



The Importance and Necessity of Assessing the Efficiency of the Internal Control System

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ABSTRACT

This article describes the essence of the internal control system. As a result of the conducted research, proposals were developed to improve the evaluation of the effectiveness of the internal control system.

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INTRODUCTION

When the users of the financial report data actually order the auditing organizations to study and evaluate the activity of the client enterprise in the audit report and audit conclusions, they are interested, first of all, in the state of the accounting system established in the client enterprise. The extent to which accounting is able to fully utilize its capabilities in performing the tasks assigned to it is important for the users of financial statements to make management decisions. During the audit, the auditor must

have sufficient confidence that the accounting system accurately reflects the economic activity of the audited entity.

LITERATURE REVIEW

There are many views on revealing the essence of the internal control system in regulatory legal documents and economic literature.

According to Article 21 of the Law of the Republic of Uzbekistan "On Accounting", "internal control shall ensure the legality and economic expediency of economic operations, the preservation of assets, the prevention of cases of robbery and errors in the preparation of financial and other reports. and is a system of measures organized on the basis of the accounting policy adopted by the head of the accounting entity for the purpose of determination" [1].

V.Lakis and L.Giriunas stated that "One of the main means of enterprise control, which can be implemented in modern economic conditions, provides conditions for achieving a competitive advantage over other enterprises, is the creation of an effective internal control system." In the industry, the market is constantly changing, and this requires changing the attitude to internal control to control the control process only financially. Thus, internal control becomes a risk control tool and tool that helps the enterprise achieve its goals and fulfill its tasks" [2].

According to another economist, "all institutions are responsible for internal control, and all employees use internal control systems or take other measures to control. All employees should be responsible for daily problems and violations of other illegal actions" [3].

According to the report of The Institute of Internal Auditors Research Foundation, "an internal control system that effectively and efficiently guides risk reduction depends on the ability to select optimal control solutions from among several alternatives. However, optimization can only be evaluated if control costs are properly measured. This should be based on direct and indirect cost factors. It should also consider whether the organization has an appropriate risk measurement process to analyze benefits, opportunities and risks" [4].

A group of economists stated that "internal control consists of all the policies and procedures adopted by the management of the organization to ensure that the objectives of the organization are met economically, efficiently and effectively, to ensure that it operates in accordance with applicable laws, regulations and management policies, and to ensure that resources are protected from attacks" [5].

According to O.O. Adelana, "internal control and its impact on the quality of financial statements should be considered very important in all firms, because the task of control is to prevent fraud in firms. Internal control is organized to prevent misappropriation of company property, identify and protect assets from possible fraud, and ensure safe custody of all assets" [6].

As it can be seen from the points mentioned above, the research focuses mainly on the nature of internal control. However, insufficient attention has been paid to the improvement of the internal control system.

RESEARCH METHODOLOGY

The rules for evaluating the effectiveness of the internal control system are reflected in regulatory legal documents. Organization of the internal control system in economic entities operating in the Republic of Uzbekistan is of great importance in improving the scientific and methodological apparatus of audit.

ANALYSIS AND RESULTS

The main task of audit activities in modern conditions is to protect the interests of entrepreneurs, and it is necessary to study internal control and evaluation from a theoretical and practical point of view, in order to provide perfect audit conclusions based on the principles of international audit standards.

