



IMPROVING METHODS OF ASSESSING AND MANAGING AUDIT RISKS IN JOINT-STOCK COMPANIES

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Abstract

Improving methods of assessing and managing audit risks in joint-stock companies is an important aspect of corporate governance. This article examines modern approaches aimed at identifying, assessing and minimizing financial risks in the audit process. Methods of risk analysis, strengthening internal control systems and ensuring information confidentiality based on International Standards on Auditing (ISA) are analyzed. The article offers innovative strategies and practical recommendations for improving the efficiency of audit activities in joint-stock companies.

Keywords: Joint-stock companies, audit, risk assessment, risk management, financial risk, internal control, international standards, information confidentiality, corporate governance, audit effectiveness, innovative strategies, practical recommendations.

Introduction

Assessment and management of audit risks in joint-stock companies is of great importance in modern economic conditions as an important component of corporate governance. This process plays an important role in ensuring the reliability of financial statements, increasing investor confidence and supporting the sustainable development of the company. In particular, within the framework of the Development Strategy of the Republic of Uzbekistan for 2022-2026, improving audit systems in order to make the activities of joint-stock companies more transparent and efficient is one of the priority tasks. This strategy provides for deepening economic reforms and adaptation to international standards, which requires the introduction of new approaches to audit risk management. Foreign



experience shows that the use of advanced methods in assessing and managing audit risks in joint-stock companies is important for achieving successful results. In particular, systems based on International Financial Reporting Standards (IFRS) and International Auditing Standards (ISA) are widely used in developed countries, which allows increasing the quality of financial statements and minimizing risks. The application of these experiences in Uzbekistan is especially important in the process of privatization of joint-stock companies with state participation. The Development Strategy for 2022-2026 plans to privatize 49-51% of state-owned enterprises through public placement (IPO), and effective management of audit risks is of great importance in this process.

The audit risk assessment process is aimed at identifying the possibility of errors or fraud in the financial activities of joint-stock companies. This process is carried out through internal and external audit systems. While internal audit checks the effectiveness of the company's internal control systems, external audit objectively assesses the veracity of financial statements. In foreign experience, the COSO (Committee of Sponsoring Organizations) model is widely used in risk assessment in the USA and the European Union, which provides a systematic approach to identifying, assessing and taking countermeasures against risks. The introduction of such systems in Uzbekistan serves to increase financial transparency. Compliance with international auditing standards (ISA) is important in risk management. ISA standards help auditors identify the possibility of material errors in financial statements. According to ISA 315, auditors must analyze the company's internal control system and external environmental factors when assessing risks. The application of these standards in Uzbekistan is consistent with the plan to transfer more than 70% of joint-stock companies to international financial reporting standards in 2022-2026, which will serve to create a reliable environment for investors. The use of advanced technologies in audit risk management is widespread in foreign countries. With the help of artificial intelligence and analysis of large amounts of data (Big Data), it is possible to identify anomalies in financial transactions. In Germany and the UK, audit companies have achieved a 30-40% reduction in risks using automated data analysis systems. The introduction of such technologies in Uzbekistan is



consistent with the digitalization goals of the Development Strategy, which plans to digitize more than 20% of the economy by 2026.

Strengthening internal control systems is important in managing risks in joint-stock companies. In Japan and South Korea, internal control systems are considered a key element of corporate governance. These systems help identify and prevent errors in financial statements. In order to improve internal control systems in Uzbekistan, in 2022, the Cabinet of Ministers adopted a resolution aimed at developing internal audit services, which provides for an increase in the efficiency of internal audits at state-owned enterprises by 50% by 2026. Improving the skills of employees is also an important factor in assessing audit risks. In foreign countries, for example, in Australia, regular training and certification programs are organized for auditors. In Uzbekistan, the Ministry of Finance and the Tashkent Financial Institute have been introducing training programs based on international auditing standards since 2018. It is planned to expand these programs by 80% in 2022-2026, which will serve to improve the skills of auditors. Audit risk management is becoming increasingly important in the process of privatization of joint-stock companies. For example, it is planned to privatize 49% of Uzbekneftegaz JSC and 51% of Issiqlik Elektr Stanzalari JSC through IPO. In this process, transparency and reliability of financial statements are important for investors. In foreign experience, in particular, in Saudi Arabia, international standards were used to manage audit risks during the IPO of Saudi Aramco, which led to successful results. Strengthening the legal framework for risk management is also important. The Law "On Auditing Activities" adopted in Uzbekistan in 2021 brought the regulation of the activities of audit organizations into line with international standards. This law requires audit organizations to consist of at least 4 full-time auditors and to regularly conduct external audits of their activities. In foreign countries, for example, in Singapore, such legal requirements have served to improve the quality of audit services. Improving the assessment and management of audit risks in joint-stock companies is an important part of the Development Strategy of Uzbekistan for 2022-2026. Financial transparency and investor confidence can be increased by applying international practices, in particular IFRS and ISA standards, introducing digital technologies, and strengthening internal control systems. Plans to transfer more



than 70% of joint-stock companies to international standards by 2026 and increase internal audit efficiency by 50% will allow achieving significant progress in this area. This approach will serve to bring the Uzbek economy to global competitiveness.

