



DIRECTIONS IMPROVING THE AUDIT OF INVENTORIES: EVIDENCE FROM UZBEKISTAN

Mukhammadi Khayitboev

Researcher at Tashkent Institute of Finance, Uzbekistan

jahonshokh@bk.ru

Abstract

The current article describes the nature of inventories, the issues of their audit. The article identifies areas for organizing the audit of inventories on the basis of international standards. The article further explores the various stages of the audit of inventories and describes the actions to be performed by the auditor at these stages. Research shows that inventories have a significant share in the structure of assets of economic entities in sectors of the economy

Keywords: Inventory, audit, international standards of auditing, fraud, materiality, audit risk, overall audit plan, audit program

INTRODUCTION

In increasing the competitiveness of the economy in the world market, the main focus is on the rational use of raw materials and resources, saving inefficient costs and reducing the cost of production. In the context of modernization of the economy, any business entity will need to properly organize the accounting and audit of inventories and increase the efficiency of their use.

By effectively organizing the audit of inventories, it is possible to reduce the cost of production, increase profits and improve financial stability in business entities. Therefore, it is important to improve the methodology of audit of inventories on the basis of international standards. The purpose of the study is to check the significance of inventories on structure of assets and determining the directions improving the audit of inventories.



LITERATURE REVIEW

Many economists have been involved in the audit of inventories. According to a group of economists, inventories are an important part of cost items and have a significant impact on financial results. Therefore, it is advisable to use advanced audit methods to obtain reliable information about the reserves in the balance sheet [7].

According to Romanian economist Cristina Iovu, inventories will have a large share in the balance sheet. Therefore, the audit of inventories is a complex process and it is necessary to focus on determining the physical condition of inventories in audits, as the operations related to inventories are prone to fraud [5].

A group of U.S. economists point out that many methods are used to audit inventories. However, the most effective method of inventory audit is inventory, which should be conducted with the direct participation of the auditor [1].

According to Chinese economists H.Vi, H.Wang and Yu.Yang, inventories are the most important component of current assets and are a key factor in determining the auditor's remuneration as the main object of audit [9].

However, the works of the above-mentioned scientists do not pay much attention to the methodological aspects of the organization of the audit of inventories.

ANALYSIS AND RESULTS

Inventories begin with the planning process for the audit. Inventory planning allows you to identify important areas of audit. The conceptual approach to conducting an audit allows you to select a sequence of key approaches and steps for conducting an inventory audit. In our opinion, the most important stages of the audit of inventories are:

- Audit planning.
- Evaluation of the internal control system (INT).
- Formulation of audit plan and program.
- Perform audit procedures.
- Registration of results.

Inventory audit planning involves the development of an overall plan and audit program. In planning and conducting the audit, the auditor should not state that the management of the audited entity is questionable, but should not assume that management is absolutely dishonest. An audit is usually limited in time. Therefore, it is necessary to prepare well for it to give a positive result. Proper preparation is an important means of such preparation that ensures that sufficiently effective and efficient audit methods are applied.

Once the auditor has completed all the steps of the initial planning phase, he or she should develop an audit plan and program. The stages of planning the audit of inventories are shown in Figure 1.

