

INTERNAL CONTROL SYSTEM ASSESSMENT ISSUES IN AUDITING

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ABSTRACT

This article highlights the importance of evaluating the internal control system in audits. as a result of the research, recommendations were developed for evaluating the effectiveness of the internal control system

Keywords: *audit, audit evidence, internal control system, control environment, control risk, level of materiality*

INTRODUCTION

The reliability, comprehensibility and sufficient information supply of the auditor's report serve to provide the information necessary for the users of the financial statements. To achieve this goal, it is important to refer to advanced foreign experience in the process of understanding the nature of the audit report. Special attention should be paid to the evaluation of the internal control system in the effective organization of the financial statement audit. Research shows that if the audited entity has an effective internal control system, the quality of the audit will increase, and at the same time, the audit risk will decrease.

LITERATURE REVIEW

Lyubov Plotnikova and V. V. Rubanov said that "in turn, it is necessary to maintain an internal audit in the company for evaluation of the reliability of internal control system. It means that this is the next stage of the internal control system, which is targeted at expression of objective and independent opinion on efficiency of performed control procedures and rationality of risk management" [1].

According to Vaclovas Lakis and Lukas Giriūnas “one of the basic instruments of enterprise control, whose implementation in modern economic conditions provide conditions for achieving a competitive advantage over other enterprises is the creation of an effective internal control system. In the industry sector, the market is constantly changing, and this requires changing the attitude to internal control from treating it only in the financial aspect to the management of the control process” [2].

Ndifon Ejoh and Patrick Ejom stated that “internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization’s transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources” [3].

ANALYSIS AND RESULTS

The scope of business, organizational structure of the enterprise, type of activity, company’s products and other aspects relevant to the audit are covered in the planning of the audit. For example, it is necessary to know the level of demand for the organization’s product in the market. Such factors set the necessary requirements for the internal control system and determine specific areas of its verification. The composition of control environment factors is presented in Figure 1.

