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IMPROVING METHODS FOR DETECTING FRAUD CASES IN CURRENT ASSET AUDITS

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Abstract: This article examines the practical application of information sources and their structural organization in accordance with international standards used in analytical procedures during the audit of current assets. The study analyzes issues related to the characteristics of inventories and their use in the audit process based on analytical data.

Key words: inventories, accounting, standards, net realizable value, cost, reporting, profit, loss, purchase costs, processing costs.

INTRODUCTION

In the audit of current assets, one of the key objectives is to identify potential inaccuracies in financial reporting related to current assets and to minimize the risk of undetected irregularities associated with them. This is important because the results of current asset audits play a significant role in ensuring the reliability, transparency, and accuracy of financial reporting information. By carefully analyzing financial data and applying appropriate audit procedures, auditors can strengthen confidence in financial statements and contribute to improving the overall quality of financial reporting.

Current assets represent a significant component of an entity's financial resources and directly influence liquidity, operational efficiency, and financial stability. Therefore, the audit of current assets requires particular attention to the evaluation of accounting records, inventory valuation, receivables management, and compliance with applicable accounting standards. The effective use of analytical procedures and reliable information sources enables auditors to assess the accuracy of financial data and identify potential risks in a timely manner.

Furthermore, the application of international accounting and auditing standards plays an important role in improving the quality and consistency of financial reporting. The use of standardized approaches to the evaluation and presentation of information enhances comparability and supports effective decision-making by stakeholders. In this context, strengthening analytical procedures and improving the structure of information sources contribute to increasing the effectiveness of audit practices and ensuring the credibility of financial statements.

LITERATURE REVIEW

Scientific and methodological works of foreign and national economists have extensively examined issues related to irregularities in auditing procedures, the factors contributing to their occurrence, methods of identification, and approaches for their prevention. In particular, O.M. Nikulina and M.V. Vrublevskaya¹ studied the identification of corporate fraud schemes related to current assets. According to their research, the most common manipulation schemes in the audit of current assets are associated with the company's most liquid assets, such as cash resources and accounts receivable. Irregularities related to receivables may lead not only to a decrease in revenue and cash inflows but can also affect the overall operational efficiency of an enterprise.

In this context, A. Volodin focused on the role of internal audit in ensuring the effectiveness of fraud risk management systems. His research highlights the importance of internal audit mechanisms in strengthening preventive measures and supporting the effectiveness of internal control systems aimed at minimizing fraud-related risks.

¹ Никулина О.М., Врублевская М.В. Выявление аудитором корпоративных схем мошенничества с оборотными активами. Проблемы учета и финансов. № 25, 2017. 42-45 ст.

Furthermore, V.G. Kogdenko², in his studies on corporate fraud, described the main forms of fraud related to asset misappropriation and financial reporting manipulations. He emphasized that there are two main approaches to detecting corporate fraud: analytical procedures and control mechanisms, both of which play an essential role in identifying potential irregularities in financial operations.

At the same time, R.D. Dusmurov³, while studying the accounting and auditing of inventories, noted that certain transactions affecting the accuracy of inventory balances and the calculation of the cost of goods sold may arise from cases of misuse or improper control. According to the researcher, such situations may include the misappropriation of assets due to insufficient supervision over storage processes, discrepancies between actual and documented quantities of received goods, or the falsification of shipment documents through the use of incorrect or incomplete information about buyers. These factors highlight the importance of effective control procedures and reliable accounting practices in ensuring the transparency and accuracy of financial reporting.

RESEARCH METHODOLOGY

The methodological basis of the study is based on the scientific works of foreign and domestic scholars devoted to the issues of auditing current assets and detecting fraud in financial reporting. During the research, methods such as systematic analysis, comparative analysis, analytical evaluation, and generalization of scientific conclusions were applied.

The information base of the study consisted of international auditing standards, regulatory documents, scientific literature, and accounting data related to current assets. The application of these methods made it possible to analyze fraud risks in current asset audits and identify directions for improving audit procedures aimed at detecting fraud cases.

ANALYSIS AND RESULTS

Taking into account that the approaches of the above-mentioned economists to identifying and preventing irregularities are of significant scientific and practical importance, it is possible to classify such situations based on the study of national and international practices. In this regard, irregularities related to current assets can be systematized according to several key directions (Figure 1).

