

**IMPROVING RISK-BASED INTERNAL AUDIT TO ENSURE THE FINANCIAL
STABILITY OF ENTERPRISES**

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Abstract: This article describes the application of a modern risk-based internal audit system in enterprises, ways to achieve financial stability, its role as a strategic platform for making financial and investment decisions, and financial risk indicators and their importance.

Key words: risk-based internal audit, risks, key risk indicators, financial analysis.

Introduction

As a result of the globalization of the economy in countries around the world, enterprises are faced with the need to address such tasks as managing risks in the internal audit system, monitoring risks in real time, identifying priority risk areas, eliminating financial and operational errors, and integrating internal audit processes into the strategic decision-making system.

In international practice, risk-based internal audit is considered not only as an audit tool, but also as the main mechanism for forming a risk map in enterprises, directing resources to priority areas, strengthening the internal control environment, and ensuring the evidence-based nature of management decisions.

The risk-based internal audit system in Uzbek enterprises is not yet fully formed, and a systematic approach to its practical application is lacking. In most cases, internal audit processes are carried out in the form of traditional inspections, with insufficient assessment of risk factors, identification of priority risk areas, and the effectiveness of control mechanisms. This leads to poor quality management decisions, weakening of financial discipline, wasteful spending of enterprise resources, and failure to eliminate risk factors in advance. This situation puts on the agenda the need to introduce modern, risk-based internal audit approaches in enterprises, strengthen internal control systems, identify risk indicators, and integrate them with management decisions to minimize corruption and financial risks.

Financial stability is an important factor determining the long-term ability of the enterprise, and the risk-based internal audit system serves as a strategic tool in ensuring this stability. In today's complex economic environment, internal audit should include not only an inspection function, but also a tool for managing resources, supporting financial decisions and identifying risks in advance. It is from this point of view that the work of internal audit combined with financial analysis methods requires new approaches to stabilizing the financial situation of the enterprise.

Literature review and methodology

Cetin & Pamukcu (3) review risk-based internal audit as an approach that shifts audit focus from routine compliance checks to priority, risk-driven areas that matter most for organizational resilience and sustainability. Key RBIA principles highlighted in the literature are: systematic risk identification, prioritization based on risk magnitude and impact, continuous monitoring (KRI use), and allocation of audit resources to highest-risk processes. The literature links RBIA to corporate sustainability by arguing that RBIA contributes to long-term value preservation through proactive detection and mitigation of threats to financial and operational stability.

Simbiri et al. (4) provide empirical evidence (Kenyan SACCOs) that internal audit practices and risk planning are associated with financial performance indicators. Their findings suggest that

when internal audit actively integrates risk planning into its work, organizations demonstrate improved financial outcomes—through reduced losses, improved compliance, and better decision support. This supports the hypothesis that improving RBIA can positively influence the financial stability of enterprises.

This study adopts a mixed-methods, explanatory sequential design. First, a qualitative phase explores how the legal and strategic framework of Uzbekistan (Law “On Auditing Activities”, 2021; Presidential Decree “Uzbekistan-2030”, 2023) shapes the current practice of risk-based internal audit (RBIA) in large state-owned enterprises.

Second, a **quantitative phase** tests how measurable improvements in RBIA affect indicators of enterprise financial stability.

The integration of these two phases provides a comprehensive view of both the institutional context and the measurable effects of RBIA.

Results

The internal auditor analyzes key indicators such as net profit margin (NP margin), return on total assets (ROA), current liquidity ratio (CR), financial independence level (Equity Ratio) in relation to the department or type of activity selected as the object of internal audit, and determines what deviations the company shows in relation to its activity. For example, if the CR indicator of the enterprise under internal audit is lower than 1.1, this not only indicates the risk of meeting current obligations on time, but also indicates the existence of the risk of insolvency. Such situations encourage the internal auditor to conduct a deeper investigation, that is, to determine the causes of this situation, to identify factors such as the structure of costs, the state of receivables, or seasonal differences in sales.

