

## PROBLEMS IN CONDUCTING INVENTORY AUDIT AND WAYS TO ELIMINATE THEM

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### ABSTRACT

This article explains the role and importance of the inventory audit in conducting audits of economic entities, as well as the problems in the organization of the inventory audit, and suggestions for their elimination. Taking into account that the production process of economic entities is considered as the most important object during the audit of inventories, it is based on the need to check whether the production costs are correctly taken into account and the product cost is correctly calculated during the audit. The suggestions and recommendations given in this article on solving problems in checking inventory accounts serve to improve the quality of auditors' work.

**Keywords:** International standards of auditing, transformation, international standards of financial reporting, audit planning, audit procedures, quality control, related services, internal control system.

### 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 unproductive costs and reducing the cost of products. In the conditions of modernization of the economy, it will be necessary for any business entity to properly organize the accounting and audit of its inventory and increase the efficiency of their use. By effectively organizing the inventory audit, it is possible to reduce the cost of products, increase the amount of profit, and improve the indicators of financial stability in economic entities. Therefore, it is important to improve the inventory audit methodology based on international standards. Below, we will focus on the regulatory framework of inventory audit and the role of international standards in it. In the following years, in our country, a lot of attention is being paid to the organization of auditing activities based on international standards. In this regard, many documents were adopted by the head of our state and our government. In particular, the adoption of the decision PQ-3946 of the President of the Republic of Uzbekistan dated September 19, 2018 "On measures for the further development of auditing activities in the Republic of Uzbekistan" gave an impetus to audit activities in our country based on international standards. After this decision, on February 25, 2021, the Law of the Republic of Uzbekistan No. ORQ-677 "On Auditing Activities" was adopted. This Law differs from the previous editions in that it covers all the documents available in the field of audit. The law made changes to the audit principles. Also, in this Law, the definition of the audit, the entities subject to the mandatory audit and the period of its implementation have been changed. In the conditions of transformation of the economy in Uzbekistan, practical measures are being taken to organize inventory accounting and auditing in economic entities on the basis of

international standards. In order to provide foreign investors with the necessary information environment, "From January 1, 2021, legal entities included in the category of joint-stock companies, commercial banks, insurance organizations and large tax payers will organize accounting based on international standards of financial reporting, and from the end of 2021, financial reporting will be based on international standards the task of preparation" is defined. Implementation of this task is one of the urgent problems of substantiating proposals and recommendations for improving inventory accounting and auditing in economic entities based on the requirements of international standards, assessing inventory at fair value in accounting, and strengthening the internal control system for inventory in audits. .

### LITERATURE REVIEW

It is known that the effectiveness of audits is mainly determined by proper organization and careful planning of audit activities. Audit planning allows you to determine the important areas of the audit. There is a conceptual approach to conducting an audit, and this approach allows you to correctly determine the sequence of stages of conducting an inventory audit. In audit theory and practice, it is recommended to use the object-based approach, the periodic approach and the process-object approach in the planning process. An object-based approach to audits involves checking information on certain accounts or specific objects in accounting. According to A.D. Sheremet, V.P. Suyts, "recommends the use of a periodic process, the basis of which is the separation of segments representing the financial and economic activity of the audited organization, the system used in accounting, internal audit and document circulation schedule" [2].

Professor I.N. Bogataya came to the conclusion that "the application of the process-object approach, which includes periodic approach and object-oriented elements, is acceptable"[3]. In our opinion, it is appropriate to use a process-object approach to audit, because with this approach, it is possible to avoid duplication of audits, reduce labor costs, reduce audit risk, and improve the quality of audits. Many literatures give different opinions on the stages of audit. In the "auditing dictionary" "audit stage" refers to the temporary stages of the audit, which are characterized by the general type of work performed and the audit risk. It is appropriate to distinguish the following four stages:

- initial stage;
- planning;
- use of audit procedures;
- preparation of the audit opinion»[4].

Doctor of Economics, Professor I.N. Koziev divided the audit into 4 stages: "initial stage, preparation stage for the audit, stage of implementation of the audit, stage of summarizing the results of the audit" [5].

On the other hand, O.V. Kovaleva and Yu.P. Konstantinov propose to use four stages, consisting of "audit preparation, audit planning, audit operations, formalization of audit results"[6].

Doctor of Economics, Professor A. Avlokulov also stated in his research work that there are basically 4 main stages in the audit: "planning and organization of the audit; checking of business transactions; checking individual items of the report; to complete the audit" [7].

