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AUDIT RISKS IN MANUFACTURING COMPANIES

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We would like to thank ....

ABSTRACT

Many studies have been conducted on risk analysis and risk management in the world and in our country. However, these studies, especially in our country, are mostly related to the financial sector (banks, insurance companies, etc.). In our work; the focus will be on the financial sector from time to time, particularly those outside the financial sector (industrial enterprises and commercial enterprises) and the financial sector will not be considered in the application sector.

Key words: Audıt, risks, Manufacturing Companies

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INTRODUCTION

In recent years, the rapid development of businesses and capital markets has brought along some problems. The economic crises in the world and especially the country crises since the 1970s are the most basic indicators of this. The competitive environment in which companies are located and the crisis environment in which countries are constantly pushing them to continually renew and develop. In other words, businesses need to be prepared for every situation. Every business can not make this development and renewal need in a timely and adequate level. In companies that can not adequately improve and renew on time, there are various risks (such as asset resource imbalance) arising from business risks (such as activity, abuse) and balance sheet. As a result, some illegal methods are being applied. These methods either impede the flow of financial information or cause misinformation.

The main objective of the audit is; to identify all the inaccuracies that may arise in businesses, whether originated from mistakes or from folks, and to provide accurate financial information to the public. Nowadays, they operate more than one field rather than a single field, complicating accounting processes. For this reason, the work of independent external auditors is becoming more difficult every day.

Trade and customs union agreements between countries, and the establishment of the European Union. Businesses have started to operate in many areas and have been opened to more than one country. This growth of businesses has brought many risks together. Especially in the 1970s, the adoption of the floating exchange rate system from the fixed exchange rate system in the world, the technological developments increasingly difficult to keep pace with the oil crisis and the speed of the same period, multinational businesses have been overwhelmed by the wait and forcing them to take some precautions.

Many studies have been conducted on risk analysis and risk management in the world and in our country. However, these studies, especially in our country, are mostly related to the financial sector (banks, insurance companies, etc.). In our work; the focus will be on the financial sector from time to time, particularly those outside the financial sector (industrial enterprises and commercial enterprises) and the financial sector will not be considered in the application sector.

Because of the increasing importance of the audit approach towards risk identification and risk in the business, the subject of our work has been defined as "Riske Oriented Audit and Reporting". In our work, we will focus on public expectations of auditing, risks, situations that could endanger the continuity of the business, and their detection. In independent external audit, "risk-oriented audit" and "audit risk" are confused. However, these two issues are different. These differences will also be explained in the scope of the study.

CHAPTER I

ECONOMIC AND LEGAL BASES OF AUDITOR RISK

1.1. The concept of risk, its importance and functions in business

Risk - can be represented as a specific financial category. For this reason, the extent and magnitude of the risk may be affected by a financial mechanism. This effect is achieved through financial management techniques and a specific strategy. Together, strategies and techniques form a kind of risk management mechanism, i.e. risk management. Thus, risk management is part of financial management.

The basis of risk management lies in the purposeful Job seeking and organization to reduce the impact of the risk cycle, income generation and recovery in non-specific economic situations (earnings, profit) (Global- Innovation, www.strategyand.pwc.com/media/file/2016-Global-Innovation-1000-Fact-Pack.pdf, 2015).

The ultimate goal of risk management is to obtain the greatest profit with an optimal, acceptable ratio of profit and risk.

Risk management is a system of risk management and economic, more precisely, financial relations arising in the process of this management.

Risk management includes strategy and management tactics.

A management strategy is understood as the direction and method of using the funds to achieve the goal. This method corresponds to certain rules and restrictions for a decision process. This strategy allows us to concentrate our efforts on solutions that do not contradict the strategy we adopt and that reject all other options. After reaching the goal, the strategy is a direction and it exists as a means of achieving it. New targets set a new strategy development task.

Tactics are specific methods and techniques for achieving the goal in specific conditions. The task of management tactics is to choose the optimal solution and methods and management methods that are most acceptable in a given economic situation.

Risk management as a management system consists of two subsystems: a managed subsystem (control object) and a control subsystem (management entity) (www2.deloite.com/content/dam/Deloite/global/Documents/Tax/dtl-tax-beps-fullsurvey-results-may-2017.pdf (2017).

The object of management in risk management In the risk realization process, risk is risky capital investments and economic relations between commercial entities. These economic relationships include entrepreneurs (partners, competitors) and the like between the insurers and the insurer, the debtor and the lender.

The subject of management in risk management is a special group of people (a financial manager, an insurance specialist, an acquirer, an actuary, an underwriter, etc.) which, through various methods and methods of managerial influence, carries out a purposeful operation of the management object.

The process of the subject's influence on the control object, i.e. the management process itself, can only be carried out if certain information is circulated between the control and managed subsystems. The management process, regardless of its specific content, always involves the receipt, transmission, processing and use of information. In the risk management, obtaining reliable and sufficient information in the given conditions plays a major role, since it allows us to take a specific decision on actions in risk conditions.

Information support for the functioning of risk management consists of various types and types of information: statistical, economic, commercial, financial, etc (90% of buy-side firms are at risk of non-compliance by MiFID II deadline, JWG survey finds,2017).

This information includes the likelihood of an insurance, an insurance incident, goods, capital, financial stability and the awareness of the availability and size of the payment power of customers, partners, competitors, prices, rates and insurances. about insurance conditions, dividends and interest, etc. (Managing risks and enabling growth in the age of innovation 2018 Risk in Review Study, 2018).

You can not risk more than your own capital can.

We must think about the consequences of risk.

There is no risk for many people for the sake of the young.

Undoubtedly, a positive decision is taken.

If there is doubt, negative decisions are made.

One can not always think of a single solution. Maybe there are others.

The application of the first rule means that it is necessary before deciding on a risky capital investment:

Determining the maximum amount of damage possible for this risk;

we compare with the amount of capital invested:

It compares it with all financial resources and determines whether the loss of this capital will lead to the bankruptcy of this investor. The amount of loss from investing capital can be equal to the volume of this capital, slightly less or more than it.

With direct investments, the volume of loss is, as a rule, equal to the volume of venture capital.

The implementation of the second rule requires that the financial manager, knowing the maximum possible amount of the loss, determine what it can lead to, what the probability of risk is, and decided to abandon the risk (i.e. from the event), take the risk on their own responsibility or transfer of risk to another person (Veritas Study: Organizations Worldwide Mistakenly Believe They Are GDPR Compliant, 2017).

The effect of the third rule is particularly pronounced in the transfer of risk, i.e. at insurance. In this case, it means that it is necessary to divide and choose an acceptable ratio between the insurance premium and the insured amount. The insurance premium is the policyholder's payment for the insured risk. The sum insured is the sum of money for which the material values, responsibility, life and health of the insured are insured. The risk should not be withheld, i.e. The investor should not take the risk if the loss is relatively large in comparison with the savings on the insurance premium.

The implementation of the remaining rules means that in a situation for which there is only one solution (positive or negative), you must first try to find other solutions. Perhaps they do exist. If the analysis shows that there are no other solutions, they act according to the rule "per worst", i.e. if in doubt, then make a negative decision.

Functions of risk management (Last year’s ICO fines would soar to £69 million post-GDPR, 2017).

Risk management performs certain functions. There are two types of risk management functions:

functions of the control object;

functions of the subject of management.

The functions of the management object in risk management are the organization:

risk resolution;

risky investments of capital;

work to reduce the magnitude of risk;

the process of insurance of risks;

economic relations and ties between the subjects of the economic process.

The functions of the subject of management in risk management are:

forecasting;

organization;

regulation;

coordination;

stimulation;

control.

Forecasting in risk management is the development for the future of changes in the financial condition of the facility as a whole and its various parts. Forecasting is the anticipation of a certain event. It does not set the task of directly implementing the developed forecasts in practice.

A special feature of forecasting is also the alternative in the construction of financial indicators and parameters, which determines various options for the development of the financial state of the management object on the basis of emerging trends. In the dynamics of risk, forecasting can be carried out both on the basis of extrapolation of the past to the future, taking into account the expert assessment of the trend of change, and on the basis of a direct prediction of the changes. These changes can occur unexpectedly. Management based on the foresight of these changes requires the manager to develop a certain sense of market mechanism and intuition, as well as the use of flexible emergency solutions.

The organization in risk management is an association of people who jointly implement the risk capital investment program based on certain rules and procedures (The Global Skılls Landscape A Complex Puzzle , The Hays Global Skilss İndex 2016).

These rules and procedures include: the creation of management bodies, the construction of the structure of the administrative apparatus, the establishment of interrelations between management units, the development of norms, standards, methods, etc.