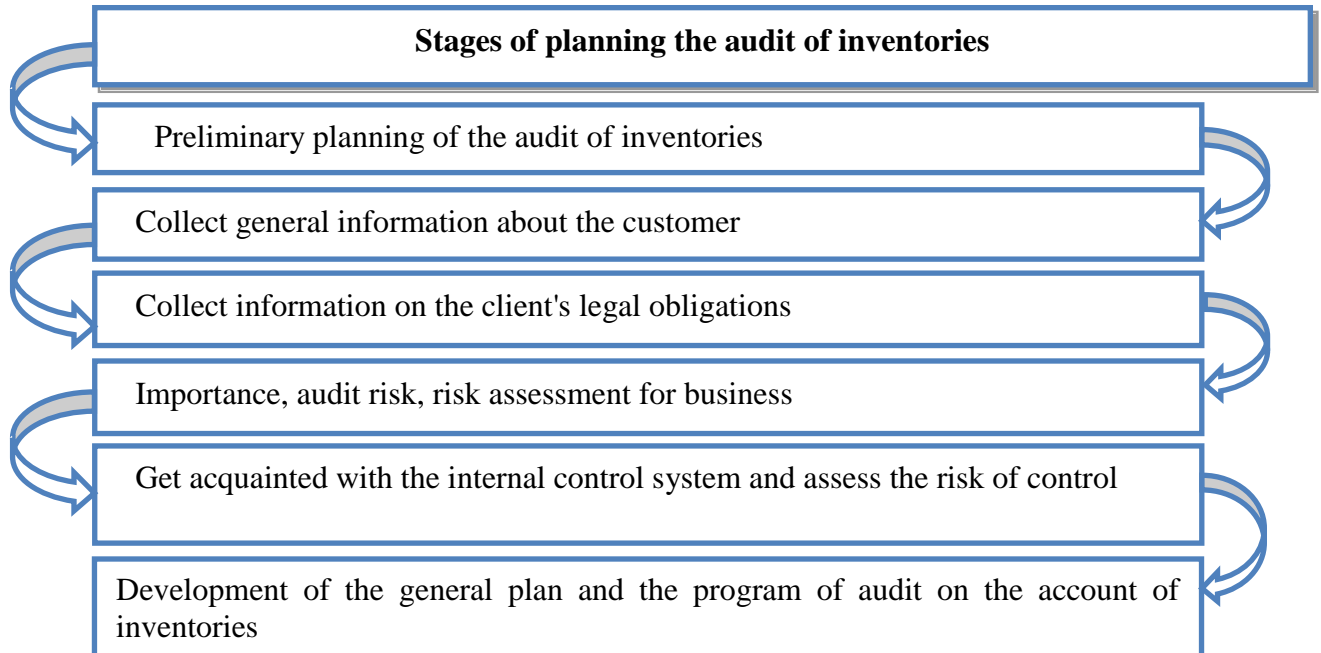


Figure 1. Stages of planning the audit of inventories

International auditing standards should be widely used in the organization of audits. According to economist A. Avlokulov, it is the application of international auditing standards that serves to improve the quality of audit and the application of a unified approach between different countries [2].

At the planning stage, auditors calculate the level of materiality in accordance with ISA 320, "Importance in Planning and Implementing an Audit".

In this context, let us consider the approaches of economists to the concept of "importance". Professor S.M. According to Bychkova, the concept of "materiality" is important in the audit, because the level of materiality determines the amount of inaccuracies or errors, as well as the scope of the audit and the form of the audit report [2]. In turn, Professor V.I. Podolsky notes that the auditor independently calculates the probability level of materiality based on his or her professional judgment [3].

According to TM Rogulenko and SV Ponomareva, in terms of quality, the auditor should decide whether the deviations identified by the audited entity in compliance with applicable law are significant [6].

The auditor's ability to identify material misstatements depends on the following factors: assessing compliance with the requirements of the adopted accounting policies and accounting policies and the level of departure from them, and assessing the likelihood of serious errors identified by internal and external auditors; time and cost restrictions on inspections; the professionalism of the auditor, and so on.

Planning is the development of an audit program that includes the nature, timing, and scope of the audit procedures required to complete the overall audit plan. The program is used by audit team leaders to train audit assistants.

In addition, it should be noted that the working papers prepared during the preparation of the audit plan for the audit of the financial statements are an important part of the audit documentation. Figure 2 analyzes and summarizes the tasks to be addressed by the auditor in preparing the inventory audit plan and program.