The auditor examines the internal control system to make an informed decision about its reliability and whether it can be relied upon to perform the audit. The reliability of the control system consists in its ability to prevent and identify errors that can be made intentionally by certain persons in accounting, as well as those made accidentally. If, in the opinion of the auditor, the internal control system is reliable, he may replace the examination of accounts or transactions on any of the audited objects in whole or in part with the result of the examination of the functioning of the internal control system. If it is determined that the internal control system is working reliably and without significant deviations, it has the right to assume that the accounting information in such a system is also free of significant errors. If the internal control system is ineffective, the auditor should increase the number of tests and the size of its selection to eliminate dangerous situations arising from its deficiencies. When examining the internal control system, the auditor first of all examines the attitude of the management of the client company to internal control, i.e., the thinking characteristics of the head of the company, their leadership style, and their attitude to specific financial statements. The auditor should not deny the business environment around the enterprise. At this stage of the study, the auditor uses the information he has gathered to assess the risk situations arising from the contract with the client. However, if he has assessed the risk situations of the entire audit as favorable, he should also not consider the internal control system of the enterprise to be reliable. During planning, all aspects of the internal control system should be analyzed in detail. The auditor prepares a brief report to bring the obtained data into a single system, and describes the following in it: the field of activity and principles of the enterprise; management's obligations regarding the creation of a reliable accounting and control system; management's ability to control the company's activities.

When describing the field of activity, the auditor focuses on specific areas of internal control. Increased control over certain transactions and accounts in different sectors may be ineffective for others. For example, inventory control in commerce may be effective enough in practice, while material control in industry may be less efficient than cash control.

A properly implemented internal control system eliminates errors and, as a result, makes incorrect, useless decisions and minimizes losses. This applies to both unintentional and intentional errors. Furthermore, when internal controls are well established, accidental errors are not easily detected, and deliberate errors can only be eliminated through a well-thought-out system of continuous review and allocation of responsibilities.

The internal control system is a set of permanent, daily activities aimed at ensuring the accuracy of accounting and reporting, as well as enabling the rational use of enterprise resources. The internal control system is an information gathering system, characterized by the timely detection of existing errors, the existence of a system of coordination of any transactions, regular inventory, accounting reports and analysis of the implementation of the plan in all aspects. As a result of the effective operation of the internal control system, opportunities for increasing income in the activity are created, and the risk of loss of income is eliminated.

The structure of internal control is characterized by diversity, enterprise activity, its size, computerization of activity, management's ability to personally control and many other factors.

The main purpose of internal control system assessment is to create a thorough basis for planning the

audit, as well as to determine the types, time and scope of audit operations, and to reflect them in the audit program. An initial audit program has been prepared by the auditor and he has a certain idea about the progress of the work ahead. The program of the previous year's audit is taken as a preliminary program, and adjustments are made according to the results of the initial analysis of the internal control system in the client-enterprise and the assessment of the risk of inefficiency.

Information on the results of the examination of the status of the internal control of the economic entity should include the following (Figure 1).

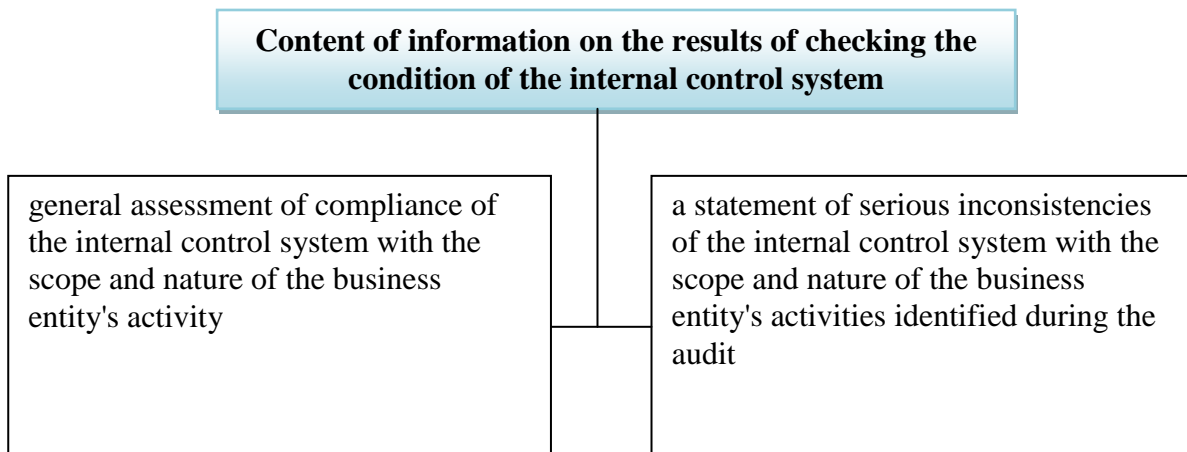


Figure 1. Content of information on the results of checking the condition of the internal control system¹