Regulation in risk management is an impact on the control object, by means of which the state of stability of this object is achieved in the event of a deviation from the specified parameters. The regulation covers mainly the current measures to eliminate the deviations that have occurred.

Coordination in risk management is the consistency of the work of all parts of the risk management system, the management apparatus and specialists.

Coordination ensures the unity of the relations between the management object, the subject of management, the management apparatus and the individual employee.

Stimulation in risk management is an incentive for financial managers and other professionals to become interested in their work.

Risk management for economic content is a risk management system and financial relations arising in the process of this management.

As a management system, risk management includes the process of developing risk objectives and risk capital investments, determining the likelihood of an event, identifying the extent and magnitude of risk, analyzing the environment, selecting a risk management strategy, selecting the risk management techniques and methods for the strategy reduction (i.e., risk management techniques), the implementation of a targeted impact on risk. These processes together constitute the stages of the organization of risk management (Workforce planning finally gets strategic, 2018).

The organization of risk management is a system of measures aimed at rational combination of all its elements in a single technology of the risk management process.

The first stage in the organization of risk management is the definition of the risk objective and the purpose of risk capital investments. The goal of risk is the result that must be obtained. They can be a win, profit, income, etc. The goal of risky investments is to maximize profits.

Any action related to risk is always purposeful, since the absence of a goal makes a decision related to risk meaningless. The objectives of the risk and risk investments of the gate should be clear, specific and comparable to the risk and capital.

The next important point in the organization of risk management is to obtain information about the environment that is necessary to make a decision in favor of an action. Based on the analysis of such information and taking into account the risk objectives, it is possible to correctly determine the probability of occurrence of an event, including an insurance event, to identify the degree of risk and evaluate its value. Risk management means a correct understanding of the degree of risk that constantly threatens people, property, financial performance of economic activities.

It is important for an entrepreneur to know the real value of the risk to which his activity is exposed.

The value of risk should be understood as the actual losses of the entrepreneur, the costs of reducing the value of these losses or the costs of recovering such losses and their consequences. A correct assessment by the financial manager of the actual cost of risk allows him to objectively represent the amount of possible losses and outline ways to prevent or reduce them, and in the event that loss can not be prevented, they must be reimbursed (The Millennial Myth, 2018).

Based on available information on the environment, the probability, degree and magnitude of the risk, various options for risk capital investment are developed and their optimality assessed by comparing the expected profit and the magnitude of the risk.

This allows you to choose the right strategy and techniques for managing risk, as well as ways to reduce the degree of risk.

At this stage of the organization of risk management, the main role belongs to the financial manager, his psychological qualities. This will be discussed in more detail in the next chapter.

When developing a program of action to reduce risk, it is necessary to take into account the psychological perception of risky decisions. Decision-making under risk is a psychological process. Therefore, along with the mathematical validity of decisions, it is necessary to bear in mind the psychological characteristics of a person manifested in the adoption and realization of risk decisions: aggressiveness, indecision, doubts, independence, extraversion, introversion, etc.

1.2. The importance of audit risk in the activities of an audit organization, its place in the system of classifications of entrepreneurial risks

The requirements for the assessment of audit risk and its components are determined by Federal Rule No. 8 "Evaluation of Auditor Risks and Internal Control Performed by the Audited Person" approved by Resolution of the Government of the Azerbaıjan Federation of July 4, 2003 No. 405. In accordance with this standard, the auditor should use his professional judgment in order to assess the audit risk, and also to develop audit procedures necessary to reduce the audit risk to an acceptable low level. What value is considered acceptable low, the rule (standard) does not determine. This issue should be disclosed in the internal rules (standards) of auditing activities (Puttick and Van Esch, 2007: 10).

In the practice of auditing, an audit risk of 5% is acceptable. This means that five out of 100 auditor's conclusions contain incorrect information on contentious issues. The establishment of this indicator at a lower level may have a negative impact on the competitiveness of the audit organization.

To assess the auditor risk, quantitative and qualitative methods are used.

In the quantitative method, the following model of audit risk is used:

The formula for audit risk:

Pa = Pnm * Pk * Pn

Rm is an inherent risk;

Pк - risk of control means;

Rn is the risk of non-detection.

In practice, the model of audit risk can be applied in several ways.

1. Having established the value of the components of the audit risk (ie inherent risk, control risk, risk of non-detection), the auditor can determine its level.

2. The emphasis is shifted to the calculation of the significance of the risk of non-detection and the corresponding number of necessary audit evidence. This is a more effective way. In this case, the model of audit risk is as follows:

Pn = Pa / (Pnm * Pk)

3. The most common way to use the audit risk model is to track the relationship between the components of the audit risk and the level of audit risk, the quantity and quality of the required audit evidence.

The qualitative method is that the auditor, based on the relevant experience, knowledge of the client, determines the audit risk based on the reporting as a whole or individual groups of transactions as high, medium, low and uses this assessment in planning.

The auditor should assess the audit risk at the planning stage. During the audit, he receives additional information about the audited entity and may change the assessment of the level of audit risk obtained during the audit planning.

Let's consider in more detail the components of audit risk.

An inherent risk is the exposure of the balance of funds in accounting accounts or groups of transactions of the same type to distortions that may be material, assuming that there is no necessary internal control (The Millennial Generation Research Review, 2012).

In accordance with Federal Regulation (No. 8), the auditor, in making an assessment of inherent risk in the process of developing an overall audit plan at the financial statement level, relies on his professional judgment in order to take into account the following factors:

experience and knowledge of the management of the audited entity, changes in its composition for a certain period;

unusual pressure on the management of the audited entity;

the nature of the entity's activities;

Factors affecting the industry in which the audited person functions.

When developing the audit program, the auditor should correlate the conducted risk assessment with significant account balances and groups of similar transactions at the level of prerequisites for the preparation of financial statements or assume that the inherent risk with respect to this premise is high. When assessing inherent risk in the process of developing an audit program, the auditor relies on his professional judgment in order to take into account the following factors: (Opinions on the EU (2017).

accounting accounts of the audited entity, which may be subject to distortion;

the complexity of accounting for transactions and other events, claims that may require the involvement of an expert;

the role of subjective judgment necessary to determine the balance in the accounts of the audited entity;

susceptibility of assets to losses or misappropriation;

Completion of unusual and complex operations, especially near the end of the reporting year;

Operations that are not subject to routine processing.

The risk of control means is the risk that the distortion that may occur in respect of the balance of accounts or groups of transactions of the same type and be significant will not be prevented in a timely manner or detected and corrected with the help of accounting and internal control systems.

For some or all of the prerequisites for preparing financial statements, the risk of controls is assessed as high when: (Two thirds of UK businesses have no Brexit plans (2017).

the accounting and internal control systems of the audited entity are ineffective;

the evaluation of the accounting and internal control systems of the audited entity is not expedient.

A certain risk of control means always takes place, as there are limitations of accounting and internal control systems.

The risk of controls may be assessed lower than the high risk in the following cases:

the auditor has evidence that specific means of internal control with respect to the premise will prevent, detect, correct significant distortions;

the auditor plans to conduct tests of controls to confirm the assessment.

In working documents, the auditor needs to specify an understanding of the accounting and internal control systems, an assessment of the risk of controls and disclose the rationale for assessing the risk is lower than high. The lower the auditor assesses the risk of controls, the more arguments that support its validity, he must provide.

The Federal Regulation (Standard) No. 8 specifies methods for documenting information relevant to accounting and internal control systems: narrative description, questionnaires, checklists, flowcharts.

Tests of controls include: checking documents, sending requests and monitoring, re-applying internal controls. The lower the assessment of the risk of controls, the more evidence must be obtained for the auditor regarding the proper organization and efficiency of the accounting and internal control systems.

When examining the effectiveness of the use of internal controls, the auditor takes into account the manner and sequence of their application, and also considers who they were used for. Based on the results of internal control testing, the auditor should assess the risk of controls and determine whether it corresponds to the initial risk assessment of controls, whether the initial risk assessment of controls should be reviewed and how this will affect the audit process (Double-Digit Growth Forecast for the Worldwide Big Data and Business Analytics Market Through 2020 Led by Banking and Manufacturing Investments, According to IDC, 2016).

The inherent risk and risk of controls are directly proportional to the planned amount of evidence and back to the risk of non-detection.

1.3. Normative regulation of audit risk, analysis of its components

Risk of non-detection is the risk that the audit procedures in essence do not allow to detect the distortion of balances of funds in accounting accounts or groups of transactions that may be significant individually or in conjunction with distortions of balances of funds in other accounts of accounting or group of transactions.