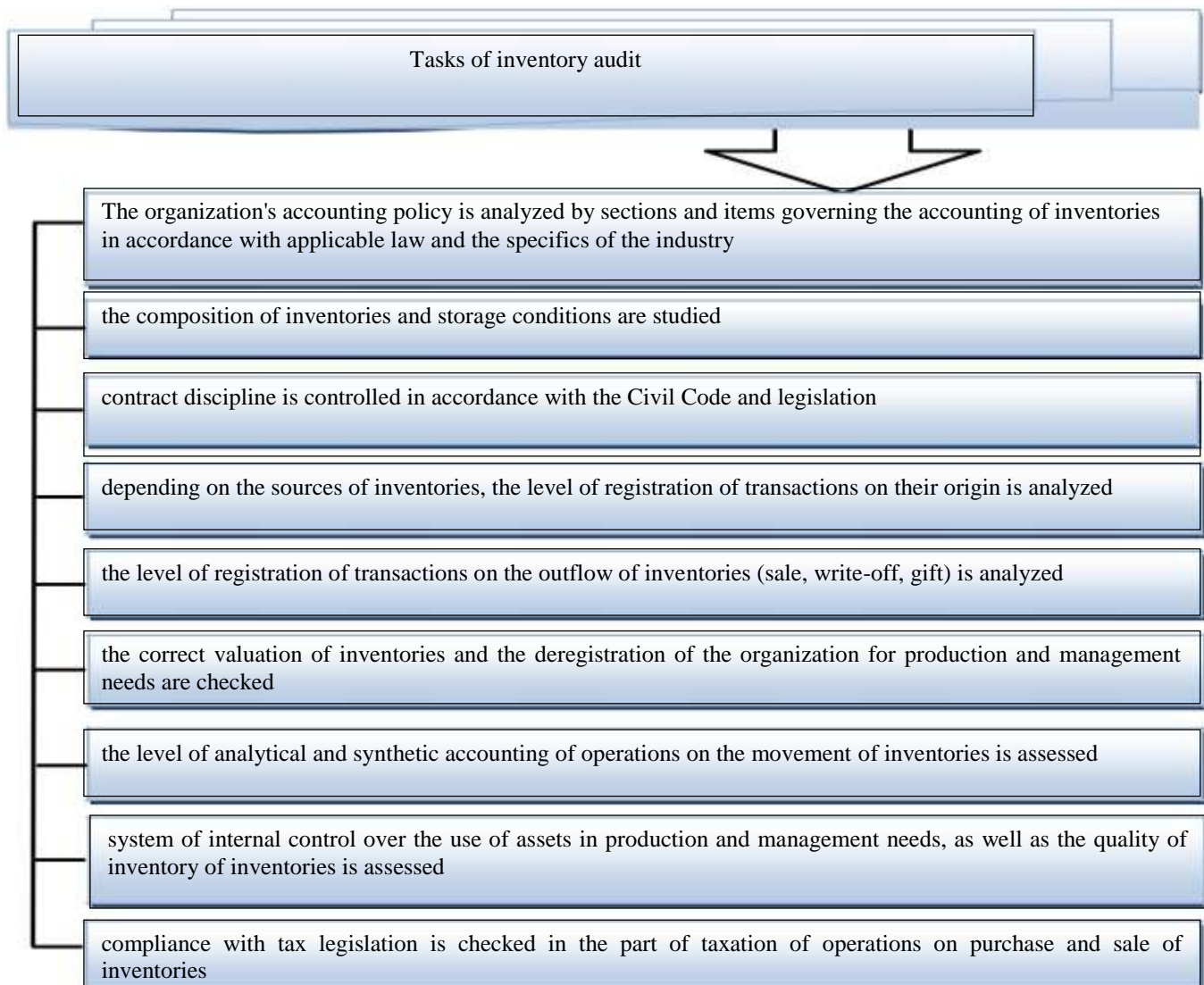


Figure 2. Tasks of audit of inventory accounts

Based on the tasks of the inventory audit, it is necessary to develop and change the audit plan. The overall audit plan should be sufficiently detailed to guide the development of the audit program. It reflects the strategy for the audit of inventories. The audit program covers the activities planned, the timing, and the people responsible for conducting the audit. The audit program may also include the preparation of financial statements for each audited entity, timelines planned for different areas, or audit procedures.

