



SPECIFIC CHARACTERISTICS OF FINDING NON-DETECTION RISK ON THE AUDIT OF INTANGIBLE ASSETS IN AUDIT INSPECTION

Amir Khudaikulov Melikulovich

PhD., Senior Lecturer of the Department of Accounting and Auditing of Termez State University, Tashkent, Uzbekistan, khudoyqulova@tersu.uz ORCID: 0000-0001-8915-5962

Abstract. This study analyses the methods for identifying non-detection risk, which is regarded as a component of assessing audit risk, in detail. The paper conducts its research on industrialized nations with advanced accounting and auditing professions. The research work employed the methodologies of observation, data collecting, generalization, grouping, comparison, and monographic observation. In the course of the audit, the auditor writes and completes a questionnaire on control tests to identify non-detection risk of the client-enterprise. The purpose of this is to prevent client firm employees from using subjective auditing methods. The high, middle, and lower classes of assessing the risk levels are emphasized in a categorized manner based on the economic processes performed and being performed in the business entity in the control tests created by the auditor. We believe that when the concept of importance (materiality) is assessed in terms of amount (percentage) and quality, these indicators are only transferred to the indicator of amount (percentage). Based on calculations, one of them is a separate internal economic risk (IR), control risk (CR), and non-detection risk (DR), and it is appropriate to attribute the reduction of this amount to the proportional reduction of these risks. We think that the auditor must make multiple attempts to reduce the audit risk and important indicator values to the absolute minimum before this can be accomplished.

Keywords: audit risk, non-detection risk, significance, international standards of financial reporting, national standards of financial reporting, transformation, amortization, risk levels

JEL classification: M4, M42

Introduction

Today, according to Article 9 of the Law of the Republic of Uzbekistan "On Auditing Activities", the national standards of auditing activities have been abolished, and it has been established to conduct auditing activities on the basis on international standards of auditing instead[1]. The main reason for this is that according to the decision of the President of the Republic of Uzbekistan, it is mandatory for large taxpayers in Uzbekistan to submit financial reports based on international standards. In this article, the processes that occur in the practice of calculating non-detection risk, which is a component of determining the general audit risk in the Republic of Uzbekistan today, are analytically highlighted on a situational basis. The goal is to effectively use the international standards of audit on audit risk in the audit of financial statements prepared in accordance with international standards of financial reporting in the Republic of Uzbekistan and to reduce the audit risk to the lowest level in the audit of intangible assets.

At present, the national standards of audit activities have been canceled and international standards of auditing have been adopted In the Republic of Uzbekistan. This requires auditors to study international audit requirements more widely and use them effectively.

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The article thoroughly analyses the practice of calculating audit risk researching the experience of developed countries with advanced accounting and auditing fields, and the procedures for finding non-detection risk, which is considered a component of determining audit risk.

Methodology. The methods of observation, data collection, generalization, grouping, comparison, and monographic observation were used in the research work.

Results. In the course of the audit, the auditor creates a questionnaire on control tests to find non-detection risk of the client-enterprise and fills out the questionnaire on those control tests. The reason for this is to avoid subjective approaches in the audit by the employees of the client company. In the control tests prepared by the auditor, the high, middle and lower classes of determining the risk levels are highlighted in a classified manner on the basis of the economic operations carried out and being carried out in the business entity.

According to the questionnaire, the auditor finds indicators of non-detection risk based on the evidence collected by the client-enterprise, questionnaires, primary accounting documents, main register and financial reports. In this case, the number "1" is put to the description of non-detection risk analytically found by the auditor. This number "1" is assigned to only one of the high, medium, or low descriptions of a particular of non-detection risk. The number "0" is assigned to the remaining two, i.e., the descriptions that the auditor found to be wrong in the description of a certain non-detection risk (Table 1).

We use the basic formula known to us for calculating the general audit risk:

$$AR = IR * CR * DR$$

Here:

AR- audit risk

IR- domestic (non-separable) risk

CR- control risk

DR- non-detection risk

Let's say that we have calculated internal economic risk and control risk during the audit, and the next step is to calculate the non-detection risk and determine the overall audit risk. Let's assume that according to our previous calculations, the level of internal economic risk was 30.0 percent, and the level of control risk was 29.8 percent.

To find the non-detection risk, we put the previously obtained results into the formula: $DR = AR/(IR*CR)$ and 55.93% ($5\%/(30.0\%*29.8\%)$); $0.05/(0.30*0.298)=0.05/0.0894=0.5593*100=55.93\%$), we get the expected non-detection risk.