In developing the audit approach, the auditor takes into account the preliminary assessment of the risk of controls, the assessment of inherent risk, in order to determine the appropriate risk of non-detection.

The risk of non-detection is directly related to the substantive procedures and can be taken into account:

with respect to the prerequisites for the preparation of financial statements,

to determine the nature, timeframe, scope of substantive audit procedures.

This type of risk will always be present, since most of the audit evidence is the argument in support of some conclusion, and not an exhaustive one.

The auditor is obliged on the basis of an estimation of internal and control risks to determine in his work the risk of non-discovery and taking into account that he must have an acceptable low value to plan the appropriate audit procedures. Regardless of how low the inherent risk and risk of controls are, the auditor needs to perform some substantive procedures for significant balances in the accounting books and groups of transactions.

There is an inverse relationship between the risk of non-detection and a combination of inherent and control risk (Digital mckinsey, 2017):

high values of inherent risk and the risk of control means oblige the auditor to organize an audit so as to reduce, as far as possible, the risk of detection and thereby reduce the overall audit risk to an acceptable value;

low values of inherent risk and risk of controls allow the auditor to allow a higher risk of non-detection during the audit and at the same time to obtain an acceptable value of the overall audit risk.

The evaluation of the components of the audit risk may change during the audit, and therefore it is necessary to amend the planned procedures for substantive review.

In the event that the auditor is required to reduce the risk of non-detection, he is obliged:

to review the applied audit procedures, providing for an increase in their number and (or) changing their essence;

Increase the time spent on testing;

increase the volume of audit sampling.

Upon completion of the audit, it is necessary to establish whether the risk assessments of controls, risk of non-detection, accounting systems and internal control have been confirmed. If the auditor concludes that he is not able to reduce the risk of non-disclosure in respect of materially significant balance sheet items or a similar group of business transactions to an acceptable low level, this may serve as the basis for the preparation of a modified audit report based on the audit results.

Given the existence of this problem, the goal of this work is to develop approaches to systematizing the risks of material misstatement of accounts and determining their place in the overall profile of audit risk, taking into account the current regulatory regulation of audit activities and the need to improve the quality of audit services. Changes in audit standards are ongoing, especially in recent years . Not all auditing companies have time to debug their methods under a changing regulatory framework. One of the difficult issues for many auditors was the evaluation of audit risks after the adoption of the Federal Rule No. 8 "Understanding the activities of the audited entity, the environment in which it is carried out and the assessment of the risks of material misstatement of the audited financial (accounting) statements" (Njeri, 2013:10). (hereinafter - standard number 8). This is due, on the one hand, to its complexity and coverage of many aspects of the auditor's work, and on the other hand, to a somewhat generalized approach to the presentation of the material. Therefore, for the time being, the development of theoretical and methodological provisions remains an important task, the adherence to which would not only allow the requirements of standards in the conduct of the audit, but also help auditors to effectively identify risk areas in the formation of reporting entity to prepare a risk-based program audıt. As indicated above, in recent years, as a result of evolutionary processes in the development of the profession, there is a so-called risk-based approach to audit. This required appropriate adaptation of the federal rules for auditing. In particular, in 2008 the content and name of standard No. 8 was substantially changed. The new version of this document for the first time in the history of the Azerbaıjan audit has introduced a system of standardizing audit elements of a risk-based approach already implemented in international audit standards (Njeri, 2013:10). It should be noted that the concept of risk-based audit in international standards is implemented in several documents of the International Auditing and Assurance Standards Board (IAASB): -MAS 200 "General objectives of an independent auditor and conducting audit in accordance with ISA" represents a conceptual tool in the field of audit risks;

-MAS 315 "Identification and assessment of the risks of material misstatement through the study of the activities and business environment of the organization" -describes approaches to assessing the risks of material misstatement of reporting based on the assessment of the entity's internal control system -MAS 330 "Audit measures to counteract the identified risks" -use of the received risk assessments in the formation of plans and verification programs to determine the nature and timing of audit procedures. In international auditing standards, the term "auditors risk "is explained in ISA 200, where it is stated that audit risk is the risk of the auditor not expressing an appropriate audit opinion in cases when the financial statements contain material misstatements. It should be noted that the modern package of federal audit standards does not contain a definition of audit risk. In the current version of the Federal Rule (Standard) of Auditing Activity No. 8, there is no definition of audit risk per se (as well as in the Federal Rule (Standard) of Auditing Activity "The Purpose and Principles of Audit of Financial (Accounting) Reports", analogue MCA200), which however in the previous version, which was called "Assessment of audit risks and internal control exercised by the entity being audited." In accordance with this, the auditor risk was understood as the risk of the auditor expressing an erroneous audit opinion in the event that the financial (accounting) statements contain material distortions. In addition, the document gave an idea of the model of audit risk, including its components, among which were: - inherent risk, - risk of controls, - failure to detect. (Oseifuah and Gyekye, 2013: 49). In our view, the noted fact of the lack of an unambiguous understanding of audit risk, its elements and methods of assessment is a significant omission of the system of domestic standardization of audit and makes it difficult to identify the risk and use of its assessments in the work of auditors. Step forward towards the construction of the system p The claim of an oriented audit should be recognized as the introduction to professional use of the Federal Rule (standard) of auditing activity No. 8 of the term "risk of material misstatement of accounts", which, however, never got a clear definition and unambiguous interpretation. The standard specifies that the risk of material misstatement of the financial statements is understood as a consequence of the errors or unfair actions of the management and / or employees of the entity being audited. For comparison, the international auditing standards under the risk of material misstatement imply the likelihood that even before the audit begins in the financial statements there were significant distortions.

Thus, despite the fact that Standard No. 8 has already been approved and put into operation for a long time, in the domestic system of standards in the practice of auditing the non-terminal terminology base, systematization and unambiguous understanding of the place of risk in the audit.

CHAPTER II:
METHODICAL BASES OF AN ESTIMATION AND CONTROL OF AUDITOR RISK

2.1. The system of audit risk control and implementation of control procedures during the audit of manufacturing companies

Audit risk is the likelihood that the auditor will express an inappropriate audit opinion if the reporting contains material misstatement.

Requirements and rules on audit risks, accounting systems and internal control are contained in ISA 400 "Risk Assessment and Internal Control System", ISA 401 "Audit in the conditions of computer information systems" and ISA 402 "Audit of entities using services of service organizations" (Double-Digit Growth Forecast for the Worldwide Big Data and Business Analytics Market Through 2020 Led by Banking and Manufacturing Investments, According to IDC (2016).

Audit risk includes:

- inherent risk;
- risk control system;
- risk of non-detection.

An inherent risk is the exposure of the account or class of transactions to distortions that may be significant in the absence of appropriate internal controls. The inherent risk is assessed on the basis of the professional judgment of the auditor on the following factors:

- at the level of financial statements:
- honesty of management, its experience and knowledge;
- the nature of the client's business;

- at the level of the balance of accounts and the class of transactions:

- availability of accounts that require adjustment;

- specificity of operations;

- subjectivity of assessing the balance of accounts;

- susceptibility of assets to losses; completion of unusual and complex operations at the end of the year.

The risk of a control system is the risk that distortions in the balance of an account or class of transactions that may be significant will not be prevented, identified or remedied in a timely manner through accounting and internal control systems.

Risk of non-detection is the risk that audit procedures do not allow you to detect distortions in the balance of an account or classes of transactions that can be significant.

The auditor assesses the risk of the control system only after studying the system of accounting and internal control.

The set of tasks, procedures and accounting records of the entity used to identify the collection, analysis, calculation, classification, registration, compilation and reflection of the results of economic situations is a system of accounting (Global- Innovation - www.strategyand.pwc.com/media/file/2016-Global-Innovation-1000-Fact-Pack.pdf: (2015).

The system of internal control is the policies and procedures adopted by the management of the entity to assist in the implementation of objectives that provide for orderly and efficient conduct of financial and economic activities.

The internal control system includes:

- The control environment is the overall attitude, awareness and actions of the management relating to the system internal control and its significance for the subject.

The control environment is a "shell", filled with specific procedures;

- control procedures - policies, procedures and control environment created by management to achieve specific objectives of the entity. These include control and approval of documents, verification of arithmetic accuracy of records, maintenance and verification of analytical accounts and turnover sheets; comparison of actual data with estimates, etc.

The audit focuses only on the elements of accounting and internal control systems that are relevant to the information used in the preparation of reporting.