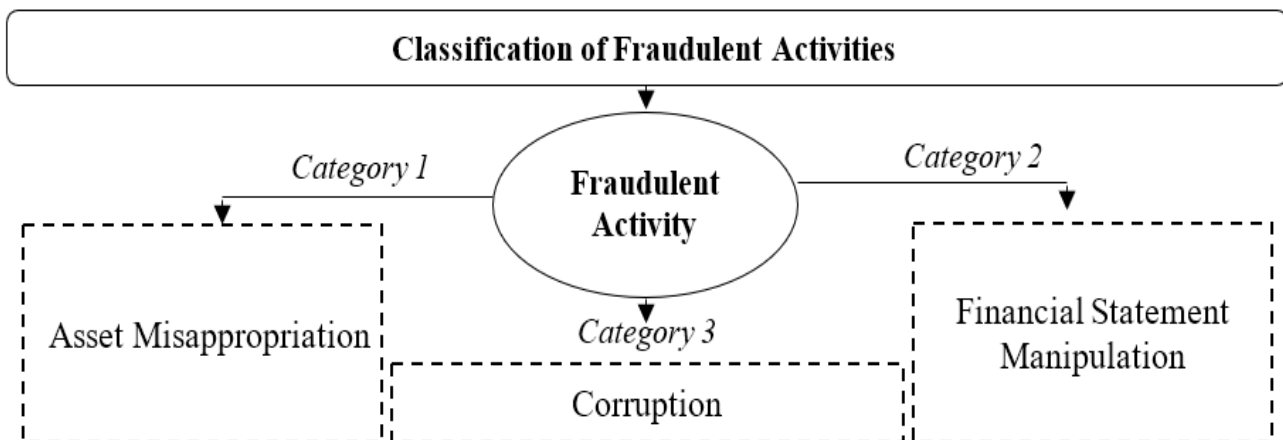


Figure 1. Classification of Fraudulent Activities⁴

As shown in Figure 1, asset misappropriation, presented as the first category of fraudulent activity, is currently one of the most frequently observed forms of fraud in practice. Therefore, it is important to examine fraud related to the misappropriation of assets, particularly current assets, as well as the methods for detecting and preventing such cases during the audit process.

During the audit of current assets, the auditor may identify events or circumstances that indicate pressure or incentives to commit fraud, or conditions that create opportunities for fraudulent activities. For this reason, cases of material misstatement resulting from fraud can be classified based on the three conditions described in ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" (Table 1).

2 Когденко В.Г. Корпоративное мошенничество: анализ схем присвоения активов и способов манипулирования отчетностью. Экономический анализ: теория и практика. 4 (403) – 2015. 2-13 ст.

3 Дўсмуратов Р.Д. Аудит асослари. Дарслик. – Т.: «Ўзбекистон миллий энциклопедияси» нашриёти, 2003. – 423 бет.

4 Developed by the author

Table 1. Classification of Risk Factors Related to Misstatements Arising from the Misappropriation of Current Assets⁵

Fraud Risk Factors Classification	Description of Fraud Risk Factors
Incentives / Pressures	<p>Personal financial obligations may create pressure on management or employees who have access to cash or other current assets susceptible to misappropriation, motivating them to unlawfully use such assets. Negative relationships between the business entity and employees who have access to cash or other sensitive current assets may also create a tendency toward the unlawful use of these assets. Such negative relationships may arise due to factors such as:</p> <ul style="list-style-type: none"> - known or anticipated reductions in staff positions; - recent or expected changes in employee compensation or incentive payments; - perceived inequalities related to promotion, remuneration, or other incentives.
Opportunities	<p>Certain conditions or characteristics may increase the vulnerability of current assets to misappropriation. For example, the likelihood of misappropriation may increase when:</p> <ul style="list-style-type: none"> - large amounts of cash are handled manually or used in operations; - inventories are small in size but have high value or high demand; - current assets can easily be converted or exchanged. In addition, insufficient internal control over current assets increases the risk of their unlawful use.
Attitudes / Rationalization	<p>These factors may arise from:</p> <ul style="list-style-type: none"> - disregard for the need to monitor or mitigate risks related to the misappropriation of current assets; - employee dissatisfaction with the organization or its treatment of staff; - behavioral or lifestyle changes that may indicate the possible misappropriation of current assets; - ignoring minor theft or irregularities.

It is well known that within the structure of current assets, cash and accounts receivable represent highly liquid assets. Consequently, fraud related to these assets is commonly encountered in practice. In particular, the most liquid assets of business entities are cash and cash equivalents. Their high level of liquidity compared to other current assets, their existence in various forms (cash in hand, funds held in different bank accounts, and other equivalents), and the relative ease of conducting irregular transactions with them often create conditions where fraud may occur.

