



Issues of Evaluating the Effectiveness of the Internal Control System in Audits

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Abstract

This article describes the areas of evaluation of the effectiveness of the internal control system in audits. As a result of the research, 5 stages of evaluating the effectiveness of the internal control system are proposed. The author has also developed internal control evaluation steps.

Keywords: *Audit; Control; Internal Control System; Analytical Activities; Audit Planning; Audit Evidence; Audit Opinion*

Introduction

Improving the efficiency of the corporate governance system in joint-stock companies, taking into account international requirements for the rapid development of investment activity in Uzbekistan, the full implementation of the principles of corporate governance; as well as ensuring their broad participation in the investment process and the implementation of structural changes in the economy is one of the most pressing issues today.

As a result of the formation of market relations and the development of corporate governance, one of the most pressing issues today is the effective organization of financial and economic activities of business entities of various forms of ownership and improving the provision of professional audit services. In the process of conducting audits, the main focus is on assessing the effectiveness of the internal control system. Because the more reliable the internal control system, the lower the audit risk and serves to form a reliable audit opinion. Therefore, it is important to make a fair assessment of the effectiveness of the internal control system in audits.

Literature Review

The issues of internal control and its evaluation in audits are widely covered in normative legal documents and works of economists.

Lithuanian economists V. Lakis and L. Giriunas point out that internal control is one of the tools to help the company achieve its goals. Only when the internal control of the enterprise is effectively organized, it will be possible to objectively assess the potential development, timely identify and eliminate risks [1].

According to U.S. economists William F. Messier, Jr., Steven M. Glover, and Douglas F. Prawitt, internal control reflects the extent to which management is performing its management functions. That is, an internal control system is considered reliable when management has established effective control over assets [2, p. 192].

According to economists Alvin A. Arens, Randal J. Elder, Mark S. Beasley, the internal control system consists of the control actions necessary for the management to achieve the goals set by the company. These actions together constitute the internal control of the company [3, p. 290].

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that internal control is a process performed by directors, management, and other employees of an organization and provides confidence in achieving goals in the following categories:

efficiency and objectivity of operations, reliability of financial reporting, compliance with adopted laws and regulations, protection of assets from illegal income, use and write-off [4, p. 9].

Rick Hayes, Roger Dassen, Arnold Schilder, Philip Wallage point out that internal control is necessary not only to maintain accounting and financial reporting, but also to manage the organization. From external auditors to the management of the organization, from the board of directors, large shareholders are interested in internal control. In many countries around the world, the organization's management is required to submit an annual report on the effectiveness of internal control [5, p. 230].

According to Carla M. Johnstone, Audrey A. Gramling, Larry E. Rittenberg, internal control reduces the risk of the organization not achieving its goals. Examples of organizational benefits include ensuring operational efficiency, producing high quality products or providing high quality services, complying with regulatory requirements, and providing reliable financial information to users [6, p 74].

Ibrahim Nandom Yakubu, Mohammed Mubarik Alhassan, Abdul-Nasiru Iddrisu Alhassan, Jamaldeen Adam, Mujeeb Rahman Sumaila stressed that in order for banks to operate effectively, safely and sustainably, they must have a reliable accounting system based on an internal control system. An effective internal control system is an important component of bank management and is the basis for safe and reliable operation [7].

According to Ironkwe Uwaoma, Promise A.Ordu, the internal control system ensures the reliability of the accounting data used in the decision-making process for management [8].

According to the Uzbek economist, Professor B. Hasanov, the requirements for evaluating the internal control system are another important step in the development of auditing practice, which an economic entity uses to limit the likelihood of errors in financial statements and is based on the evaluation of control procedures [9, p. 46].

According to V.V. Burtsev, the internal control system is the information that provides control, information about the objects of management for 3 persons, which includes: control environment, responsibility center, technical control, control process and accounting system. Internal control system is the main function of management information system, an integral process of various internal and external data, is the most necessary for all forms of management decisions for the enterprise [10, p. p. 236].

In her research on the organization of financial control, Professor M. Tulakhojaeva noted that "... in the organization of the control system it is very important to determine the boundaries of each body, their rational distribution to cover each of the objects of control with financial control. put forward the idea that it should be a form of property" [11, p. 88].

According to H. Musaev, control is observation and inspection in order to manage the activities of economic entities, and it is a function of management and is the basis for decision-making [12, p. 220].

A. Ostonokulov noted that the establishment of constant control over resources in organizations contributes to the correctness of accounting and financial reporting [13, pp. 11-16].

