

## STUDY AND EVALUATION OF THE INTERNAL CONTROL SYSTEM DURING AN AUDIT CHECK

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**Abstract:** The purpose of this article is to reveal the methods and significance of studying and evaluating the internal control system in auditing practice. To achieve this goal, the following tasks are set: to define the concepts of internal control and audit, to analyze the main components of the control system, to describe the goals and methods of its study and evaluation, as well as to consider the impact of internal control assessment on audit planning and conduct.

**Keywords:** audit, internal control system, international auditing standards, COSO internal control model, risk

### Introduction

In modern conditions of business development and stricter regulatory requirements, the internal control system is becoming a key element in ensuring the reliability and transparency of the organization's activities. Effective internal control helps to reduce the risks of errors, fraud and non-compliance with legislation, which directly affects the reliability of financial statements. In turn, the auditors conducting the audit should carefully study and evaluate the internal control system in order to ensure the quality and validity of the auditor's report. Therefore, the topic of studying and evaluating the internal control system during an audit is extremely relevant and in demand.

The examination and evaluation of the internal control system during the audit are critically important, as they allow the auditor to gain confidence in the reliability and effectiveness of risk management and control processes within the organization. This helps identify potential vulnerabilities and weaknesses that could lead to errors or fraud, and helps determine the degree of trust in financial and operational reporting. In addition, a thorough assessment of the internal control system makes it possible to optimize the scope and methods of audit procedures, improve the quality of the audit and reduce the risks of missing significant violations. As a result, the study and evaluation of internal control are the foundation for ensuring the objectivity, completeness and reliability of the auditor's report, which strengthens the confidence of stakeholders in the organization's activities.

### Literary review

Many scientific studies have been conducted on this issue. Next, let's look at a few of them. The research of Arens, Elder and Beasley emphasizes that an effective assessment of the internal control system (ICS) is a fundamental stage of the audit, which allows determining the risk of material misstatement in financial statements and planning the

scope of audit procedures (Arens, Elder & Beasley, 2014). Without an adequate assessment of the Internal Control System, the auditor risks missing significant errors or fraud.

The 2013 work by COSO (Committee of Sponsoring Organizations of the Treadway Commission) describes an internal control model that includes five components: a control environment, risk assessment, control measures, information and communication, and monitoring. The ICS assessment is based on the analysis of these components using testing of key control procedures (COSO, 2013).

Research by Alles, M.G. highlights the importance of IT controls and automation of audit procedures to improve the accuracy and effectiveness of internal control assessment (Alles, 2015). The use of analytical tools and automated tests allows you to identify anomalies and reduce the risk of errors.

Some studies point to difficulties related to the subjectivity of the assessment and lack of information, which can lead to misclassification of controls (Gramling et al., 2012). The authors recommend strengthening professional skepticism and using multidimensional approaches.

Studying the impact of internal control assessment on audit quality, Knechel, W. R. et al. concluded that a thorough assessment of the internal control system improves audit quality by reducing the likelihood of material misstatements and increasing the trust of users of financial statements (Knechel et al., 2013).

In their research, DeFond M. and Zhang J. The authors analyze empirical research in the field of auditing, including the evaluation of internal control systems, and emphasize the impact of ICS quality on audit risk and auditor behavior. The review covers assessment methods and the impact of regulatory requirements (e.g., SOX) (DeFond, M., & Zhang, J. 2014).

A study by Doyle J. Ge.W. and McVay S. shows that weak internal controls are associated with poor accounting quality and a higher probability of errors in reporting, which is important for the audit assessment of internal control systems (Doyle, J., Ge, W., & McVay, S. 2007).

The article "Audit Quality and the Pricing of Discretionary Accounts" examines the relationship between audit quality, including ICS assessment, and financial performance, reflecting the importance of a reliable control system for the reliability of financial statements (Krishnan, G. V. 2005).

Bedard J. and Johnstone K. M. explore how risk assessment, including internal control assessment, affects audit planning and service pricing (Bedard, J., & Johnstone, K. M. 2004).

### **The analytical part**

Based on ISA 315, an internal control system is a process developed, implemented, and maintained by those responsible for corporate governance, management, and other employees of an organization to provide reasonable assurance about achieving the organization's objectives of preparing reliable financial statements, performance and efficiency, and compliance with applicable laws and regulations.

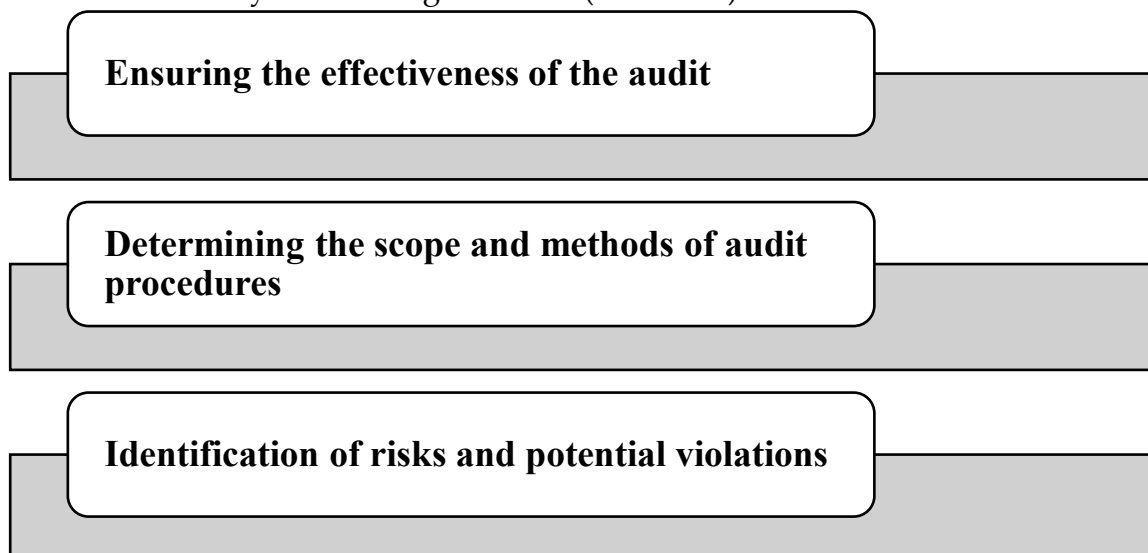
According to the international COSO model, internal control is a process carried out by the board of directors, management and other employees of an organization aimed at ensuring the achievement of goals in the areas of operations, financial reporting and compliance with legislation. The main functions of internal control include the prevention of errors and fraud, ensuring the reliability of financial statements, as well as compliance with internal and external regulations.

