

## Stages Of Risk Assessment In The Internal Audit Of Budget Organizations

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### Abstract

*In this article were researched the importance and necessity of organizing internal audit in budget organizations. As a result of the research were proposed stages of risk assessment in internal audit in budget organizations*

**Keywords:** *public sector, budget, budget organization, audit, internal audit, internal auditor, internal control system, audit risk.*

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**Introduction.** In the development of the economy, the distribution of resources through proper planning, control over their effective use based on the plan, and reducing risks to an acceptable level play a key role. Effective use of resources based on proper planning and careful planning depends on several factors, and their continuous monitoring is characterized by the proper organization of the internal control system. The control of this system is carried out by the internal audit.

### LITERATURE REVIEW

In regulatory legal documents and economic literature, there are many views on revealing the nature of internal audit in budget organizations.

According to the report of the Institute of Internal Auditors, “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” [1].

According to Irwan Adimas Ganda Saputra, Achmad Yusuf “internal audit is an examination carried out both on the company's financial statements and accounting records, as well as adherence to predetermined top management policies and adherence to government regulations and the provisions of applicable professional ties” [2].

A group of economists stated that “in the public sector organizations, the internal audit function holds high potential for promoting accountability and improving government performance” [3].

According to Siti Nur Farhanah binti Kifflee and Mohd Abdullah Jusoh “the effectiveness of the internal audit function is essential to improve the performance of the public sector by the way of the internal auditor's ability to detect and correct any defects and remain corrected” [4].

Udeh Sergius Nwannebuike and Godfrey Okoye said “public sector sets the economic agenda for the nation. This implies that a robust system of internal checks needs to be put in place to provide assurances that government funds are used for purposes they were meant. One major way of achieving this is the institution of internal audit” [5].

As can be seen from the above-mentioned points, researches mainly focus on the nature of internal audit in budget organizations. However, the internal audit of budget organizations does not pay enough attention to the issues of risk assessment.

## RESEARCH METHODOLOGY

Rules for organization of internal audit in budget organizations are reflected in regulatory legal documents. Organization of internal audit in budget organizations based on the experience of developed countries is important in improving the scientific and methodological apparatus of financial control.

## ANALYSIS AND RESULTS

The internal audit service of budget organizations not only monitors the activities of the organization, but also conducts its work within the framework of the law, prepares income and expenditure estimates, and gives its advice and recommendations in order to increase the efficiency of the activity. For this reason, when describing the internal audit, it is permissible to highlight its professional services. Because the control of budget organizations is carried out by the state financial control service. The main aspect of the internal audit service is that it appears as an assistant for the budget organization, in contrast to the state financial control.

In most cases, the internal audit service of budget organizations and state financial control are confused with each other. However, they actually have different functions and tasks. The internal audit service is characterized by identifying inconsistencies in the organization's activities, eliminating them, providing necessary advice and recommendations, and conducting continuous monitoring. In order to effectively organize the activities of the internal audit service in budget organizations, first of all, it is necessary to study the theoretical and practical problems that arise in the accounting system. It is impossible to effectively organize internal audit without eliminating the existing problems in the organization of accounting of the budget organization. As long as a poorly organized accounting system is not introduced, it is impossible to eliminate the shortcomings that arise as a result of transactions during the reporting period.

In our opinion, budget organizations today have the following problems of organizing the internal audit service:

that budget organizations have not developed control methods in the development of cost estimates;

failure to develop recommendations for improving the internal control system in budgetary organizations;

the need to improve the methods of evaluating the performance indicators of budget organizations;

that the methodology of conducting internal audit in budgetary organizations has not been developed;

failure to develop standards regulating the internal audit service;

failure to improve risk assessment methods in internal audit;  
failure to assess the quality of work of internal auditors;  
that the work of internal auditors is not based on performance;  
failure to improve regulatory documents on internal audit in budgetary organizations;  
failure to develop a procedure for providing professional services to internal auditors;  
failure to develop a methodology for rapid summary preparation in emergency situations  
based on the changing information of the accounting department in budgetary organizations;  
lack of development of special methods of control in auditing the accounting of budgetary  
organizations;  
the need to increase the qualifications of employees in the accounting departments of  
budgetary organizations.

We know that the organization of a quality internal control system increases the quality of  
work of budget organizations. In order to improve the quality of work of the internal audit service,  
it is necessary to find solutions to the above problems and eliminate them. To eliminate these  
problems, it is appropriate to develop internal audit standards and regulations on internal audit in  
budget organizations.

It is worth noting that it is important to consider risk factors and develop risk assessment  
factors when organizing an internal audit service in budgetary organizations. In internal audit,  
unlike external audit, it is necessary to pay special attention to internal control risk in addition to  
audit risk.

Audit risk is the risk of presenting an incorrect audit opinion due to distorted information or  
incorrect information provided in the financial statements.

