

## ASSESSMENT OF THE INTERNAL CONTROL SYSTEM DURING AN AUDIT

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**Annotation:** In this work, the theoretical and practical aspects of assessing the internal control system during audits are analyzed. The main elements of the internal control system, its effectiveness criteria, impact on audit risk, and assessment stages are highlighted. Proposals have also been put forward to improve the internal control system in Uzbekistan's practice.

**Keywords:** Audit, internal control system, risk, audit evidence, control environment, audit program, assessment, internal audit, efficiency, audit report. Internal control system assessment, audit process, risk analysis, COSO model, control environment, financial reporting, audit standards.

**Introduction:** Currently, in the era of business development, the success of each enterprise directly depends on its financial condition, the effectiveness of the management system and internal control mechanisms. The presence of an internal control system is crucial for ensuring the accuracy of financial transactions occurring in the enterprise's operations and preventing errors and fraud [1].

The main purpose of the audit is to verify the reliability of the company's financial statements and to determine whether the information reflected in them corresponds to reality. In this process, the auditor studies the internal control system (INS) of the enterprise and assesses its effectiveness. In enterprises with a strong internal control system, the probability of errors in financial statements is low. Therefore, the analysis of internal control in the audit process is an integral part of the audit [2-5].

Audit activity in the Republic of Uzbekistan is carried out on the basis of the Law "On Auditing Activities," International Standards on Auditing (ISA), as well as International Financial Reporting Standards (IFRS). These standards stipulate that the auditor is obligated to study, analyze, and evaluate the internal control system of the enterprise [6].

The essence of the internal control system

The Internal Control System (INS) is a set of policies, procedures, and mechanisms developed by the enterprise's management. They are aimed at ensuring the effective, legal, and transparent operation of the enterprise. The main goal of the internal control system is the reliable storage of the company's financial data, the protection of assets, and the prevention of errors.

The main elements of the INT are:

Control environment, management's attitude towards control, internal policy, moral values

Risk assessment Identification and mitigation of risks in the activities of the enterprise

Coordination of control activities, approval, inventory, accounting control

Mechanisms for generating accounting and reporting data of the information system

Continuous monitoring and improvement of the internal control system.

In world practice, the COSO model is widely used in the organization and assessment of internal control systems. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) model was updated in 2013 and includes 5 elements and 17 principles of internal control.

Uzbek enterprises are also gradually implementing these international approaches.

**The process of assessing the internal control system in auditing**

In the first stage of the audit, the auditor studies the internal control system of the enterprise. This process is carried out in the following stages:

Organizational stage Familiarization with the spheres of activity of the enterprise, management structure, accounting policy.

Documentation of the Internal Control System The auditor studies existing policies, instructions, and accounting documents.

The audit environment and risk analysis identify the weaknesses in internal control.

Conducting control tests allows the auditor to test how the control system works in practice.

Assessment and Conclusion The auditor assesses the effectiveness of the INT and determines the level of audit risk.

If the internal control system is effective, the auditor spends less time on control tests, as the probability of error is low. But if the system is weak, the auditor will gather more evidence.

The international audit standard ISA 315 ("Entity and Its Environment Understanding and Internal Control Assessment") describes in detail the process of the auditor's study of internal control.

#### **Practical significance of the internal control system**

The internal control system plays an important role in ensuring the stability of the enterprise's activities. It is a key tool not only for proper accounting but also for protecting assets and preventing fraud and misinformation.

In today's digital economy, the internal control system is based on information technologies. ERP systems, electronic document management, digital signatures, and online audit processes are contributing to the rise of the INT to a new level.

Effective organization of the internal control system for enterprises of Uzbekistan provides the following advantages:

Increases the reliability of financial statements;

Audit costs are reduced;

Management relies on accurate information when making decisions;

The company's reputation and investor confidence will increase.

#### **Directions for improving the internal control system**

To improve the internal control system, it is necessary to implement the following measures:

Establishment of internal audit services at enterprises;

Organization of advanced training courses on control and audit for employees

Wide use of information technologies, for example, the implementation of "1C: Accounting" or ERP systems;

Revision of the internal control system in accordance with COSO and INTOSAI standards;

Automation of control processes, maintenance of audit logs in digital form.

These measures will strengthen the internal control system and increase the financial stability of enterprises.

**Conclusions:** The internal control system is the basis of the financial management and accounting system of any enterprise. It ensures the reliability of the enterprise and prevents errors and fraud in financial statements.

The effectiveness of the audit also depends on the strength of the internal control system. Therefore, auditors must thoroughly analyze the internal control system at the enterprise and identify its weaknesses and strengths.

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