V.A. Erofeeva, V.A. Piskunov and T.A. Bitjukova defines "three stages of audit: planning (initial

stage), collection of audit evidence (working stage), completion of audit (final stage)" [8]. R.P. Bulyga suggests "the use of audit stages such as audit planning, audit review and preparation of an audit report"[9].

However, in the works of the above-mentioned scientists, much attention is not paid to the methodological aspects of the organization of inventory audit. In our opinion, the purpose of the inventory audit is to assess the actual state of the inventory at the disposal of the economic entity and to form truthful information about this object of the account for the users of the financial report. To achieve this goal, it is necessary to define specific tasks.

### ANALYSIS AND RESULTS

In the following years, international standards are widely paid attention to when conducting audits. In the Law of the Republic of Uzbekistan "On Auditing Activity" No. ORQ-677, it was determined that audit inspections should be carried out only on the basis of international standards, which was an important step in the reform of auditing activity. If we pay attention to the international standards of auditing, we can see that it has been developed not only in terms of auditing, but also in terms of related services, assurance, quality control and interpretive audits. These standards are used all over the world and contribute to the further development of auditing activities. In this article, we will pay attention to the issues of improving the inventory audit based on international audit standards. The continuity of business entities in economic sectors is directly related to the level of adequate supply and effective use of goods. It is carried out by conducting direct audits of the condition of inventories and the effectiveness of their use.

According to research, there are the following shortcomings in the inventory audit:

- a perfect inventory audit plan and program has not been developed. Current plans and programs are general and are not fully covered by types of commodity material reserves;
- the level of evaluation of the internal control system in the inventory audit does not meet the requirements of international standards;
- There are no universally agreed views on the specific sequence of conducting inventory audits;
- the procedure for selective inspection in inventory audit is not sufficiently disclosed;
- insufficient attention was paid to determining the levels of materiality and risk in audits;
- little attention is paid to the issue of checking the cost of inventory in the warehouse, production and sales processes;
- the issue of sufficient supply of material reserves from the point of view of business continuity was not explained in detail in the audits.

Before focusing on the issue of inventory audit plan and program, we believe that it is necessary to clarify the stages of inventory audit. As a result of the conducted research, it was recommended that the main stages of inventory audit should be as follows (Table 1).

**Table 1 The main stages of conducting an inventory audit**

Stage	The essence of the stage
1. Planning inventory audit	In accordance with AXS No. 300 "Audit Planning", it is necessary to effectively plan the audit in order to organize it effectively. When planning inventory audits, the volume of audit activities and their duration, a detailed approach to various descriptions, and the development of a general strategy are appropriate.
2. Assessment of the internal control system (INT) in the audit of commodity material reserves	In the audit of goods and material reserves, the internal control system must be developed in the section of five elements: the management environment, the process of assessing the risks of the entity being audited, the information system, including financial reporting, monitoring of control tools,
3. Collecting audit evidence on inventories	When conducting an inventory audit, it is necessary to collect audit evidence and assess its reliability and appropriateness in accordance with AXS No. 500 entitled "Audit Evidence". The evidence collected during the inventory audit serves to form the auditor's opinion.
4. Summarizing the results of inventory checks and preparing information for the formation of the final document	According to the results of the inventory audit, it is necessary to identify errors, analyze their consequences, and confirm the reliability of the work performed. The auditor's conclusion on the results of the inventory audit should be drawn up according to the following standards: AXS No. 700 Forming an opinion and issuing a report (summary) on financial statements Modification of opinion in AXS No. 705 Independent auditor's report (summary). Explanatory paragraphs and other issue paragraphs in AXS No. 706 Independent auditor's report (summary) AXS No. 710 Comparative information - comparative indicators and comparative financial statements AXS No. 720 Responsibility of the auditor in relation to other information in the documents covering the audited financial statements in the course of the audit

Thus, the proposed stages and methods of organizing and conducting inventory audits allow for a deeper understanding of the nature of the audit, which creates conditions for improving audit services. Compliance with the consistency of conducting audit stages in economic entities allows to increase the quality of audit inspections. In the process of planning an inventory audit, special attention should be paid to the level of importance and the audit risk. These two indicators are the most important indicators of the audit and they are inversely proportional to each other. The level of materiality is the margin of error that can be allowed in audits. This indicator can be shown as a fixed amount or as a percentage. In the inventory audit, special attention is paid to the level of materiality. Because inventory is one of the most fraud-prone assets. The lower the significance level, the more audit procedures we need to perform, the scope of audit selection, and the number of audit evidence we need to use. If the level of importance is set high, the inspection can be performed more superficially. According to the "Glossary of Terms" of the International Auditing Standards, "materiality is the amount or amounts set by the auditor to be less than the overall materiality level for the financial statements in order to reduce to an acceptable low level the probability that the total amount of uncorrected and

undetected misstatements will exceed the materiality level set for the financial statement". We consider the level of significance based on AXS No. 320 entitled "Significance in Planning the Audit of Financial Statements" (Table 2).