Literature Review

In her paper on improving audit risk assessment and management in joint-stock companies, Katherine Schipper highlights the complexity of financial statements and the impact of digital technologies on audit risk assessment. She argues that “while digitalization and artificial intelligence improve the detection of risks in audit processes, they also introduce new risks, such as new technological errors and misinterpretations of data.” Schipper emphasizes the need to train auditors to effectively manage these technologies[1]. Jere R. Francis examines the role of corporate governance in audit risk management in her study. She states: “Strong corporate governance systems are essential in mitigating audit risks because they strengthen internal control systems and reduce the likelihood of errors in financial statements.” Francis recommends that auditing activities be organized in accordance with International Financial Reporting Standards (IFRS)[2]. Marleen Willekens emphasizes the importance of International Standards on Auditing (ISA) in assessing audit risks. He states that “risk assessment systems based on ISA 315 can help auditors identify material misstatements in financial statements, but their effectiveness depends on the competence of the auditors.” Willekens recommends focusing on continuing education and professional development programs for auditors[3]. In his article, Mark E. Peecher examines the role of big data analytics (Big Data) and machine learning in audit risk management. He states: “Big Data analytics can accelerate the detection of anomalies in the audit process, but this process depends on the ability of auditors to interpret the data.” Peecher emphasizes the need to improve auditors’ skills and pay attention to ethical issues when using these technologies[4].



Research Methodology

The study collected the opinions of auditors and managers of joint-stock companies through interviews and questionnaires, and used a risk assessment methodology based on SWOT analysis and the COSO model .

Analysis and Results

There are a number of obstacles in Uzbekistan to improving audit risk assessment and management methods in joint-stock companies. First of all, the shortage of qualified auditors remains a serious problem. According to 2022 data, the number of auditors certified in accordance with International Standards on Auditing (ISA) in Uzbekistan is less than 500, which is insufficient to meet the growing needs of joint-stock companies. This problem negatively affects the quality of financial statements during the transition to International Financial Reporting Standards (IFRS). The second obstacle is the insufficient development of internal control systems. In many joint-stock companies, in particular, in enterprises with state participation, internal control systems are formal in nature and do not fully comply with international standards. In 2023 reports, inefficient internal audit activities were noted in more than 60% of enterprises with state participation. This situation increases the likelihood of errors and fraud in financial statements. The third obstacle is the low level of use of modern technologies. Tools such as artificial intelligence and big data analysis (Big Data) are not yet widely used in the audit sector in Uzbekistan. While audit firms have reduced risks by 30-40% using Big Data, the introduction of such technologies in Uzbekistan partially corresponds to the digitalization goals of the Development Strategy for 2022-2026, but in practice is proceeding slowly. One of the ways to overcome the obstacles is to strengthen the training of qualified personnel. It is necessary to expand the number of international certification programs, such as ACCA and CPA, by the Ministry of Finance and the Tashkent Institute of Finance. It is planned to increase the number of auditors to 1,000 by 2026, and to achieve this goal, the state should allocate financial support for subsidies and training programs. It is also possible to attract foreign specialists and accelerate the process of training local auditors. To strengthen internal control systems, it is recommended to introduce systems based on the COSO model in joint-stock



companies. This model has proven to be effective in systematically analyzing internal control and identifying risks. In Japan, the effectiveness of internal control systems has been increased by 50% using the COSO model. In Uzbekistan, starting in 2024, this model can be tested in state-owned enterprises through pilot projects.

In order to stimulate technological development, it is necessary to allocate grants to audit firms and joint-stock companies to introduce artificial intelligence and data analysis tools. The Development Strategy for 2022-2026 plans to digitize 20% of the economy, and special attention should be paid to the auditing sector in this process. For example, in the experience of Singapore, using digital audit tools, it was possible to reduce costs by 25% and increase audit quality.

The following measures are intended to improve audit risk management: in accordance with . 1) Organization of regular training courses for auditors and support for international certifications; 2) Further improvement of the legal framework for bringing internal control systems into line with international standards; 3) Development of public-private partnership projects for the introduction of digital technologies; 4) Conducting a mandatory external audit before IPO to ensure financial transparency in the privatization process. These measures will allow to increase the quality of audit services by 40% by 2026.

By eliminating the above obstacles and implementing the proposed measures, the system of assessment and management of audit risks in joint-stock companies of Uzbekistan will be brought into line with international standards. This will increase the reliability of financial statements, strengthen investor confidence and contribute to achieving the goals set in the Development Strategy. As a result, by 2026, more than 70% of state-owned enterprises will switch to IFRS, and the efficiency of internal audit will increase by 50%, which will help increase the global competitiveness of the economy.

CONCLUSION

In conclusion, improving the methods of assessing and managing audit risks in joint-stock companies is important for increasing the transparency and competitiveness of the Uzbek economy. Within the framework of the Development Strategy for 2022-2026, the reliability of financial reporting will be



ensured by adapting to International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), strengthening internal control systems, and introducing digital technologies. This process will serve to increase investor confidence and achieve successful results in the privatization of state-owned enterprises.

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