Fraud related to cash and cash equivalents may occur in the following forms:

- misappropriation of cash in national or foreign currency, misuse of corporate cards, or unauthorized access to payment systems through obtaining passwords or other credentials;
- misappropriation of funds by failing to record sales of finished products, works, or services, or by recording them at reduced volumes;
- submission of fictitious invoices to suppliers or contractors, misappropriation through manipulation of returns of inventories or bonuses granted, and preparation of false payment documents;
- overstating the amount in invoices issued to buyers and customers for sold products, works, or services, or recording the reversal of discounts granted;
- transferring payment amounts indicated in fictitious invoices received from non-existent suppliers in the process of purchasing inventories, and similar actions.

The presence of such irregularities related to cash and cash equivalents in business entities may negatively affect their payment capacity, liquidity level, financial stability, and the turnover of working capital.

As noted above, accounts receivable are also among the most liquid components of current assets in business entities. Fraud related to receivables can lead not only to a decrease in revenue and cash inflows but also to the deterioration of the entity's financial condition. In particular, the accumulation of large amounts of receivables may result in the withdrawal of funds from circulation, causing shortages in working capital and leading to an increase in accounts payable, which may adversely affect the financial position of the enterprise.

The results of the conducted research indicate that the following forms of fraud related to accounts receivable are commonly observed in practice:

- creation of fictitious receivables through undeclared sales carried out by the business entity;
- misappropriation of payments received for receivables that were previously written off by the entity;
- increasing the amount of receivables by overstating the value of products, works, or services in contracts;

⁵ Developed by the author

- concluding agreements on debt forgiveness, deferred payments, or installment payment arrangements under unfavorable conditions;
- selling or waiving overdue receivables under disadvantageous terms, and other similar practices.

CONCLUSION AND RECOMMENDATIONS

In general, during the audit of current assets, auditors should not limit their attention only to cash and accounts receivable, but should also consider all possible cases related to the misappropriation of current assets in order to conduct a comprehensive analysis of potential fraud risks. During the audit process, auditors determine the presence or absence of fraud related to current assets by performing appropriate audit procedures.

In accordance with ISA 240, auditors should perform the following audit procedures to identify fraud related to the misappropriation of current assets:

- conducting an inventory of cash and securities at the end of the reporting period or on the reporting date;
- confirming transactions on accounts by sending direct inquiries to customers for the audited period;
- analyzing the recovery of amounts that were previously written off;
- analyzing shortages of inventories by location and product types, reviewing supporting documents confirming the justification for reducing inventory amounts in accounting records, and comparing established norms with industry standards;
- comparing the list of suppliers with the list of employees to identify similarities in addresses or telephone numbers, checking repeated addresses in payment lists, and conducting automated verification using employee identification numbers or tax identification numbers, as well as reviewing employees' personal documents;
- analyzing unusual situations related to trade discounts and returns of goods;
- sending requests to third parties to confirm specific contractual conditions and obtaining evidence that operations are carried out in accordance with contract terms;
- reviewing the justification for large and unusual expenses and verifying the validity and level of expense reports submitted by senior management;
- examining inconsistencies, conflicting evidence, or missing documentation in accounting records in accordance with the procedures established by applicable regulations.

At the same time, during the audit process auditors may apply analytical and control methods to identify fraud related to current assets.

When identifying fraud related to current assets, especially in monitoring suspicious transactions and assessing fraud risks, it is essential to ensure that internal control procedures are supported by reliable analytical data. Economic literature recommends that auditors use various analytical methods to detect fraud during audit engagements. In our opinion, the following analytical procedures may be effectively applied in identifying fraud related to current assets during the audit process (Table 2).

It should be noted that analytical procedures performed to detect fraud related to the misappropriation of current assets help improve the reliability of accounting information. However, they do not provide an absolute guarantee that fraud does not exist.

As a result of the research conducted on improving methods for detecting fraud in the audit of current assets, the following conclusions were formulated:

- it was emphasized that identifying falsification of information related to current assets in financial statements and detecting fraud associated with them, as well as reducing the risk of non-detection, are key objectives of the audit of current assets;
- the concepts of "fraud" and "corporate fraud" were comparatively analyzed based on existing regulatory documents and the works of foreign and local economists, and fraud was classified into three categories: asset misappropriation, financial statement manipulation, and corruption;
- in accordance with international auditing standards, risk factors associated with misstatements arising from the misappropriation of current assets were classified and described under three categories: incentives/pressures, opportunities, and attitudes/rationalizations;
- fraud cases related to current assets were examined and audit procedures used to detect fraud in the form of asset misappropriation during the audit of current assets were systematized and described in accordance with international auditing standards.

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