The auditor gets an idea of the accounting and internal control systems based on the experience with the client and the following procedures (Two thirds of UK businesses have no Brexit plans (2017) economia.icaew.com/en/news/july-2017/two-thirds-of-uk-businesses-have-no-brexit-plans):

- Interrogation of employees and examination of documentation about their official duties;

- verification of documents and records created within the framework of accounting and internal control systems;

- monitoring the activities and operations of the client.

The scope, timing and nature of procedures depend on the size and

the structure of the entity, the level of materiality, the means of control and documentation used, and the assessment of inherent risk.

The risk assessment of the control system should be high, unless the auditor is confident in the effectiveness of controls or when it plans its low risk assessment by testing.

When planning work, the auditor takes into account the risk assessment of the control system and the inherent risk to determine the risk of non-detection. The level of risk of non-detection is related to the audit procedures of substantive examination. With the increase in the number of these procedures, the risk is reduced to an acceptable low level. However, when checking the balance of accounts or transactions, a certain risk of non-detection will be present. There is an inverse relationship between the risk of non-detection and the total level of inherent risk and risk of the control system. Even with a low assessment of the risk of control and inherent risk, the auditor is obliged to conduct an examination on the merits.

Questions for self-evaluation (Digital mckinsey, 2017) www.mckinsey.com/business-functions/digital-mckinsey/our-insights/adapting-yourboard-to-the-digital-age 9. www.paconsulting.com/insights/survey-on-innovation-for-peak-performance/).

1. The purpose of planning and on what its scope depends.
2. What is an audit program?
3. Purpose and content of the letter of consent.
4. Could there be reasons for changing the agreement on audit?
5. The contents of the working documentation.
6. The level of materiality and its relationship with audit risk.
7. Auditor's actions in case of significant distortions.
8. Evaluation of the accounting system and internal control.
9. How can I reduce the risk of non-detection?

Tests

1. What factors determine the scope of audit planning?

a) from the experience of the auditor;

b) the size of the subject, the complexity of the subject, the knowledge of the business of the subject, the experience of the auditor;

c) from knowledge of the client's business.

2. What is the relationship between the level of materiality and the auditor's risk:

a) direct dependence;

b) inverse relationship;

c) indirect dependence.

3. By what procedures does the auditor assess the state of the accounting and internal control system?

a) determination of the qualifications of the staff of these systems;

b) checking documents and records created in these systems.

4. Audit risk includes:

a) risk of non-detection;

b) the risk of the accounting system;

c) the risk of financial statements

2.2. Methods for assessing audit risk

To master the skills of practical audit, you need a thorough knowledge of his theoretical positions. The theory of audit provides an overview of its subject matter, the place in the system of financial and economic control of regulatory documents that regulate the audit activity of history, the content and objectives of the audit of the main principles and types of auditing standards and auditing standards for the certification and licensing of auditing activities. The rights, duties and responsibilities of auditors . Of particular importance in this case is the assimilation of methods for planning the audit, drafting contracts for auditing, issuing audit reports and opinions, assessing audit risk, as well as methods for collecting audit evidence, completing the documentation by the auditor (Rittenberg, at all, 2012).

The development of auditing in Azerbaıjan, its standardization, the use of foreign experience allowed us to summarize information about the essence and significance of audit activity, its regulation in our country, the functioning of internal audit services in the enterprise, the main stages and methods of auditing. Authors, using economic literature and practical experience of auditing, reflected in their training manual current issues of system-oriented audit and audit in risk. Evolution of the audit from the confirmatory to the audit based on the risk is due to the need to reduce the costs of its audit. This is important, since consumers of audit services are mainly in a difficult financial situation. The issues of auditor risk assessment are reflected in this training manual in an accessible form that allows using this information in practical work. The tests proposed by the authors for evaluating the system of internal control and accounting, formulated typical errors can help in the development of internal standards.

Sometimes auditors believe that they should seek permission from the client to conduct selective surveys. This is an erroneous position. The selectivity of the audit is one of the basic methods of auditing, it is closely interrelated with other audit procedures, for example, with the study of accounting systems and internal control of the client, determining the level of materiality and evaluating audit risks. The limitation on the part of third parties of the actions of the auditor in selecting the methods of verification is unacceptable, since it violates the principle of its independence. However, not all audit organizations fully understand the meaning and essence of selective research. Some, based on the experience of control and audit activities, believe that the audit should also be limited to an endless continuous inspection of documents, including minor ones. Others often justify the chaotic and unorganized nature of their actions by applying the selective principle. Thus, we can talk about the need to develop and implement specific sampling techniques in the audit.

The estimated (intuitive) method that is most widely used by Azerbaıjan audit firms is that auditors, based on their own experience and client's knowledge, determine the audit risk on the basis of reporting in general or individual groups of transactions as high, probable and unlikely and use this estimate in the audit planning (Managing risks and enabling growth in the age of innovation 2018 Risk in Review Study (2018) - www.pwc.com/us/en/risk-assurance/risk-in-review-study.html).

The estimated (intuitive) method is that the auditor, based on his experience and knowledge of the client, interviews with the staff of the administration, determines the audit risk on the basis of reporting in general and individual groups of transactions as high, probable and unlikely, and uses this assessment in audit planning. This method is most widely used by Azerbaıjan auditors (Puttick and Van Esch, 2007: 11).

It should be emphasized that the risk of mistaken acceptance (rejection) of the sample results is really an important aspect of the risk of the sampling method in terms of assessing the materiality of the results of the sampled sample. But auditors also deal with such a risk that is not related to the use of the sampling method, these are any other aspects of audit risk, they are not a direct consequence of the auditor's use of sampling methods (Sunjka and Bindeman, 2011: 140).

The purpose of the audit and the methods for achieving them Confirming documents and their types of confidentiality Working forms (documentation) of the audit Audit planning Collection of necessary information Analytical procedures, materiality Audit risk Audit documentation, study and evaluation of the internal control structure

Elements of the internal control structure Internal control objectives Structure analysis and risk assessment control types of testing, development of audit programs selection of materials for verification of transactions, sections of the balance (the impact of the system electronic data processing for audit, computer audit).

The problems of audit evidence are discussed: methods and methods for obtaining them, classification, description of the evidence revealed during the audit. The issues of risk assessment in the course of conducting an audit are considered. Separately, approaches to the evaluation of evidence using conditional probability models and expert judgment are analyzed (Nimrod, 2014: 5).

One of the least developed areas of economic analysis is an analysis for the benefit of auditors, which is very closely related to the audit as such. At present, the need to improve and develop the audit methodology is associated both with its insufficiently high quality, which does not allow to fully satisfy the society's needs for reliable information about the financial and economic state of organizations, and its focus on financial (accounting and tax) audit, at that time as an objective becomes the need for the development of economic audit and more complete adaptation of the audit to the interests of users such as shareholders, investors, creditors organizations d. The most important objective of the audit, along with the confirmation of the reliability of reporting from the accounting point of view, is to evaluate the reliability of reporting from the standpoint of its economic content, to assess the assumption of the continuity of the organization's activities, and to assess the effectiveness of the management of the organization's management (performance audit). These three directions both in terms of formulation and methods of solution are largely analytical problems, which means that analytical procedures that allow reaching the goals set at the audit level at a higher level are in demand. In addition, analytical procedures make it possible to reduce the complexity of financial audit, identifying at the initial stage of the audit those aspects of the organization that are high-risk areas and therefore deserve more careful consideration. It should be emphasized that the implementation of the task of assessing the continuity of the functioning of the audited facility raises fundamentally new requirements for methods of conducting an audit. In this case, the auditor should not only express his opinion on the reliability of the financial statements, but also determine the adequacy of the organization's funds to pay off liabilities and generate resources for further development. To do this, the auditor should involve data on the organization's production potential and the level of its use, form an opinion on the objective needs for investment and alternative sources of their involvement. These tasks can be performed with extensive use of analytical procedures (Ramukumba, 2014: 25).

2.3. Identification and analysis of sources of audit risk

The theory of risks and internal control is, perhaps, one of the most problem areas in the audit. It is believed that this theory was developed in the West in the late 1980s - early 1990s.

At the same time, in our country parallel and independent of foreign studies were conducted and the domestic theory of intraeconomic control was developed. Among the fundamental works of Azerbaıjan scientists of recent history, mention should be made of the work of V.P. Suitsa "In-production control"

(Prevention in District Treasuries of Kakamega County, 2013: 18). It should be noted that the assessment of the organization of on-farm control at the enterprise has always been an important element of the program of each audit.

After the events that took place at the turn of the 20th and 21st centuries, connected with the crisis of confidence of users of financial statements (Enron, etc.), the requirements for auditors in assessing the client's control system increased significantly, and instead of one standard, two independent regulatory documents that are sufficiently voluminous in content.