Among other things, the risks inherent in internal audit include the following components:

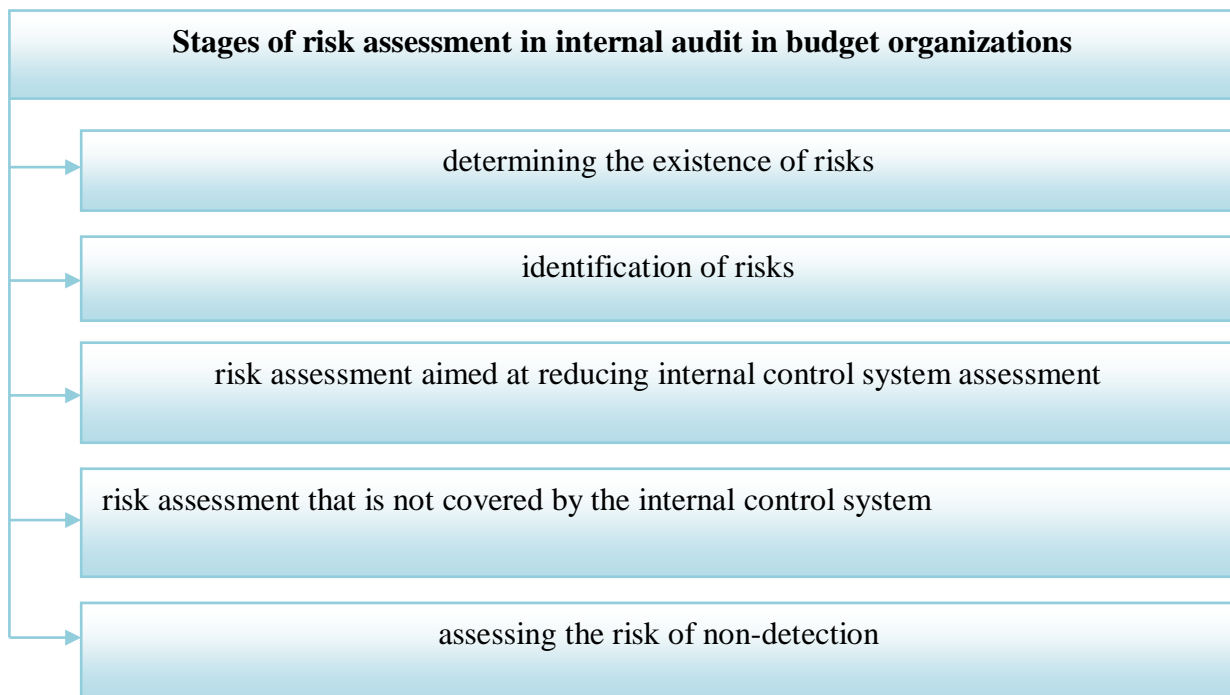
1. The risk of significant misrepresentations is the risk that arises due to the complexity of  
operations in accounting in a budget organization and the influence of internal and external factors  
affecting the activity of this organization;
2. Internal control risk occurs as a result of incorrect evaluation of the internal control  
system due to incorrect organization of the internal control system of budget organizations and  
incorrect presentation of information;
3. Risk of non-detection - the risk of not being able to detect errors that exist and may be  
significant in the collection of audit evidence.

The organization of the internal control system in budget organizations in a unique way and  
the development of its own rules of operation serve to reduce risks. The internal auditor advises  
management on the implementation of the risk management system. Effective risk management  
requires a strong internal control system.

If the provided information on risks is insufficient or non-existent, the internal auditor will  
independently carry out the risk analysis of audit objects. In our opinion, the approach to  
determining and assessing the level of risk should be determined by the head of the internal audit  
department.

It is necessary for the head of the internal audit department to determine the approach to the assessment of existing risks in the budget organization based on the results of the previous analysis and to make changes to the internal audit plan. The internal audit plan can be changed taking into account the priorities set by the head of the organization.

Risk assessment in internal audit is a step-by-step process in budget organizations, which includes the following in sequence (Figure 1)



**Figure 1. Stages of risk assessment in internal audit in budget organizations<sup>1</sup>**

Internal audit checks allow to determine the efficiency of the budget organization. In addition, internal audit serves as the main assistant to the leaders of the organization in achieving their goals and regulating their activities. Every organization needs an internal audit service to assess its performance and eliminate negative situations that may affect stability.

In our opinion, the internal auditor in the budget organization should discuss his recommendations with the manager. In this case, disagreements often arise. The ability to demonstrate commitment to the position depends on the professional and personal qualities of the internal auditor. However, he must maintain his independence and impartiality in his decisions and be guided by the internal auditor's code of ethics and internal auditing standards.

## CONCLUSION

<sup>1</sup> Made by author.

1. The organization of internal audit in budget organizations not only continuously monitors budget activities, but also provides recommendations and advice that serve to improve the activities of organizations and eliminate shortcomings. In our opinion, the tasks, functions, rights and obligations, as well as professional services of internal auditors of budget organizations should be clearly defined within strict laws.

2. In order to further develop the internal audit in the budget organizations, they should get acquainted with the results of the inspections conducted by the state financial control, exchange information on violations in the organizations. This cooperation ensures that the internal audit service is conducted more reliably and efficiently.

3. Another important task of internal auditors is risk assessment and minimization in budgetary organizations. Since risk assessment and their management is considered a complex task, it is necessary to develop and implement new methods of assessment, adapting this activity to budget institutions.

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