

IMPROVEMENT OF AUDIT OF SETTLEMENTS WITH SUPPLIERS OF GOODS AND CONTRACTORS

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Abstract: In modern business, the effectiveness of financial and operational activities depends significantly on the integrity and accuracy of settlements with suppliers and contractors. The auditing process ensures that these settlements adhere to accounting principles, legal requirements, and business efficiency objectives. This article explores the challenges in auditing settlements with suppliers and contractors, highlights contemporary methods to address them, and suggests improvements to enhance audit effectiveness.

Keywords: Audit, settlements, suppliers, contractors, ERP systems, blockchain, fraud prevention, risk-based auditing.

Introduction

The audit of settlements with suppliers and contractors is a crucial component of financial audits, aimed at verifying the accuracy, legality, and completeness of these transactions. These audits ensure that the company's financial records reflect true and fair information and that contractual obligations are being met. However, the complexities of modern supply chains, increasing transaction volumes, and regulatory requirements have highlighted the need for improving traditional audit methodologies.

Literature Review

Arens, Elder, and Beasley (2018) emphasized the critical role of auditing in ensuring the integrity of financial transactions, including settlements with suppliers and contractors. They highlighted that accurate settlements are fundamental to an organization's financial health and compliance with accounting standards. Similarly, Hayes et al. (2014) discussed the alignment of audit practices with International Standards on Auditing (ISAs) to ensure global consistency and reliability in settlement auditing.

Brazel, Agoglia, and Hatfield (2004) explored the impact of manual and electronic reviews in auditing, concluding that digital tools enhance efficiency and accuracy, especially for large transaction volumes typical of supplier settlements. Their findings underscore the need for integrating technology into audit processes to address complexities associated with globalization.

Challenges in auditing supplier settlements include inadequate documentation, fraud risks, and regulatory complexities. Simnett, Carson, and Vanstraelen (2016) identified the increasing complexity of supplier transactions due to multi-jurisdictional operations as a significant obstacle for auditors. They argued that traditional audit methods are insufficient to handle these complexities effectively.

Additionally, research by EY (2022) highlighted the risks of fraud in supplier settlements, including duplicate invoicing and overbilling. Their report called for stronger internal controls and advanced fraud detection tools to mitigate these risks.

Data Volume and Complexity

Inadequate Documentation

Regulatory Compliance

Technological Gaps

Fraud Risks

1-picture. Challenges in auditing settlements

Data Volume and Complexity. With the globalization of supply chains, companies handle an enormous volume of supplier and contractor transactions, often in multiple currencies and jurisdictions. This creates challenges in data consolidation, analysis, and accuracy verification.

Inadequate Documentation. Inconsistent or missing documentation related to invoices, purchase orders, or payment records can lead to discrepancies in audit findings and increased risk of fraud or errors.

Regulatory Compliance. Compliance with tax laws, customs regulations, and financial reporting standards is becoming increasingly stringent, demanding precise and up-to-date audit processes.

Technological Gaps. Traditional manual audit processes are time-consuming and prone to errors, especially in organizations lacking advanced Enterprise Resource Planning (ERP) systems.

Fraud Risks. Suppliers and contractors may engage in fraudulent practices such as overbilling, duplicate invoicing, or supply of substandard goods, further complicating the audit process.

Improved Audit Methodologies

1. Digitalization of Audit Processes:

Leveraging technology, such as Artificial Intelligence (AI) and Robotic Process Automation (RPA), can significantly improve the accuracy and efficiency of audits. Automated tools can analyze large datasets quickly, identify anomalies, and generate insightful reports.

2. Integration with ERP Systems:

Integration of audit procedures with ERP systems ensures real-time access to transaction records, enabling auditors to trace transactions seamlessly from initiation to completion.

3. Data Analytics and Visualization Tools:

Advanced analytics can identify patterns, trends, and anomalies in supplier and contractor settlements. Visualization tools can further simplify complex datasets for auditors.

4. Risk-Based Auditing:

A risk-based approach focuses audit resources on high-risk areas such as large-value transactions, overdue payments, or suppliers with a history of discrepancies. This ensures efficient use of audit resources.

5. Blockchain Technology:

Blockchain can create a secure, immutable record of transactions with suppliers and contractors. This enhances transparency and reduces the risk of fraud or data tampering.

Strengthening Internal Controls. Implementing robust internal control systems ensures the proper authorization of transactions and timely reconciliation of accounts.

Enhancing Auditor Skills. Auditors should be trained in using modern technologies, data analytics tools, and understanding complex regulatory frameworks.

Improving Documentation Practices. Enforcing stricter documentation requirements for supplier transactions ensures better traceability and accuracy during audits.

Periodic Reconciliations. Conducting regular reconciliations of supplier accounts helps identify discrepancies early, reducing the scope for disputes during audits.

Collaboration with Suppliers and Contractors. Establishing clear communication channels with suppliers and contractors can prevent misunderstandings and ensure mutual compliance with agreed terms.

Conclusion

The audit of settlements with suppliers and contractors is critical for maintaining financial integrity and operational efficiency. However, traditional audit methods face significant challenges due to evolving business and regulatory landscapes. By adopting advanced technologies, focusing on high-risk areas, and strengthening internal controls, companies can significantly improve the effectiveness of these audits. Future advancements in AI and blockchain promise further enhancements in transparency, fraud prevention, and compliance in supplier settlements auditing.

List of literature

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