Let's consider the basic concepts related to this issue, reflected in the international standards of audit.

Components of audit risk

Let's remind the purpose of audit. In accordance with ISA No. 200, the purpose of auditing the financial statements is to achieve reasonable assurance by the auditor that the financial statements as a whole do not contain material errors and misstatements (both accidental and intentional), and thereby enabling the auditor to express an opinion as to whether, whether the financial statements have been prepared (in all material respects) in accordance with the established system (ie, the principles of preparing financial statements), as well as reporting, if necessary, Barrier-. Therefore, the main objective of the auditor is to prepare a proper audit opinion. Unfortunately, by far not always by results of auditor check it is possible to open all essential infringements. The reasons for this can be objective (selectivity of audit, etc.) and subjective (level of qualification and competence of the auditor, etc.).

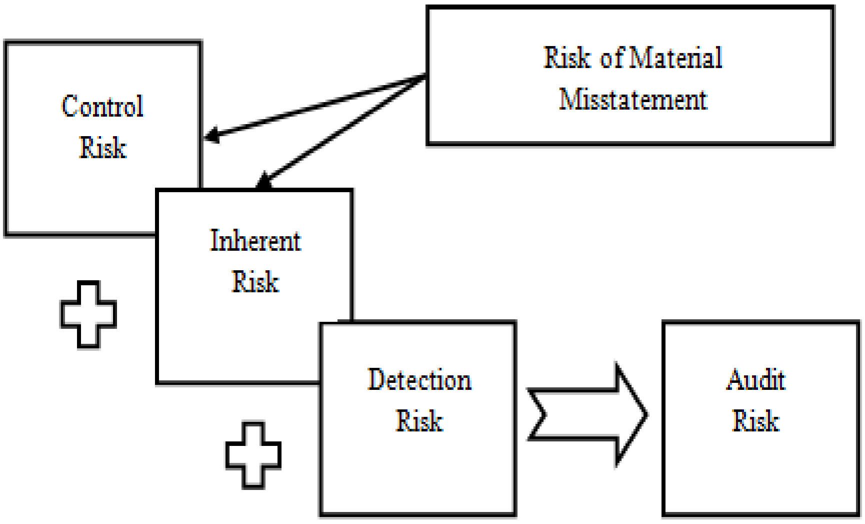
Thus, the audit risk (AR - Audit risk) is the risk of the auditor expressing an inappropriate (wrong) opinion in cases where the financial statements contain material distortions.

Audit risk includes (Oseifuah and Gyekye, 2013: 50):

the risk of material misstatement (in turn, is divided into an inherent risk and a risk of the control system);

risk of non-detection (Figure 1).

Fig. 1. Audit risk: the main components



Risk of material misstatement - the risk that the financial statements contain material misstatements detected at the stages preceding the external audit.

Inherent risk (IR) - the susceptibility of the class of transactions, the balance of accounts or disclosed items to distortions that may be significant individually or in combination with other distortions, assuming lack of controls. (The balance of accounts in Azerbaıjan means specific items of the balance sheet as of the reporting date, under the class of transactions - debit and credit turnover on accounts for accounting for the reporting (verified) period.)

Control risk (CR) is the risk that the distortion that may occur in relation to the class of transactions, account balance or disclosed items and which may be significant individually or in combination with other distortions, will not be prevented, detected and corrected by the internal control system of the entity being audited.

Risk of non-detection (DR-Detection risk) - the risk that the audit procedures aimed at reducing the auditor risk to an acceptable low level will not allow us to detect an existing distortion that may be significant separately or in combination with other distortions.

The relationship between the components of audit risk is expressed by the formula:

$AR = IR \times CR \times DR$ (probability multiplication rule). (1)

World practice shows that the acceptable value of the total audit risk should not exceed 5%:

$AR < 5\%$. (2)

A similar rule in professional terms is as follows: the level of confidence or confidence interval should be at least 95% (five out of a hundred of the auditor's conclusions are incorrect on disputable issues). This is the "magic figure of audit risk" (Nimrod, 2014: 51).

$IR \times CR$ is sometimes referred to as business risk (independent of the auditor), whereas DR is actually an audit risk (should not be confused with AR). Most often in practical situations, it is necessary to determine precisely the amount of risk of non-detection:

$DR = AR / (IR \times CR)$.

Example 1 . We have a low-risk client company.

The amount of intra economic risk is 80% (high rate of profitability, stable industry). The risk of the control system is 30% (a clear system of control and absence of comments from the auditors on the results of previous inspections).

We find the maximum risk of non-detection (subject to an acceptable level of aggregate audit risk of 5%): $0.05 / (0.8 \times 0.3) \approx 0.2083$ (or 20.83%).

This means that in twenty-one cases out of a hundred it is permissible for the auditor not to detect distortion of reporting when such a distortion actually exists, nor does it exceed the minimum confidence interval of the aggregate audit risk.

Example 2. We have a high-risk client company.

The amount of intra economic risk is 100% (a new customer, the company recently entered the market). The risk of the control system is 70% (the preliminary assessment revealed the weakness of the internal control system).

We find the maximum risk of non-detection (subject to an acceptable level of aggregate audit risk of 5%): $0.05 / (1.0 \times 0.7) \approx 0.0714$ (or 7.14%).

Thus, in only seven cases out of a hundred it is permissible for the auditor not to detect distortions in the reporting when such a distortion actually exists, nor does it exceed the minimum confidence interval of the aggregate audit risk. Accordingly, the requirements to the quality of the audit are increased (for example, the increase in the sample size), which, undoubtedly, will lead to a rise in the cost of audit services.

Based on the above, we can identify the following pattern: the higher the value of intra economic risk and the risk of the company's control system, the smaller the risk of non-detection should be, and vice versa.

Such calculations for assessing the actual audit risk should be reflected in the working documentation of the auditor (initially - during the planning of the audit, clarification and adjustment - during the audit).

2.4. The actions of the auditor in response to the assessed risk of material misstatement as a way to minimize the risk of non-detection

In accordance with FPSAD No. 8 "Understanding the activities of the audited entity, the environment in which it is carried out and the assessment of the risks of material misstatement of the audited accounting (financial) statements", the auditor should examine the activities of the audited entity and its environment, including the internal control system, to identify and assess the risks of material misstatement of accounting (financial) statements, which resulted from errors or unfair actions, as well as sufficient to plan and execute further aus itorskih procedures (Nimrod, 2014: 25)

. Thus, having evaluated the risk of material misstatement, the auditor should plan further audit procedures, taking into account the level of a certain risk of material misstatement.

To minimize the risk of non-detection, the auditor must determine the main actions performed in response to the estimated risk of material misstatement of the financial statements.

In the Azerbaıjan legislation to date, there are no standards of auditing activities that determine the actions of the auditor in response to the estimated risk of significant distortion, and, consequently, ways to reduce the risk of non-detection. Meanwhile, the International Standards on Auditing contain ISA 330 "Auditor's actions in response to the assessed risks" (ISA 330 The Auditor's Responses to Assessed Risks), which discloses these issues.

In accordance with ISA 330, the main actions performed in response, as well as the nature, timing and extent of the audit procedures, are a matter of professional judgment of the auditor. The auditor is obliged to determine the main actions performed in response to the identified risks of material misstatement of information at the level of accounting (financial) reporting as a whole. Such responses may include (Oseifuah and Gyekye, 2013: 50):

1) drawing attention of audit team members to the need to observe the principle of professional skepticism when collecting and evaluating audit evidence;

2) engaging more experienced personnel or personnel with special knowledge or using the work of experts (assignment of specific employees to the task reflects the auditor's assessment of risks based on the knowledge and understanding of the audited person's activities);

3) strengthening of supervision and control over members of the audit team in the course of the performance of the audit task;

4) planning of audit procedures that take into account the possibility of having difficult-to-predict and uncertain characteristics of the entity being audited.

In addition, the auditor can make changes in the nature, timing and scope of audit procedures as a response.

If the control environment has drawbacks, the auditor usually performs more audit procedures with respect to the data at the end of the reporting period than at intermediate dates, seeks more convincing audit evidence through substantive procedures, changes the nature of the audit procedures, or extends the range areas included in the scope of the audit.

