risk and management risk allow the auditor to increase the risk of non-disclosure of information during the audit and at the same time to obtain an acceptable value of the overall audit risk.

If the auditor concludes that the material nature of the balance sheet does not allow minimizing the risk of uncertainty in relation to a group of similar transactions, this may serve as a basis for the auditor's preparation of an auditor's report in addition to an unquestionably positive opinion based on audit results. The auditor should assess risks that are not related to him or her as early and carefully as possible, since the risk of uncertainty is directly related to the volume of work, the cost of work and the total cost of auditing the work. If the auditor and the customer have come to an agreement on the fixed costs of the audit and high audit risks have arisen after the signing of the relevant contract and the actual start of work, the auditor is entitled to an unplanned increase in the workload associated damage. If the estimated cost of the work is indicated in the audit contract, then an increase in this price by one and a half to two times may not arouse understanding among the client, and the corresponding negotiations will seriously complicate the life of the auditor. All issues related to risk assessment, as well as the corresponding calculations, the reasons for their choice and changes should be documented. First, these working papers confirm that the audit was planned and conducted with the necessary

ISSN 2697-2212 Online: https://academicjournal.io

care and quality. Second, the synthesis and analysis of these working papers will allow you to analyze if the risks have been correctly assessed and planned.

Conclusion and recommendations

In conclusion, the executive body of an economic entity is responsible for the accuracy of financial statements. The existence of the auditor's report on the financial statements does not make the auditor responsible for their preparation. However, this does not mean that the auditor is not responsible for anything. It should serve as a guide for users of financial statements in order to form an objective understanding of the reliability of the reports presented and to alert them to existing or possible deviations in these reports. Auditor is responsible for formulating an appropriate opinion. Therefore, the auditor's opinion on the reliability and unreliability of the financial statements should be based on necessary and sufficient audit evidence gathered during the audit. Each of these arguments must serve as evidence of the accuracy of the financial statements or their components as a whole. When collecting evidence, the auditor should consider the need for its reliability and sufficiency. During an audit, the auditor should consider the amount of information that will enable him or her to draw appropriate conclusions. It is impossible to establish strict criteria for determining the amount of information required during an audit. Even if the financial statements are the subject of the same financial and business transactions, the number of accountants and the number of safes is the same as in the accounting documents - this concerns the quality and quantity of audit evidence required, does not say anything. The adequacy of audit evidence in each specific case is determined on the basis of an assessment of the internal control system and the level of audit risk in a particular economic entity.

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