We can check the result:

$$5\% = 30.0\% * 29.8\% * 55.93\% \quad (0.30 * 0.298 * 0.5593 = 0.0500 * 100 = 5\%).$$

It should be considered that any expected accounting figures for the audit of intangible assets should be checked against the actual accounting figures.

Table 1

On the calculation of the non-detection risk in audit of the accounting of intangible assets

QUESTIONNAIRE

T/r	Risk factors	Risk classes						Control graph		
		High		Medium		Lower				
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting		Grade	
1	2	3	4	5	6	7	8	9	10	
A1. On the account of economic classification of intangible assets										
1.	(DR101, test) What kind of asset is the right to use the property, which is included in the charter capital as a share, reflected in the enterprise?	Featured as the main tool		Only goodwill value is included		In accordance with the current regulation, the right to use the property, which is included as a share in the authorized capital, is reflected as an intangible asset in the enterprise. However, in cases where the right object appeared on the basis of the merger of companies, in accordance with the corresponding contribution of the founder in the purchase price, this right object was added to the goodwill.		1	1	
2.	(DR102, test) According to the procedure, one of the main criteria for including assets in intangible assets is that it should be possible to identify them. According to what criteria is an intangible asset considered identifiable in an enterprise?	No specific information		It is considered identifiable only if it is possible to separate it from the enterprise		According to the regulation, an intangible asset in an enterprise is considered to be identifiable according to the following criteria: if the intangible asset is separable, that is, if it can be separated from the enterprise, it can be sold, transferred, leased, exchanged separately or together with related assets, contracts or liabilities (except for goodwill). if		1	1	

T/r	Risk factors	Risk classes						Control graph		
		High		Medium		Lower				
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting		Grade	
1	2	3	4	5	6	7	8	9	10	
3.	(DR103, test) Organizational expenses (expenses related to the establishment of a legal entity) recognized in the enterprise in accordance with the founding documents are included among what assets?	Included among the basic tools	1	9430-"Other operating expenses" are reflected in the account		No. 38 In accordance with the BHSS entitled "Intangible assets", expenses for advertising, training, business start-up costs, research and experimental design work (only if it can be justified that these expenses will bring economic benefits in the future) are considered as intangible assets, since they require mental work.	Organizational expenses (expenses related to the establishment of a legal entity) are excluded from intangible assets (2009; 2017) in Uzbekistan. In accordance with the procedure, it is necessary to keep accounts in analytical accounts 9410 or 9411, but this procedure has not yet been included in the 21st BHMS, but this procedure is specified in its own way in the 54th "Regulation on the composition of expenses".		1	
4.	(DR104, test) What assets are included in the intellectual and working quality of employees, their qualifications and ability to work in the enterprise?	Included among the basic tools		The process of transformation in the company is not finished		Expenses for advertising, training, business start-up costs, scientific or technical knowledge, relations with customers and suppliers, research and experimental construction work (only if the expenses can be justified by	Due to the fact that intellectual and working qualities of employees, their skills and ability to work are considered inseparable from their owners and cannot be used without their owners, they cannot be		1	1

T/r	Risk factors	Risk classes							Control graph	
		High		Medium		Lower				
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade		
1	2	3	4	5	6	7	8	9	10	
						future economic benefits) in accordance with BHXS No. 38 "Intangible assets" since they require mental work, they are considered as intangible assets.	included in intangible assets.			
A2. On the account of the income of intangible assets										
5.	(DR105, test) What is the useful life of the goodwill or other intangible asset at the customer-enterprise if it is not possible to determine it reliably?	40 years	1	The process of transformation in the company is not finished		In this case, according to the regulation, the reliable period of the goodwill or other intangible asset is determined based on the best estimate of the management, but this period should not exceed 10 years.			1	
6.	(DR106, test) Where are the costs incurred as a result of the capitalization of pilot-construction work at the client-enterprise reflected?	It is reflected in account 1120-"Other intangible assets".	1	Sometimes reflected in the 1120 account, sometimes in the 1180 account		Account 1180-"Capital investment in intangible assets" accounts for them.	Account 0830-"Purchase of intangible assets" accounts for them. In addition, components, special equipment, instruments, devices and other valuables purchased from abroad for conducting scientific and experimental work on scientific		1	