The auditor should develop and further perform audit procedures, the nature, timing and scope of which are predetermined by the estimated risks of material misstatement of information. It is important to ensure that there is a relationship between the nature, timing and extent of the audit procedures and the risks assessed. When developing further audit procedures, the auditor takes into account the following factors:

- the importance of audit risks;
- the likelihood that a material misstatement of the information will take place;
- characteristics of groups of transactions of the same type, balances on accounts of accounting or cases of disclosed information;
- the nature of the specific controls used by the audited entity, and whether they are implemented manually or are automated;
- -whether the auditor expects to receive audit evidence that the audited entity's controls are effective in preventing or detecting and correcting material misstatements.

The nature of audit procedures is most important in developing the auditor's actions in response to the assessed risks. In some cases, the auditor may establish that only the performance of control tests can become an effective response to the estimated risk of material misstatement. In other cases, the auditor may come to the conclusion that only the performance of substantive procedures is appropriate. In other cases, the auditor may determine that the combined approach is effective, which uses both tests of the operational effectiveness of controls and substantive audit procedures.

Regardless of the chosen approach, the auditor is obliged to develop and execute audit procedures in relation to each significant group of the same transactions, the balance of the account and the case of information disclosure.

The selection by the auditor of procedures is based on a risk assessment. The higher the audit risk assessment, the more reliable and relevant audit evidence that the auditor obtains as a result of substantive procedures. This can have an impact both on the type of audit procedures that need to be performed and on their combination.

The timeframe for the audit procedures indicates the time of their implementation or the period or the date to which the audit evidence relate. The auditor may perform tests of controls or procedures of verification on the merits, either on an interim date or at the end of the reporting period. The higher the risk of material misstatement, the greater the likelihood that the auditor may decide that it is more effective to perform substantive procedures at the end or closer to the end of the reporting period than at earlier dates, or perform audit procedures without prior notice or an unpredictable point in time (for example, performing audit procedures at random locations without prior notification). If the auditor performs tests of controls or substantive procedures prior to the end of the reporting period, then he is obliged to obtain additional evidence in respect of the period remaining until the reporting date (Njeri , 2013: 15).

When considering when to perform audit procedures, the auditor also takes into account the following aspects: a control environment; the time when relevant information is available to the auditor; the nature of the risk; period or date to which the audit evidence relate.

Some audit procedures may be performed only at the end of the reporting period or after its end. If there is a risk that imaginary transactions may be present in the entity's activities, or if accounting for existing business transactions was not completed before the end of the reporting period, the auditor performs the procedures in response to each specific risk.

The volume implies, in relation to how many objects, a specific audit procedure was performed, this may be the size of the sample or the number of observations for control actions. The scope of the audit procedure is determined based on the professional judgment of the auditor, taking into account the materiality, the estimated risk and the level of confidence that the auditor plans to obtain. In particular, the auditor usually increases the volume of audit procedures as the risk of material misstatement increases. However, increasing the scope of the audit procedure only has an effect if the audit procedure is in itself relevant to the specific risk; therefore, when deciding on the scope of procedures, the nature of the audit procedure is important.

The use of computer-assisted audit methods allows you to perform on a large scale the testing of accounting records or arrays of numerical data stored electronically. Such methods can be used to construct a sample of operations, sort operations with certain characteristics, or test the entire population as a whole instead of using the audit sample.

Eligible conclusions can usually be obtained using a sampling approach. However, if the sample size selected from the population is too small, then the selected sampling approach is not appropriate to achieve a specific audit objective, or if incorrect conclusions are made on the basis of the errors noted, an unacceptably high risk that the auditor's conclusion, based on the analysis of the sample, will differ from the conclusion that would have been made by the auditor if the entire population had been the subject of the investigation of the same audit procedure. The requirements for selective inspections are given in FPSAD No. 16 "Audit Sampling" (Oseifuah and Gyekye, 2013: 52) .

The timeframe for executing tests of controls depends on the auditor's goal and determines the time period in which these controls can be relied upon. If the auditor tests the controls at any particular time, he only receives audit evidence that the controls were functioning effectively at that point in time. However, if the auditor tests the controls for a period of time, then he receives audit evidence of the operational effectiveness of controls throughout this period.

The higher the risk of material misstatement of information or, the greater the dependence of the auditor on the control, the shorter the period between successive testing of the control means.

If there are a significant number of controls, for which the auditor decides to use the audit evidence obtained from previous audits, the auditor should necessarily test the operational effectiveness of any such control in each audit.

If the estimated risk of material misstatement at the level of the preparation of the financial statements is determined by the auditor as meaningful and the auditor intends to rely on the operational effectiveness of controls that could reduce this significant risk, the auditor should seek to obtain audit evidence about the operational effectiveness of these controls in the result of testing controls in the current period. The higher the risk of material misstatement, the more the auditor should receive audit evidence about the operational effectiveness of the relevant controls.

Since the processing of accounting data using computer information systems is inherent in constancy, the auditor does not need to expand the amount of testing of automated controls. Automated controls will function in a consistent manner until the program is changed (including tables, files, or other continuously processed data used by the program).

Audit audit procedures are essentially performed in order to detect material misstatement at the level of prerequisites for the preparation of financial statements, and they include detailed tests for groups of similar transactions, balances on accounting accounts and disclosures, and analytical procedures. The auditor plans and executes substantive procedures for the relevant assessed risk of material misstatement.

Regardless of the estimated risk of material misstatement, the auditor should develop and execute audit procedures for substantive review in relation to each significant group of similar business transactions, significant account balance and significant disclosure. This requirement is due to the fact that the audit risk assessment is based on professional judgment and may not be accurate enough to identify all risks of material misstatement. In addition, there are limitations inherent in the internal control system, for example, the possibility of unacceptable management interference. Audit audit procedures in essence should include the following audit procedures with respect to the process of finalizing the preparation of financial statements ("Prevention in District Treasuries of Kakamega County"., 2010):

- checking the compliance of accounting (financial) reporting with accounting data in the accounting registers;
- verification of significant normal and corrective transactions made in the preparation of financial statements.

The nature and scope of the auditor's verification of ordinary and corrective postings depend on the nature and complexity of the preparation process and the preparation of the financial statements by the entity being audited and on the risks of material misstatement associated with this process.

If the auditor has determined that the assessed risk of material misstatement at the level of the prerequisites for the preparation of accounting (financial) statements is significant, then the auditor must perform substantive procedures specifically related to this risk.

If the auditor's approach to the verification of significant risks is only to perform the audit procedures on the merits, then the audit procedures relevant to such significant risks consist of only detailed tests or a combination of detailed tests and analytical procedures. The auditor is guided by the rules for developing the nature, timeframe and scope of substantive procedures for significant risks.

Analytical procedures performed as audit procedures on the merits are, as a rule, more applicable to large volumes of economic transactions that tend to be predictable over time. Detailed tests are usually more appropriate for obtaining audit evidence about certain prerequisites for the preparation of accounting (financial) statements in respect of balances on accounting accounts such as existence and valuation. In some circumstances, the auditor may establish that the performance of only analytical verification procedures in substance may be sufficient to reduce the risk of material misstatement to an acceptable low level. In other situations, the auditor may determine that only detailed tests are appropriate, or that a combination of analytical procedures performed as substantive audit procedures and detailed tests are more appropriate with respect to the risks assessed.

CHAPTER III:
ESTABLISHMENT OF AN INTERNAL STANDARD AS AN INSTRUMENT FOR IMPLEMENTING AUDIT RISK MANAGEMENT TECHNIQUES

3.1. Prerequisites for creating an internal standard for audit risk

The auditor develops detailed tests in relation to the estimated risks in order to obtain sufficient appropriate audit evidence to ensure the planned level of confidence at the level of the prerequisites for the preparation of accounting (financial) statements. When developing substantive procedures at the level of prerequisites for the preparation of accounting (financial) statements, for example, existence or occurrence, the auditor identifies in the accounting (financial) statements some indicator and determines how to obtain relevant audit evidence with respect to it. On the other hand, when developing audit procedures in relation to, for example, completeness, the auditor selects those audit procedures that allow to obtain audit evidence that a particular object should be included in the relevant article of accounting (financial) reporting, and examines whether it was is included in this article. For example, the auditor can inspect the subsequent transfers during the reporting period to find out whether the purchased purchases and accounts payable were missed.

When developing analytical procedures performed as audit procedures on the merits, the auditor considers the following factors (Rittenberg, at all, 2012):

a) the appropriateness of the use, with respect to specific prerequisites for the preparation of accounting (financial) reports, of analytical procedures performed as audit procedures on the merits;

b) the reliability of data, internal or external, on the basis of which the expected accounting indicators or ratios are calculated;

c) the expected value is calculated with sufficient accuracy, so that on the basis of it a significant distortion of information can be detected taking into account the planned level of confidence;

d) the amount of deviation of accounting data from the expected values, which, in the opinion of the auditor, is acceptable.