<b>THE MAIN COMPONENTS OF THE INTERNAL CONTROL SYSTEM</b>
<b>Control environment</b> <i>fundamentals of corporate culture, ethics, and organizational structure that influence the perception of control</i>
<b>Risk assessment</b> <i>identification and analysis of factors that can affect the achievement of goals</i>
<b>Audit of methods</b> <i>specific procedures and actions to reduce risks</i>
<b>Information and communication</b> <i>exchange of data necessary for effective control</i>
<b>Monitoring</b> <i>continuous assessment and improvement of the control system</i>

**Picture 1. The main components of the internal control system**

The auditor's objective is "To identify and assess the risks of material misstatement, whether due to fraud or error, at the financial reporting and premise levels, by examining the organization and its environment, including the organization's internal control system, thereby providing a basis for designing and implementing audit procedures in response to the assessed risks of material misstatement." distortions ."

It is also possible to note the following objectives of studying and evaluating the internal control system during the audit (Picture 2.).



**Picture 2. Objectives of the study and evaluation of the internal control system during the audit**

Understanding the internal control system allows the auditor to determine the level of risk and develop an optimal audit strategy, which improves the quality and effectiveness of the audit.

The assessment of internal control also helps to identify vulnerabilities where errors or fraud may occur, which is important to prevent material misstatements in the financial statements.

The evaluation results influence the choice of sample size and testing methods: with reliable control, the auditor can reduce the amount of detailed checks, and with weak control, increase them.

Next, we will consider methods and approaches to the study of the internal control system. Based on international standards on Auditing, auditors can use many types of audit methods and procedures to evaluate the internal control system during an audit:

*Analysis of documentation and regulations*

The study of internal documents — regulations, instructions, regulations — allows you to understand the formal procedures and rules on which control is based.

*Conducting interviews and employee surveys*

Communication with employees at different levels helps to identify the actual implementation of procedures, possible problems and inconsistencies with formal rules.

*Monitoring of processes and control measures*

The auditor monitors the execution of operations and control actions in real time, which makes it possible to assess the effectiveness and compliance with procedures.

*Testing of control procedures*

Random testing of procedures allows you to check their performance and identify deviations, which is an important stage of assessment.

The assessment is based on the criteria of completeness, timeliness, accuracy and reliability of control, as well as its compliance with regulations and standards. The analysis of the test results and observations makes it possible to identify shortcomings that may lead to errors or violations. Based on the identified problems, recommendations are being developed to improve procedures, strengthen controls and reduce risks.

It is also necessary to emphasize the importance of the Sarbanes-Oxley Act (SOX), adopted in the United States in 2002. This law has significantly increased the importance of evaluating the internal control system (ICS) in auditing and corporate governance.

SOX requires public companies to conduct an annual assessment of the effectiveness of their internal control systems over financial statements and include the results of this assessment in the annual report. This creates a legal obligation for management and auditors to thoroughly review and document the Internal control system.

It was also noted that the company's management is directly responsible for establishing and maintaining an effective internal control system. In turn, external auditors are required to evaluate the adequacy and effectiveness of these controls, which improves the quality and reliability of the audit.

SOX's strict requirements encourage companies to improve internal processes and control procedures, which helps identify and prevent financial irregularities, errors, and fraud.

Due to the transparency and increased reliability of financial statements provided by an effective internal control system and its SOX assessment, investors gain more confidence in the reliability of information, which contributes to the stability of the capital market.

### **Conclusion and conclusions.**

The assessment of internal control influences the choice of methods and the scope of audit procedures, allowing for the optimization of the audit. Reliable internal control reduces the likelihood of significant errors, which reduces audit risk. A thorough assessment of controls contributes to the formation of sound and reliable audit conclusions.

In a number of companies, a competent study and assessment of controls made it possible to identify risks in a timely manner and improve the quality of audits, which helped strengthen the trust of investors and partners.

Cases where auditors did not pay due attention to internal control led to the omission of significant violations, financial losses and deterioration of reputation. The study and evaluation of the internal control system are an integral part of auditing activities that ensure high quality of audit. Internal control contributes to the accuracy and completeness of financial data by preventing misstatements and errors. In addition, it ensures effective resource management, compliance with corporate policies and regulatory requirements, which reduces operational and reputational risks. Without a thorough assessment of internal control, it is impossible to achieve the reliability of the auditor's report and reduce risks. It is recommended to deepen assessment methods, introduce modern technologies and improve the qualifications of auditors to improve the audit.

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