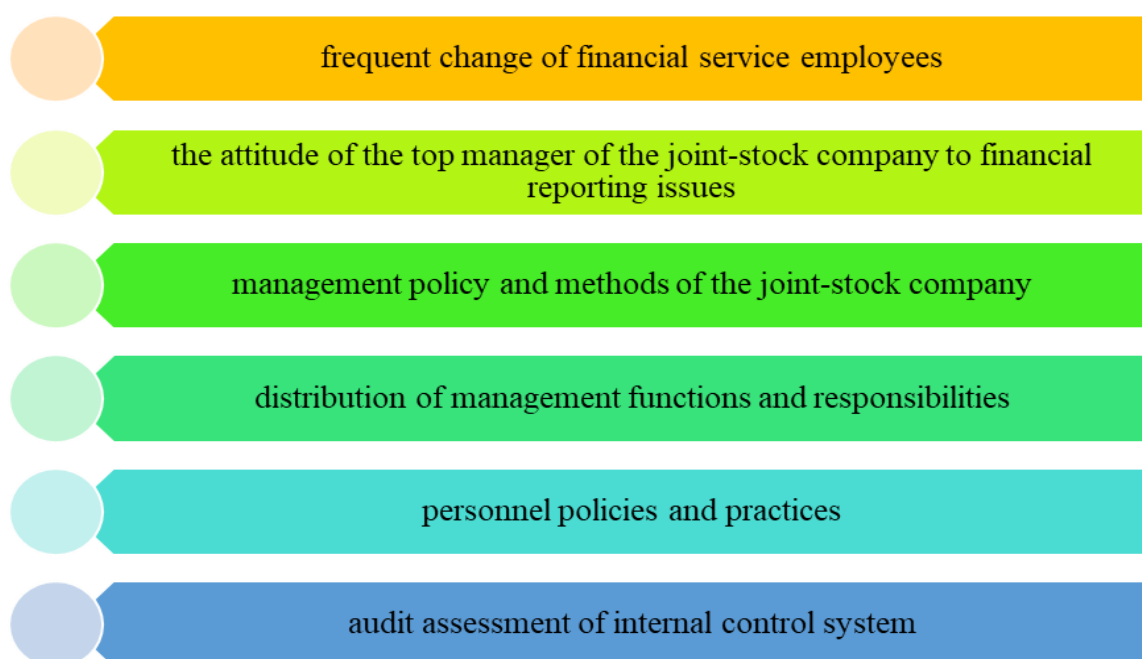


Figure 1. Composition of control environment factors²

The higher the confidence in the internal control system, the fewer audit procedures are required to ensure the accuracy of the financial statements. To determine how reliable the company's internal control system can be:

- document circulation rate;
- correct distribution of tasks;
- quality of documentation;
- control registers and their timely completion are assessed.

Therefore, the internal control system serves to prevent errors in accounting and improve management efficiency.

Based on the results of the audit of the internal control system, the scope of the planned audit activities for checking the presence of quantitative deviations is approved or corrected. This is when the audit begins, according to the usual understanding. A legitimate question arises: why are the previous stages of audit necessary? The fact is that by evaluating the internal control system, the most "narrow" areas in the company's financial reporting system, which require more time than other accounting objects and areas, are identified.

Many chief accountants and managers of joint-stock companies believe that it is reasonable to start the audit before the formation of financial statements, so that the external auditor can indirectly participate in this process.

Nowadays, the internal control system is becoming more and more sophisticated, and as it is known, many concepts regarding the internal control system appear. Therefore, it is difficult to fully understand the internal control system without its concept, the concept of internal control also includes several components, and they are as follows:

the internal structure or internal environment of the joint-stock company, including the company's ethical rules, management style, decision-making process, distribution of powers, acceptance of responsibility, qualifications of employees and their attitude to the internal control system established in the joint-stock company;

² Made by author

day-to-day control, compiling them in separate accounts and reports, managing enterprise assets and conducting monitoring in the enterprise;

organization of the risk identification and analysis department that may be encountered in the joint-stock company;

being an information access system, the company's information can be used only by persons related to the company and third parties (tax and statistics authorities, investors and banks);

in order to increase the efficiency of the internal control system of the joint-stock company, to carry out a strong control system over internal control. A control system is a systematic organization consisting of a firm basis, responsibility within the scope of authority, accountability to senior leaders, separation of functions, ability to quickly adapt to changes in internal and external factors, strict definition of the role and responsibility of each department, appropriate control over the activities of employees and their work. periodic evaluation can be understood.

A selective audit is conducted on most account objects. When applying non-statistical methods, the auditor often relies on his intuition and professional skills. In this case, the qualification of the auditor becomes crucial. And with statistical methods, the auditor will have a sufficient number of inspection elements. In this case, the conclusions based on such a choice will be proved, because the mathematical apparatus is used.

CONCLUSION

At the end of the audit, it is necessary to pay attention to two aspects.

1. The enterprise may have information about claims directed to conditional events. Some of them may not be satisfied, but the auditor should evaluate all possible financial consequences. For this, at the end of the investigation, he applies in writing to the company's lawyer, asking him to provide all the necessary information about the lawsuits directed at the organization, about the cases that have not yet been decided by the court.

2. Events after the reporting date may also be relevant to the evaluation of financial statements. Suppose a company incurs a large loss after the financial year under review. This puts the organization at risk of a significant reduction in business volume or the future existence of the enterprise as a whole. From the point of view of the principle of continuity of activity, in this case, the valuation of the company's assets should be carried out not according to the book value, but according to the possible sale value. Therefore, the date of issuing the audit report is not the day of the report, but the last day of the auditor's stay at the facility.

In conclusion, it should be noted that the balance in the work of auditors during the audit of financial statements prepared by IFRS in general increases the effectiveness of the audit, eliminates ineffective repetitions, optimizes audit operations and allows full use of the obtained audit evidence.

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