The auditor is not responsible for developing an effective internal control system for the client. The creation of such a system requires the development of the enterprise's organizational structure, control procedures and documentation. The control system developed by the audit firm is a consulting service, which the firm does not include in its audit functions.

The control environment means awareness of business processes of the management of the economic entity, practical work aimed at establishing the internal control system.

The condition of the control environment depends on the work style of managers, their worldview, the effectiveness of the system of explaining the purpose of control and control over employees.

The elements of the control environment are policy and management styles, management structure of the enterprise, supervisory board, management functions and responsibilities distribution styles, control management styles, internal audit activities, personnel policy, external influences (coordination control such as tax control).

The attitude of the management of the client company to supervision has the greatest influence on the supervision environment. The upper level of management determines the attitude of employees to supervision. The management environment is characterized by a management system that provides a high-level internal communication system, helps the effective operation of audit activities under the Supervisory Board, uses a budget system, i.e. a business plan or estimate and reports on their implementation, and ensures the effectiveness of internal audit. The control environment is determined

¹ Made by author

by the competence of the company's employees, the distribution of duties, the ability to obtain assets, documents, and periodic comparison of account records. Competence of employees performing control functions is the main feature of the internal control system of the enterprise. Human resource problems of the enterprise have a negative impact on the internal control system. If accountants are changed frequently, this leads to accounting and control functions being performed by specialists who do not have enough experience and as a result make many mistakes. New managers and officials may not be sufficiently familiar with the accounting system in the enterprise. In some cases, accounting employees quit because they do not want to perform illegal accounting operations assigned by the upper management. That is why the frequent change of accounting staff is considered a negative situation.

CONCLUSION

1. In the process of studying and evaluating control in the accounting system during the audit, auditors study and evaluate the state of performance of the chief accountant's duties at the level of responsibility regarding the organization and management of accounting. In this case, although no norms regarding the control of the accounting system by the chief accountant have been established in the legislation, the duties of the chief accountant may be assigned or not provided at all by the manager for certain issues, and other similar cases may be imposed on the chief accountant with excessive responsibilities regarding the implementation and results of the control in the accounting system, or the chief accountant may be responsible and may relieve him of this responsibility, and the fact that these issues have not yet been resolved leads to some misunderstandings and ambiguities regarding the control of the accounting system during the audit.
2. When the client relies on internal control data in the assessment of the company's activity during the audit, internal control should first of all be considered by the company's management and all employees, not as a permanent, daily work aimed at ensuring the correctness of accounting and reporting, and enabling the rational use of the company's resources. In the implementation of economic processes, it is considered appropriate to consider them as a system for ensuring their compliance with legislation, efficiency, high-quality execution and reliability of financial reports, and the formation of a control system that provides services and fully or partially assumes responsibility for the achievement of enterprise activity goals is achieved.
3. Internal control is organized based on accounting legislation. However, there is no single regulatory procedure for the organization and implementation of internal control in the enterprise. The necessity of such a standard document takes into account the accounting, economic process, it works with the final result. Sometimes, even if the economic process carried out is illegal, any process is inevitably reflected in accounting and recognized as income or expense. In this case, it is necessary to define in detail the rights, obligations, authority and level of responsibility of the supervisory staff who implement and justify the economic process.
4. Improvement of the accounting system and internal control during the audit is of great importance in the activity of audit organizations and has a direct impact on their development. We believe that the strengthening of the role of the audit activity in the economy will serve to increase the quality level of the audit conclusions, and this will lead to positive results.

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