In the event that the auditor has identified the risks of material misstatement of information resulting from fraudulent actions, the auditor's response to these risks, in turn, may include changing the timeframe for performing audit procedures.

Typically, the auditor compares and reconciles the financial statements at the end of the period with comparable information on an interim date to identify amounts that are unusual, investigates the origin of any such amount, and performs appropriate analytical procedures, or detailed tests to test the remainder of the reporting period.

If distortions are found in groups of transactions of the same type or balances on accounting accounts on an interim date, the auditor should modify the relevant risk assessment and the nature, timing or scope of previously planned substantive procedures that cover the remaining period and are performed for these groups of similar types transactions or balances on accounts of accounting, or to increase the volume of audit procedures, or re-execute audit procedures at the end of the reporting period.

The use of audit evidence obtained as a result of the implementation of substantive review procedures during the previous audit is insufficient in relation to the risk of material misstatement of information in the current period. In most cases, the audit evidence obtained as a result of the implementation of the substantive review procedures during the previous audit is of a mild nature or, in general, is not convincing for the current period. For the audit evidence obtained as a result of the previous audit to be used in the current period as convincing audit evidence, the audit evidence itself and the subject matter against which they were received should not change significantly.

The auditor, who plans to use the audit evidence obtained during the audit of the previous year, is obliged to conduct audit procedures in the course of the current audit, confirming the relevance of the audit evidence of the previous audit.

The higher the risk of material misstatement of information, the more audit procedures should be carried out in substance. Since the risk of material misstatement of information is related to the internal control system, the scope of the substantive procedures can be increased due to unsatisfactory results obtained after performance of operational control effectiveness tests. However, an increase in the volume of audit procedures is appropriate only if the audit procedure is in itself relevant to the specific risk.

When developing detailed tests, the volume of testing is usually determined by the size of the sample, which, in turn, depends on the risk of significant distortion of information. However, the auditor also takes into account other factors, including this, will not the use of other testing methods be more effective, for example, the selection of significant value or unusual elements from the general population, instead of constructing a representative sample or stratification, the population by dividing the population on strata (subsets), each of which is a group of sampling elements with similar characteristics. FPSAD No. 16 "Audit

Sampling" contains instructions on how to obtain an audit sample, as well as methods for selecting items to be audited in order to collect audit evidence (Digital mckinsey, 2017) www.mckinsey.com/business-functions/digital-mckinsey/our-insights/adapting-yourboard-to-the-digital-age 9. www.paconsulting.com/insights/survey-on-innovation-for-peak-performance/).

When developing analytical procedures, the auditor establishes the value of the permissible deviation of the actual value from the expected, within which the auditor does not conduct additional studies of the issue. This consideration is influenced, first of all, by the materiality and constancy of the regularities within the required level of confidence. The definition of this value includes consideration of the possibility that distortions in certain balances on accounting accounts, groups of similar transactions or information disclosure cases in aggregate can reach a significant value. When developing analytical procedures, the auditor increases the required level of confidence as the risk of material misstatement increases. FPSAD No.20 "Analytical Procedures" contains requirements for the application of analytical procedures during the audit.

The auditor must perform audit procedures to assess whether the general presentation of the financial statements, including the disclosure of information related to it, the main principles and methods of accounting and the preparation of accounting (financial) statements, is consistent.

The auditor considers whether the financial statements are presented with due diligence and appropriate disclosure. The presentation of the accounting (financial) statements also includes an adequate disclosure of a number of significant factors. These factors concern the forms, presentation structure and content of accounting (financial) statements, notes to it, including, for example, the terminology used, the level of detail, the classification of articles in the statements and the grounds for the amounts presented.

The auditor determines whether the management of the auditee should have followed the requirement to disclose a particular issue in the light of circumstances and facts about which the auditor is aware at this point in time. When assessing the overall presentation of accounting (financial) statements, including relevant disclosures, the auditor takes into account the estimated risk of material misstatement at the level of the prerequisites for the preparation of accounting (financial) statements.

Based on the audit procedures performed and the audit evidence obtained, the auditor should evaluate whether his earlier estimates of the risks of material misstatement at the level of the prerequisites for the preparation of financial statements remain unchanged.

Audit of accounting (financial) statements is a cumulative and iterative process. As the auditor performs the planned audit procedures, the audit evidence obtained may cause the auditor to change the nature, timing or extent of further planned audit procedures. The auditor's field of vision may include information that is significantly different from the information on which the risk assessment was based.

The concept of operational effectiveness of control means allows for the possibility of some deviations in the use of control by the audited person. Deviations from the prescribed procedure for the functioning of controls can be caused by such factors as changes in the composition of key employees, significant seasonal fluctuations in the volume of operations and the human factor. When such deviations are detected during the performance of control tests, the auditor makes specific requests in order to understand the problems and their possible consequences. The auditor ascertains whether the performed tests of the control equipment provide adequate grounds for relying on the means of control, whether there is no need for additional tests of controls or whether it is not necessary to apply the substantive procedures in relation to the possible risks of distorting the information (Oseifuah and Gyekye, 2013: 52).

The auditor can not assume that the fact of an unfair act or error is an isolated phenomenon and therefore finds out how the actual distortion affects the assessed risks of material misstatement.

If the auditor has not received sufficient appropriate audit evidence with respect to the material preconditions for the preparation of the financial statements, then he should try to obtain additional audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, then, in accordance with FSAD 2/2010 "Modified opinion in the audit report", Order of the Ministry of Finance of the Russian Federation of 20.05.2010, No. 46n, he must express an opinion with a reservation or refuse to express an opinion (Puttick and Van Esch, 2007: 12).

The auditor is obliged to document the main response to the assessed risks of material misstatement at the level of accounting (financial) reporting, as well as the nature, timing and scope of further audit procedures, the connection of these procedures with the estimated risks at the level of preparation of financial statements and the results of audit procedures. The way that is used to document these questions depends on the professional judgment of the auditor.

3.2. The procedure for the formation of an internal standard for audit risk

The term "inherent risk" refers to the susceptibility of the balance in the accounting records or a group of homogeneous transactions to distortions that may be material (individually or in combination with distortions of balances of other accounts of accounts or groups of similar transactions), assuming the lack of the necessary means of internal control.

Intra economic risk characterizes the quality of the work of the accounting service. Calculation of it is carried out both for each indicator of materiality, and as a whole for reporting. The list of characteristics that affect the assessment of the work of the accounting department can be changed.

In assessing the internal economic risk, the auditor can use the audit data of previous years, but he must be sure that the estimates of the magnitude of this risk made in the previous year are also valid for the year under test.

The magnitude of intra economic risk can be expressed by the relationship:

$0 \leq BXP \leq 1.$

If we take into account the relationship between the on-farm risk and the risk of non-detection, as well as the planned number of certificates, the intra-farm risk is inversely proportional to the risk of non-detection and is directly proportional to the number of certificates. For example, if the auditor concludes that during the audit of materials the intra economic risk is high, then the risk of non-detection is low.

At the very beginning of the audit, you can only approximately estimate the level of intra economic risk.

Most auditors and under the most favorable circumstances set the level of intra economic risk well above 50%, and if there is a reasonable expectation of significant errors - even at the level of 100%.

In assessing inherent risk, the auditor, in addition to professional judgment, must take into account a number of factors that affect him. Such factors include (Sunjka and Bindeman, 2011: 142) :

1) experience and knowledge of management, as well as changes in its composition for a certain period;

2) unusual pressure on the management (for example, circumstances that may lead management to distort the financial (accounting) statements):

2.1 large number of bankruptcies of the organization in this industry;

2.2. The lack of capital necessary for the activities of the entity being audited;

2.3 bankruptcy of the parent organization (if the entity being audited is a subsidiary organization) or bankruptcy of the subsidiary organization (if the audited entity is the parent organization);

2.4 bankruptcy of major shareholders (participants) of the entity being audited;

3) the nature of the entity's activities (for example, the potential for technical obsolescence of its products and services, the complexity of the capital structure, the importance of affiliated persons, and the number of production areas and their location);

4) factors affecting the industry to which the audited entity belongs (for example, the state of the economy and the conditions of competition, which are reflected in the financial trends and indicators, as well as changes in technology, consumer demand and accounting policies specific to the industry);

5) accounting accounts that may be subject to distortions (for example, articles that required adjustments in previous periods or associated with a large role of subjective evaluation);

6) the complexity of accounting for transactions and other events that may require the involvement of experts;

7) the role of subjective judgment necessary to determine balances on the accounts of accounting;

8) susceptibility of assets to losses or misappropriation (for example, the most attractive or liquid assets, such as cash;

9) completion of unusual and complex operations, especially at the end or near the end of the reporting period;

10) operations that are not subject to the routine processing procedure.