Thus, in developing an audit plan at the planning stage, auditors should consider: the types of activities of the organization; risk and importance; scope of audit activities; the importance of transactions with inventories; the impact of computer data processing on backups; the existence of an internal audit and its responsibilities for reserves; deadlines for submission of the audit report.

Subsequently, auditors should evaluate the accounting and internal control systems adopted by the audit firm to determine the likelihood of errors that affect the transparency of the financial statements. On the basis of such an assessment, the testing of the internal control system (INT), as well as the content and scope of the audit process are determined.

INT is a set of organizational measures, methods and actions taken by the management of the audited entity as a means of regular and effective financial and economic activities, asset retention, error detection, correction and prevention and information distortion, as well as timely dissemination of information. , to verify the preparation of quality financial statements.

The organization of internal control may depend primarily on the type of economic activity of the organization, while it is associated with other types of control - audit, tax, currency control. Internal control, unlike other types of control, must be present in every organization and be applied on an ongoing basis.

Various methods are used to obtain audit evidence to account for inventories. During the audit, the set of audit evidence is performed according to the criteria shown in Figure 3.

Evidence from an audit is the ability to form an opinion based on information from different sources and in different ways. Audit methods of obtaining evidence are audit procedures, which include: verification, observation, formal inquiry, recalculation, analytical procedures, external confirmation and re-examination [8].

Audit procedures are used at the initial stage of the audit to understand the characteristics of the organization, to identify the financial and economic transactions associated with this activity and some of the greater risks. In essence, an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Modern audit organizations have a variety of ways and means at their

disposal to perform audit procedures and apply them depending on the complex situation that arises during the audit.