It is clear from the above considerations that the views of economists are mainly focused on the nature of internal control and the purposes for which they are applied. However, not enough attention has been paid to evaluating the effectiveness of the internal control system.

Research Methodology

In conducting research, audits provide conclusions, suggestions and recommendations in relevant areas through the analysis of the views of economists on the effectiveness of the internal control system, expert evaluation, process observation, systematic approach to economic events and processes, comparative analysis with the author's experience.

Analysis and Results

The sustainable development of business entities, the improvement of their financial situation largely depends on the system of internal control they have. The system of internal control involves a continuous process of improvement, substantiation and implementation of development methods, as well as the identification of factors that adversely affect the financial and economic activities of the business entity.

Internal control system - adopted by the management of the business entity for the purpose of control and effective management of financial and economic activities, ensuring the safety of assets and accounts, prevention and detection of errors and fraud, accuracy and completeness of accounting records and timely preparation of reliable financial information a set of organizational measures, methods and actions (internal control tools).

The quality and efficiency of the audit play an important role in conducting the audit. To do this, first of all, the auditor must thoroughly study the state of the internal control system of the audited entity. Because the internal control system is directly related to the audit risk, during the audit, the auditor should assess the state of the internal control system by applying audit procedures to reduce the risk to an acceptable low level.

When it comes to internal control, it should be noted that it is only useful when it is focused on achieving a specific goal, and these goals should be identified before evaluating the results of control. The main purpose of internal control is reflected in:

Reliability and completeness of information;

Compliance with normative legal acts;

Rational and efficient use of resources;

To follow the business entity's departments for a specific purpose.

The purpose of evaluating the internal control system is to accurately determine the period and scope of the audit. It is through the correct assessment of the internal control system that the program of inspection of the business entity can be correctly defined. In addition, by evaluating the internal control system, the audit organization can provide advice on improving the activities of the business entity.

During the audit, it is advisable for the auditor to study and properly evaluate the controls to determine the nature, extent and costs of the appropriate audit procedures. It should be noted that the scale and characteristics of the internal control system, as well as the degree of its formation should correspond to the size of the business entity and the characteristics of its activities.

When assessing the effectiveness of the organization and operation of the internal control system, the auditor should determine the organizational structure of the business entity, the role of management and the effectiveness of the internal audit service.

The internal control system requires: the trust of employees in clearly defined rights and obligations; creation of conditions for the internal audit service at the level of demand; staff training and occupational safety; strict determination of the level of salaries of employees of the internal audit service in the staffing table.

The study and evaluation of the internal control system must be documented in the working papers by the audit organization during the audit.

In general, the evaluation of the internal control system by the auditor should consist of the following three stages (Figure 1):

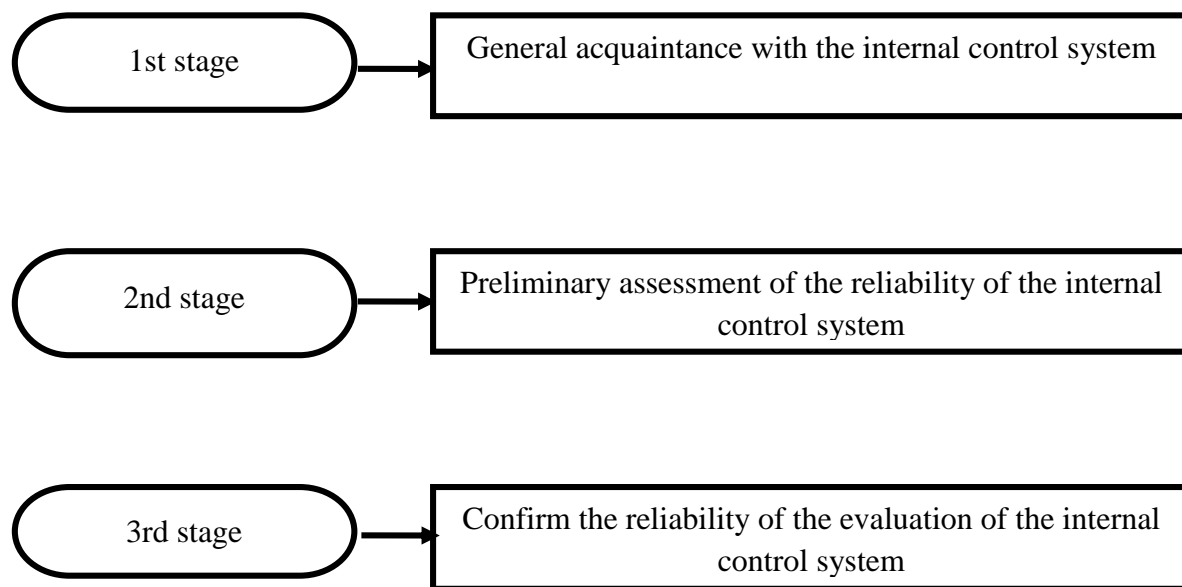


Figure 1. Stages of evaluation of the internal control system (*compiled by the author*)