Table 1 - Calculation of inherent risk

IR	CR	RMM (IR x CR)	Preliminary Audit Strategy
Low	Low	Minimal	High reliance on controls and a minimal level of substantive tests.
	Moderate	Low	Moderate reliance on controls and a low level of substantive tests.
	High	Moderate	No reliance on controls and a moderate level of substantive tests.
Moderate	Low	Low	High reliance on controls and a low level of substantive tests.
	Moderate	Moderate	Moderate reliance on controls and a moderate level of substantive tests.
	High	High	No reliance on controls and a high level of substantive tests.
High	Low	Moderate	High reliance on controls and a moderate level of substantive tests.
	Moderate	High	No reliance on controls and a high level of substantive tests.
	High	High	No reliance on controls and a high level of substantive tests.

The list of these characteristics is approximate, it can include other characteristics that determine the work of the accounting department.

The score for each characteristic is set on a four-point scale: 0-excellent, 1-good, 2-mediocre, 3-bad.

An inalienable risk is defined on a scale from 0 to 1. An inherent risk, which is equal to 0, corresponds to the maximum assessment of the work of the accounting department. An inherent risk equal to one can speak of a high audit risk.

There is an inverse relationship between materiality and audit risk, that is, the higher the level of materiality, the lower the level of audit risk, and vice versa, the lower the level of materiality, the higher the level of audit risk. The inverse relationship between materiality and audit risk is taken into account by the auditor in determining the nature, timing and extent of the audit procedures.

For example, if, after the completion of the planning of specific audit procedures, the auditor determines that an acceptable level of materiality is lower, the audit risk is increased, the auditor compensates for this, or by reducing the previously assessed risk of control where possible and maintaining a reduced level through extended or additional tests of internal control, or reducing the risk of undetectable distortions by changing the nature, timing and scope of the planned procedures on the merits.

At the initial planning stage, the assessment of materiality and audit risk may differ from such an assessment after the audit results are summarized. For example, if an audit is planned before the end of the reporting period, the auditor can only predict the financial performance of the entity being audited. If the actual results prove to be significantly different from the forecasted ones, the assessment of materiality and audit risk may change.

The auditor may deliberately set an acceptable level of materiality at a level lower than the one that is intended to be used to evaluate the results of the audit. This can be done to reduce the likelihood of undetectable distortions, and to provide the auditor with some degree of security in assessing the consequences of distortions found in the audit process.

CONCLUSION

The term "events after the balance sheet date" is used to values as events (both favorable and unfavorable) from the end of the reporting period to date of signing the audit report, as well as the facts the date of the signing of the audit report.

In the financial (accounting) statements should be taken into account events occurring after the end of the reporting period:

- events confirming existing at the balance sheet date The economic conditions in which the person being audited led their de- activity;

- events that indicate the existence of economic conditions in which the person being audited led activity.

Audit procedures for determining co- which may entail making adjustments to the financial (accounting) statements or disclosure in it of information should be made as close as possible to the date of signing. and generally include:

a) an analysis of the methods established by the management of the audited entity persons in order to ensure the definition of events after even date and assess their impact on the financial (accounting) reporting;

b) examination of the minutes of the shareholders' meetings, board meetings directors (supervisory board), audit committee and executive body of the audited entity held after the end of the reporting period;m events, whose discussion protocols are not yet ready, the study of documents of the internal audit service as part of the management body. the entity being audited;

c) analysis of the latest available intermediate (accounting) statements of the current period and, if this it is necessary and expedient to analyze estimates, forecasts of the detender funds and other relevant management reports;

d) sending inquiries to legal persons of the audited entity or of the previous written or oral requests for litigation and claims;

An audit is an independent audit of the company's accounting (financial) statements to draw conclusions about the reliability of this reporting. Broader is the definition of audit activity - an independent audit of accounting documents, payment and settlement documentation, tax returns, as well as other services: analysis of financial and economic activities, assessment of assets / liabilities of the enterprise or organization, advising on legislation, etc. According to the Federal Law dated 30 December 2008 No. 307-FZ "On Auditing", the purpose of the audit is to express an opinion on the reliability of the financial (accounting) statements of audited persons and compliance with the procedure for keeping records of the law. The objectives of the audit can be formulated as follows: Assessment of the level of organization of accounting and internal control. Assessment of the legality and correctness of operations. Verification of compliance with current legislation in the field of taxation. Confirmation of authenticity or unreliability of reports. Development of recommendations on elimination of shortcomings and violations. Orientation to future events that may affect the company's economic activities. Determining the reserves for building up resources. In Standard No. 1 of the RF Government Resolution No. 696 of September 23, 2002 "On Approval of Federal Auditing Standards (Standards)," it was noted that the auditor's opinion may contribute to the formation of confidence in the reporting, however, it does not indicate the effectiveness of enterprise management and does not provide forecasts for the future. In other words, the auditor does not assess the extent to which the interests of shareholders and owners of the company are observed. In modern economic practice, different forms of audit are singled out. It is generally accepted to divide it into external and internal. External audit is the performance of an audit by an independent auditor or a specialized organization. Customers can be owners, shareholders, investors, lending institutions and government agencies. Internal audit is an element of the internal control system in the enterprise. Internal audit services exist, as a rule, in companies with an extensive network of branches. Control from within helps management to exercise more competent management, correctly assess the use of assets, analyze the effectiveness of financial investments, etc. By the nature of the order, it is possible to single out an initiative (voluntary) and compulsory. In the first case, the audit is carried out by decision of the enterprise management, founders or authorities, as a rule, for an objective assessment of the financial condition of the enterprise and reliability of reporting. Mandatory audit is provided for by law, only independent audit organizations conduct it.

In this course work, the problem of audit risks was considered. The goal and objectives were met. In the theoretical part, the notion of "audit risk", the main components of audit risk and the methodology for their calculation were disclosed. We have disclosed the main provisions of FPSAD No. 8 and its connection with other standards that govern issues related to audit risks.

In the practical part, we examined the procedures performed in the audit of materials, calculated the level of materiality and audit risk.

Risk accompanies any activity. For a business enterprise, the risk is a change in the market situation, violations by counterparties, and the actions of external forces. Audit risk consists in forming an incorrect opinion on the company's financial statements.

The auditor seeks that the risk of incorrect opinion is insignificant, or in other words, to a high degree of certainty that financial statements are free from material errors.

The decision on the acceptability of the degree of risk is made by the auditor on the basis of the user's expectations. The opinion expressed in the course of the audit testifies to the user that the professional standards have been sustained, significant data has been accumulated and evaluated to support this opinion. The auditor should plan the audit in such a way that the risk of incorrect judgment is minimal.

There are no ideal ways to reduce auditor risk to zero, but the auditor should always strive to maximize its reduction by taking into account all sorts of factors when planning the audit.

Conducting an audit. Before the start of the audit, the company conducts a meeting in which the heads of units are introduced to the purpose of verification, the order of its conduct, and the terms. It is important that the collective does not encounter any obstacles to the auditors, and they, in turn, act strictly within the plan. Auditors should be distributed to the inspection sites in accordance with their professional competence. External audit can include not only the analysis of documents, but also other methods: interviews with employees, fieldwork testing, questionnaires, etc.

For each section of the program, the auditors draw conclusions in writing. Based on these documents, an audit report is formed. Requirements to it are regulated by Article 6 of the Law "On Auditing". The conclusion, in particular, should contain complete information about the auditor and the object of verification, the period, the accounting and financial statements studied, the objectives, methods and results of the audit. Issue an audit report to the person who signed the contract to conduct the audit. The information reflected in it can subsequently become an excuse for making a number of managerial decisions.

Evaluation of audit risk can be either quantitative (in percent) or qualitative. The qualitative assessment is based on three grades: low risk, medium risk, high risk.

In practice, in most cases, auditors apply a qualitative risk assessment, which, as a rule, is based on an analysis of the factors determining these risks. Each component of the audit risk is influenced by a number of factors.

The inherent risk is affected by: the experience and qualifications of the chief accountant, its workload, the scale of the business, the complexity of economic operations, the stability of the regulatory framework. The following factors influence the risk of controls: reliability of the accounting system; the effectiveness of the control environment; effectiveness of control procedures (means). The risk assessment of non-detection, in turn, can be carried out on the basis of analysis of such factors as: professionalism and qualification of the auditor; information on the audited organization; type of sources of audit evidence; sample size; type of audit procedures.

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