Combining risk indicators (KRI) with financial analysis serves to increase the analytical and monitoring capacity of internal audit activities. In this approach, KRI indicators are linked to the parameters of financial analysis, that is, signal indicators representing risk potential are combined with the financial justification of internal audit decisions. For example, financial indicators such as the growth rate of receivables, net profit margin, current liquidity ratio, and asset turnover can be considered risk indicators. When they deviate from certain threshold values, a risk zone is created. These indicators are analyzed based on predetermined trigger mechanisms and monitored in real time.

For example, reducing excess stock in the warehouse based on the recommendation of an internal audit leads to a reduction in inventory costs of up to 10%, which serves to increase the operating profit margin by 1.5-2%. Or, accelerating the collection of overdue receivables based on an internal audit recommendation will increase cash flows by up to 12%, which will positively affect the current liquidity of the enterprise. This modeling uses mathematical methods (for example, multi-step regression, "what if" scenarios, simulation analysis). The impact of each recommendation is assessed individually or in a complex manner, and a set of measures that will bring the highest financial benefit is developed. Also, modeling can be more accurate using indicators based on financial performance achieved as a result of the implementation of internal audit recommendations - such as the internal audit recommendation efficiency index (ATSI), the cost optimization coefficient (COC), and the profitability growth rate (RGR). Through this model, management prioritizes recommendations in relation to financial results, increases the discipline of their implementation, and gets the opportunity to evaluate the activities of the internal audit department based on performance criteria. As a result, internal audit recommendations become a reliable and functional tool for strategic financial decision-making.

Discussion

Modeling the impact of internal audit recommendations on financial results is one of the important tools that strengthen the strategic role of internal audit. In this process, the impact of internal audit recommendations on financial indicators - in particular, indicators such as net profit, profitability, liquidity, asset turnover, and cost dynamics - is assessed in advance. For this, a modeling approach consisting of several stages is used. In the first stage, the current financial situation is analyzed and the main weak points are identified. At the next stage, predictive (prognostic) scenarios are created for each of the measures recommended by the internal auditor (for example, reducing costs, optimizing inventory, replacing risky counterparties, strengthening control procedures). Based on these scenarios, changes in financial indicators are modeled.

Internal audit conclusions serve as an important source of information based on in-depth analysis of the financial potential of the enterprise, especially its liquidity position. Through the results of the internal audit, the speed of turnover of short-term assets, the payment terms of receivables, the adequacy of the circulation of reserves and the directions of cash flows are determined. For example, if the average payment term of receivables as a result of an internal audit is 45 days, this indicator directly affects the liquidity ratio and distribution of cash flows of the enterprise. In such a case, as a recommendation of the internal audit, it is proposed to strengthen the payment discipline, introduce fixed payment contracts or strengthen the penal policy for late debts. As a result, the level of operational liquidity improves and the stability of cash flows is ensured.

The internal audit system acts as a strategic analytical platform in the justification of financial and investment decisions that serve to improve capital efficiency. Improving capital efficiency means achieving the maximum level of profit obtained for invested funds, and in this way, internal audit conclusions serve as a basis for sound financial decisions. Ineffective assets, improperly financed projects, or insufficient use of capital resources identified as a result of internal audit analyses indicate to management the need to review and improve them. In particular, proposals for areas with low asset turnover identified by internal audit are important in making decisions based on indicators such as the optimal level of the existing capital structure, return on assets (ROA) and return on equity (ROE).

Conclusion

In short, by strengthening the link between internal audit findings and liquidity management, the enterprise not only ensures financial stability, but also effectively allocates resources in operational activities. Based on the results of the internal audit, financial managers not only eliminate existing problems, but also increase the stability of the liquidity strategy by predetermining the need for cash, redistributing resources or looking for alternative sources of financing. Therefore, the integration of internal audit and liquidity management should be considered an integral part of financial management in modern enterprises.

List of used literature:

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