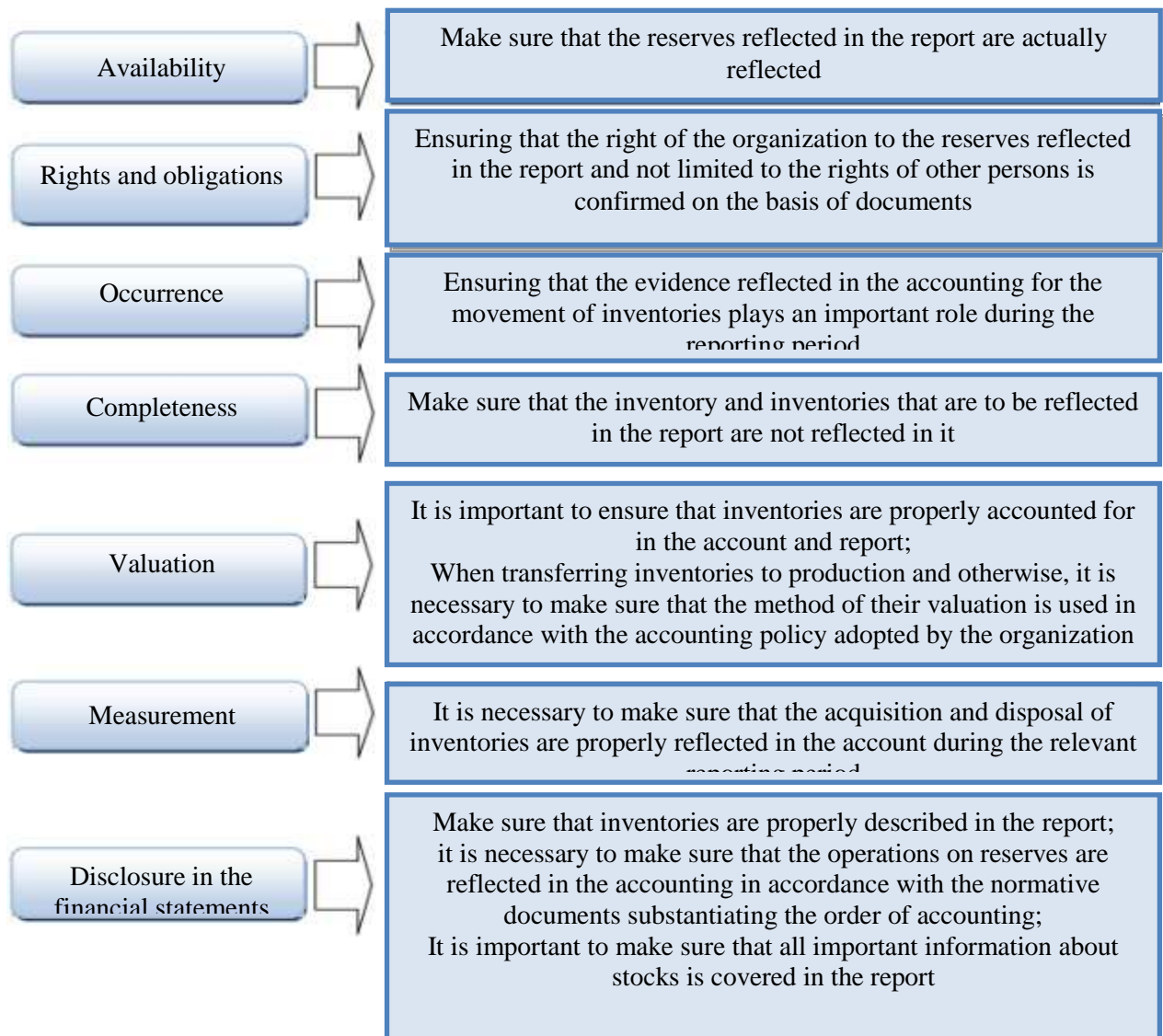


Figure 3. Criteria for evaluating audit evidence

The use of audit methods with a thorough knowledge of the characteristics of the audited company allows you to conduct the audit as quickly and efficiently as possible. In our opinion, one of the most important methods of auditing is inventory.

When conducting an inventory, the following should be done: tracking accounts; fill in and discuss the check (sample); confirmation of the presence of all members of the inventory commission; determine how inventory is to be performed: actual counting, weighing, measuring, and obtaining instrument readings; care must be taken to ensure adequate control over the

movement of inventories during inventory. During the inventory process, the auditor may apply one or more actions regardless of whether a business transaction or a group thereof is audited.

During an audit, auditors can conduct an inventory, which helps them accurately assess the reliability of the account and the effectiveness of the internal control system. If the audit firm fully controls the reliability of the internal control system (INT) as a whole or some of the controls as high, it is able to reduce the number of audited items to an average limit during the audit selection.

The effectiveness of an auditor's work depends on the methods chosen for the audit, as well as their adaptability to clearly defined goals and objectives. Audit methods are interrelated with economic analysis methods. At the final stage of the audit, it is recommended to summarize the audit results.

The auditor analyzes errors, omissions, and irregularities identified in accordance with the requirements of ISA 320, Significance in Planning and Implementation of the Audit. Based on the materials of the audit, a report is prepared for the management of the audited enterprise and the audit report. Errors constitute an important part of the auditor's findings on the results of the audit, but their validity must be ensured. Sources of information obtained as a result of verification of the accuracy of the financial statements of a commercial organization serve as evidence in the audit. Errors, inaccuracies, and misinformation identified during the audit should be systematized according to their importance and significance. In this case, the quality of the audit depends mainly on the number and content of audit procedures used during the audit.

Thus, we have described in detail the main stages of the audit, which are recommended for use in the audit of inventories (Table 1).