To assess an entity's existing system of internal control, the auditor should first examine the state of that system. When getting acquainted with the system of internal control, it is necessary to study such aspects as the structural structure of the business entity, the existence of subsidiaries and affiliates, the form of ownership, the type of activity.

The development of an business entity, its financial stability and reputation are directly related to the effectiveness of the internal control system.

The audit organization uses the following levels to assess the reliability and effectiveness of the internal control system:

high;
medium;
low.

In our opinion, it is necessary to put into practice 5 levels of assessment of the reliability and effectiveness of the internal control system (Figure 2):

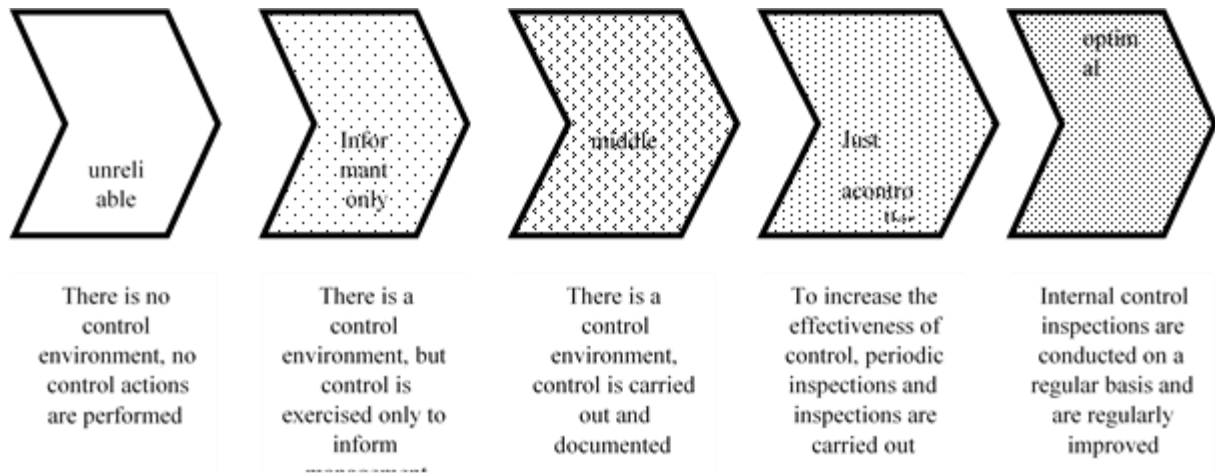


Figure 2. Levels of evaluation of the effectiveness of the internal control system (Compiled by the author)

The above 5 levels of assessment of the reliability and effectiveness of the proposed internal control system include not only the assessment of the state of control, but also its improvement. Only if the effectiveness of the internal control system in business entities develops at the above levels, they will ensure the sustainable development of financial and economic activities, reduce confusion in accounting, and the full implementation of their functional responsibilities by employees.

This will serve to reduce audit risk, the optimal distribution of time and volume of audits, increase the quality of audits, as well as ensure the sustainable development of the business entity.

Conclusions

1. Today, great attention is paid to conducting auditing activities in accordance with international standards. Conducting audits on the basis of international auditing standards allows to form a true audit opinion. In this process, special attention should be paid to assessing the effectiveness of the internal control system.
2. Accurate assessment of the effectiveness of the internal control system in audits can reduce audit risk. In assessing the effectiveness of the internal control system, it is necessary to properly apply audit procedures, the optimal formation of the scope of audit selection and expand the scope of audit evidence.
3. The evaluation of the effectiveness of the internal control system serves to correctly determine the period and scope of the audit. A reliable assessment of the effectiveness of the internal control system ensures the correct formulation of the program of inspection of the business entity. As a result, the optimal timing and scope of the audit, the formation of an objective audit opinion on the reliability of financial statements is achieved.

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