T/r	Risk factors	Risk classes							Control graph
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
							research and design topics by research and design organizations according to the national standard 1020-"Purchased semi-finished products and components "is taken into account in the account," it was quoted. It mainly depends on the creation of an intangible asset.		
7.	(DR107, test) Although the company started producing the intangible asset itself, when it was ready, it found that there was no way to determine its true value. In this case, the costs incurred for the production of this intangible asset in the enterprise are added to which costs?	It is reflected in account 1120-"Other intangible assets".		The process of transformation in the company is not finished	1	In accordance with the procedure, in this case, these costs are added to the costs of scientific research and experimental construction work and are regulated by BHXS No. 38 "Intangible assets".	In accordance with the procedure, in this case, these costs are added to the costs of scientific research and experimental design works and are regulated by BHMS No. 11 "Expenditures for scientific research and experimental design development".		1
8.	(DR108, test) Is the value of an intangible asset received for free in	The value of any intangible		In the usual case, sometimes it is	1	Usually, the value of such assets is included in the taxable base as income, but intangible assets given to ecology, health care, educational institutions,			1

T/r	Risk factors	Risk classes						Control graph	
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting		Grade
1	2	3	4	5	6	7	8	9	10
	an enterprise included in the taxable base when calculating turnover tax or profit tax?	asset received for free is not included in the taxable base		included, sometimes it is not		intangible assets received based on the decisions of the President of the Republic of Uzbekistan, the Cabinet of Ministers of the Republic of Uzbekistan, subsidies received from the budget are not considered as income of the taxpayer and are not included in the taxable base .			
A3. According to the accounting of intangible assets									
9.	(DR109) When an intangible asset (for example, software) has been used for a certain period in the organization's balance sheet, when it is determined that the organization does not expect any future economic benefits from the use or write-off of this intangible asset, what changes have occurred in the organization's account of this intangible asset?	Used as an intangible asset		Used as an intangible asset in some cases, derecognized as an intangible asset in some cases for other intangible assets	1	In this case, the organization canceled the recognition of this intangible asset as an intangible asset. In addition, in cases where the organization has income as a result of this change, this income is not considered as taxable income. ² .			1
A4. According to the calculation of amortization of intangible assets									

²Tax Code of the Republic of Uzbekistan (new edition). (Article 298. Income (losses) from the disposal of depreciable assets and other property. Clause 4 of this article). (National database of legal documents, 31.12.2019, No. 02/19/SK/4256; 27.07.2022, No. 03/22/785/0679;

T/r	Risk factors	Risk classes						Control graph	
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting		Grade
1	2	3	4	5	6	7	8	9	10
10.	(DR110, test) Does the client-enterprise have points that have been realized, given free of charge, and otherwise disposed of within three years from the date of application of the investment discount on the intangible asset to be amortized in the client-enterprise?	One year after the investment deduction is applied, the intangible asset is disposed of for free		The investment deduction has been canceled once, but the organization is prone to abuse again		In cases where these circumstances exist, the validity of the investment deduction in accordance with the current Tax Code is canceled by deducting it from the amount of accumulated amortization during the reporting (tax) period in which the outflow of such an asset occurred.		1	1
11.	(DR111, test) Are there cases where the enterprise changed the method of calculating depreciation when there was a significant change in the expected economic benefit from the use of intangible assets in the enterprise?	Although it is not justified to change the method of calculating depreciation, it has been changed		The method has been changed in accordance with the established procedure, but the economic effect has not been disclosed in the accounting policy.	1	Usually, if it is justified to change the depreciation calculation method in such a case, the method is changed. In this case, the reasons for the change and the resulting economic effect should be disclosed in the company's accounting policy.			1
A5. On revaluation of intangible assets									

T/r	Risk factors	Risk classes						Control graph	
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting		Grade
1	2	3	4	5	6	7	8	9	10
12.	(DR112, test) In the event of an increase in the value of an intangible asset in the client-enterprise, is its increased value not included in the taxable base when calculating the profit tax?	Specific information is not available	1	The process of transformation in the company is not finished		In this situation, in the case of an increase in the value of an intangible asset in the corrections for the revaluation of intangible assets in client-enterprises transferred to MHXS, its increased value is included in the taxable base when calculating the profit tax.	In this situation, in the case of an increase in the value of an intangible asset in the corrections for revaluation of intangible assets in client-enterprises that have not transferred to MHXS, its increased value is not included in the taxable base when calculating the profit tax.		1
Number of responses		x	4	x	4	x		4	12

In case of difference of the actual accounting indicators to non-detection risk materially (significantly) from the expected accounting indicators, then the auditor has to make a decision on conducting additional measures in order to bring the level of risk to an acceptable (acceptable) level. In this case, we are talking about the implementation of additional audit procedures for materiality (significance). When the auditor has the expected accounting indicators for non-detection risk, he must make calculations to determine the actual accounting indicators (see Table 1). The calculation of non-detection risk in the audit of intangible assets is carried out in a similar way to the calculation of the above two methods (internal risk and control risk calculations) that make up the overall audit risk project. Intuitive, quantitative, predictive, anticipation, determining the levels of audit risk, determining the level of importance, finding the level of non-detection risk, comparison, calculation, planning, analysis and synthesis were used.