Table 1. The main stages of the audit of inventories

Stage	The essence of the stage
1. Planning	In accordance with ISA 300 "Audit Planning", an audit firm must plan its work in order to effectively organize the audit. In planning the audit, it is advisable to develop a comprehensive approach to the various characteristics and the overall strategy, the scope and timing of the audit.
2. Evaluation of the Internal Control System (INT)	Developed in five elements of INT: management environment, the process of risk assessment of the audited entity, information systems, including financial reporting, monitoring of control instruments,
3. Auditor selection	The selection is made in accordance with the requirements of ISA 530 "Audit Selection". In this case, using certification, it is necessary to divide the set of operations under study into smaller sets.

4. Audit evidence, types and procedures for obtaining them	Conducting an audit The name "Audit Evidence" refers to the process of collecting and evaluating audit evidence in ISA 500. The audit involves the process of gathering and evaluating the audit evidence. The auditor collects evidence by performing audit procedures.
5. Summarize the results of the inspection on a specific section and prepare information to form the final document	Based on the results of the audit, it is necessary to identify errors, analyze their consequences, confirm the reliability of the work performed.

Thus, this approach to the organization and conduct of the audit of inventories provides a deeper understanding of the essence of the proposed stages and methods of audit, which creates conditions for improving audit services. Adherence to the sequence of audits in business entities will improve the quality of audits.

CONCLUSION

Research shows that inventories have a significant share in the structure of assets of economic entities in sectors of the economy. It is known from world practice that transactions related to inventories are prone to fraud. Therefore, in the process of receipt, storage and use of inventories, serious attention should be paid to audits.

International audit standards should be given close attention in the organization of effective use and control of inventories. By applying international auditing standards, it is possible to prevent inventory fraud and reduce audit risk.

As a result of the research, five stages of the audit of inventories were developed. At these stages, the international auditing standards used in the audit of inventories are given. The full implementation by the auditor of the measures identified in the audit of inventories contributes to improving the quality of the audit and the formation of a reliable audit opinion.

REFERENCES

1. Andrew Gross, Jamie Hoelscher, Brad J. Reed, Gregory E. Sierra. The new nuts and bolts of auditing: Technological innovation in inventorying inventory. // *Journal of Accounting Education*. Volume 52, September 2020, 100679
2. Avlokulov A. Aligning financial results' audit with international standards in Uzbekistan: comparative and compatibility analysis. // *International Journal of Economics, Commerce and Management*. Vol. V, Issue 10,

October 2017. Licensed under Creative Common Page 67 <http://ijecm.co.uk/wp-content/uploads/2017/10/5105.pdf>

3. Аудит: учебник для студентов вузов, обучающихся по экономическим специальностям. / Под ред. В.И. Подольского. – 5-е изд., перераб. и доп. – М.: ЮНИТИ-ДАНА, 2011. – С. 99.
4. Бычкова С.М. Аудит: учеб. пособие / под ред. проф. Я.В. Соколова. – М.: Магистр, 2011. – С. 75.
5. Cristina Iovu. Aspects concerning the internal audit of inventories. // *Audit financiar*, XV, Nr. 2(146)/2017, 276-283 ISSN: 1583-5812; ISSN on-line: 1844-8801
6. Роголенко Т.М., Пономарева С.В. Аудит: учебник. – М.: КНОРУС, 2010. – С. 97.
7. Sitraselvi Chandren, Santhirasegaran Nadarajan, Zaimah Binti Abdullah Inventory Physical Count Process: A Best Practice Discourse. // *International Journal of Supply Chain Management*. Vol. 4, No. 3, September 2015
8. Хажимуратов Н.Ш. Акциядорлик жамиятларида молиявий ҳисобот аудитини такомиллаштириш: 08.00.08: Иқтисодиёт фанлари бўйича фалсафа доктори (PhD) диссертацияси автореферати. Тошкент молия институти. -Т., 2018. -56 б.
9. Xi Wu, Xueqin Wang, Yulong Yang. The puzzling association between inventory and auditor pricing in China. // *China Journal of Accounting Research*. Volume 11, Issue 4, December 2018, Pages 351-366.