To determine the level of significance, we determine the arithmetic average of the indicators listed in column 4 of Table 2:

$(8474410+115109+24565)/3 = 2874084$  thousand soums.

Using this average indicator, the smallest and largest deviation from the average should be determined.

**Table 2 Determining the level of importance of inventory in JSC "Jizzakhdon Products" in 2020**

Basic indicators	Value of the basic indicator, thousand soums	Significance level, %	Expression of the level of importance in the amount, thousand soums
Production reserves	121063000	7	8474410
Finished product	1918495	6	115109
Goods	491304	5	24565

In 2020, JSC "Jizzakhdon Products" had the smallest deviation from the average indicator of inventory:  $(8474410-2874084) / 2874084 * 100 = 194\%$ . The biggest deviation from the average in this joint-stock company was:  $(24565-2874084) / 2874084 * 100 = 13\%$ .

It was found that the deviation of the largest and smallest indicators from the average indicator in 2020 in JSC "Jizzakhdonmahsuloteri" in terms of inventory is more than 10 percent. Therefore, it is necessary to exclude the values of 8474410 thousand soums and 24565 thousand soums. It will be necessary not to use these values in the future to determine the average indicator. In this case, the new average is 115,109 thousand soums. Thus, if errors in the amount of more than 115,109 thousand soums are detected in the financial report of "Jizzakhdon products" JSC, they should be recognized as significant. It is necessary to pay attention to the level of risk when conducting audits. Because the level of risk affects the overall plan and program of the audit, as well as the responsibility of the audit organization. Audit risk components include non-separable and undetectable risk, the amount of which will inevitably affect the final audit risk level. Undifferentiated risk is usually caused by internal and external factors affecting the activities of business entities. For example, the imposition of restrictions on the export of raw materials in foreign countries creates problems with the supply of goods and material reserves in economic entities and jeopardizes financial stability due to a decrease or stoppage of production, or vice versa. For example, the establishment of restrictions on the export of certain products to enterprises operating in our country creates problems in the process of selling manufactured products abroad. This, in turn, leads to leakage of the finished product in the warehouse and disruption of business processes. Such situations lead to an increase in risk that cannot be excluded. The risk of non-detection is also important in determining audit risk. The risk of non-detection usually arises from the inability to gather

sufficient evidence or from the auditor's low level of knowledge. Therefore, in reducing this risk, it is necessary to collect more evidence and involve experienced experts in the investigation.

### CONCLUSION.

Inventories play an important role in the production and economic activity of economic entities. This category of assets constitutes a significant weight in the cost of manufactured goods. In reducing the cost of manufactured products, the correct implementation of inventory accounting and auditing is important. Today, the increase in the price of resources all over the world requires economic entities to use their inventory wisely. Especially now, the increase in the value of fuel, grain, vegetable oil, sugar and other goods in the world market requires economic entities to pay special attention to the supply of material reserves. It is considered important to prevent shortages in grain processing enterprises to prevent interruptions in the processing of grain and production of flour products. Inventory accounting and auditing play a role in the proper implementation of these processes. That is, due to the reliable and quick information of accounting and auditing, economic entities can have sufficient inventory and ensure the stability of the activity. Many regulatory legal documents have been developed regarding the organization of inventory accounting. However, in the context of current economic development and globalization, it is necessary to widely apply international standards of financial reporting. The standards adopted by the International Federation of Accountants specify methodological aspects of inventory accounting and disclosure of information about them. In our opinion, it is appropriate to widely use these standards in keeping accounts of inventories and preparing financial reports in joint-stock companies. Inventories are one of the largest objects not only of accounting, but also of auditing. Inventories, according to their specific characteristics, require the use of various audit methods and inspections. During audits, it is necessary for the auditor to correctly define the goals and tasks of the inventory audit and specify the directions of the audit in order to form a reliable opinion.

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