Results

According to the results of the questionnaire presented in Table 1, we obtained the following indicators:

- According to 4 response indicators – there is a high level of risk (100%);
- According to 4 response indicators – there is a moderate risk (50%);
- According to 4 response indicators – there is a low level of risk (0%).

We calculate the risk of non-detection according to the obtained results.

Table 2

Non-detection risk on audit of intangible assets calculation

T/r	Risk level	Number of responses received by risk levels	Calculation formula
1.	High	4	= 100 – [(n1*(100/N)+n2*(100/N/2)]
2.	Medium	4	
3.	Lower	4	

Based on the information in Table 2, we calculate the non-detection risk:



$$=100-[(4*(100/12)+4*(100/12/2)]=100-(4*8.33+4*4.17)=$$

$$=100-(33.32+16.68)= 50.0$$

Based on the results of the control tests, the actual calculated value for the non-detection risk is 50.0 percent. This shows that it is lower than the expected value (55.93%).

According to the obtained indicators, the total audit risk project is equal to:

$$30.0% * 29.80% * 50.0% = 0.0447 * 100 = 4.47%$$

In fact, the total audit risk project indicator should not exceed a maximum of 5 percent.

If we had a result of more than 5%, the auditor would have to increase all (the number of) measures from the point of view of materiality, taking into account that the auditor can accept the total audit risk indicator for intangible assets up to 5%. The reason for this is that the estimated non-detection risk is considered to be higher than the acceptable level of the overall audit risk project.

Our results are as follows: the true level of the risk of non-detection is 50.0%, that is, 50.0% < 55.93% (the difference is 5.93%). In fact, it should have given the result that the expected total audit risk indicator is less than or equal to the determined total audit risk indicator.

In situations of the overall audit risk is greater than 5 percent, the auditor may decline the audit due to the presence of high audit risk or may reduce the level of risk through additional audit procedures. In practice, it is not easy to refuse an audit and perform duties. Not all audit organizations can refuse the client and his money. In such cases, the question arises: how much should the amount of food be increased? Of course, the auditor's professional thinking ability is of great importance. Based on the work experience, the auditor independently determines which methods of application should be increased (increase the size of the sample or decrease the importance and thereby include the objects of analysis in the scope of the audit, etc.).

The importance of identifying non-detection risk is very high. According to foreign experience, if the auditor cannot reduce non-detection risk on financial reports to an acceptable level, he should give a conditional positive conclusion (opinion) or refuse to give a conclusion (express his opinion).

The materiality control tests and procedures used in the audit of intangible assets differ from each other in terms of their objectives, but the results of some procedures may help to achieve other objectives. Cases of abuse of materiality detected during the application of audit procedures may cause the auditor to change the results of control risk that he previously assessed. In addition to the assessed non-detection risk and the level of control risk, it is necessary for the auditor to perform certain tests on the material balances in the accounts and the class of material transactions.

It is important to remember that the assessment levels of audit risk components may change during the audit. In such cases, the auditor should modify the planned measures of materiality based on the results of the assessment of non-detection risk and control risk. The higher the non-detection risk and the control risk assessment results for the audit of intangible assets, the greater the amount of audit evidence the auditor should obtain while performing procedures on materiality.

Conclusions

We came to the following conclusions regarding finding non-detection risk in the audit of intangible assets:

1. How to file information about the accounting and internal control system, in what form and by using which methods - it comes from the auditor's professional analytic ability.
2. The higher the auditor sets the levels of internal risk and control risk, the lower the level of non-detection risk should be set (and vice versa).

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3. In our opinion, when the concept of importance (materiality) is evaluated in terms of amount (percentage) and quality, these indicators are transferred only to the indicator of amount (percentage) and on the basis of calculations, one of them is a separate internal economic risk (IR), control risk (CR), non-detection risk (DR) should be reflected in the amounts (percentages) and it is appropriate to attribute the reduction of this amount to the proportional reduction of risk. We believe that this can be achieved only after several attempts by the auditor to bring the indicators of importance and audit risk to the minimum level.

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