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AUDIT RISK: ESSENCE, EVALUATION AND DIRECTIONS OF MINIMIZATION

An audit of the financial statement is the key factor of the effective functioning of the business. A timely audit allows to assess the results of the company, provides an opportunity to develop a plan of activities and to prevent the impact of negative factors on the activities of the entity. But the accuracy of the audit depends on the magnitude of the audit risk, so minimizing the latter is a guarantee of the accuracy of the audit opinion.

According to International Standards of Audit 200 «audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated» [1]. Audit risk is a function of the risks of material misstatement and detection risk» [1]. Audit risk includes the following components: risk control, inherent risk, and risk of non-detection. Characteristics of the components of audit risk are introduced in table 1.

Table 1 - Components of audit risk and their characteristics

Type of risk	Characteristics
<i>Inherent risk</i>	«The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls» [1]
<i>Control risk</i>	«The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control». This is the auditor's assessment of the internal control of the enterprise in terms of the ability to prevent and correct errors [1]
<i>Risk of non-detection (Detection risk)</i>	«This is the risk that the audit procedures will not materially reveal a misstatement of the account balance (or class of transactions) that may be material, alone or in combination with the misstatement of the balances in the other accounts». «The risk of non-detection of material misstatement due to fraud is higher than material misstatement due to error, as fraud may involve conspiracy, falsification, deliberate seizure, misinterpretation or neglect of internal control» [2] «Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements» [1].

* Sources: [1,2]

According to ISA 330, “The Auditor's Response to the Assessing Risks”, “the auditor's objective is to obtain sufficient audit evidence about the assessed risks of material misstatement by designing and performing appropriate actions and procedures in response to such risks” [3]. The increase in the number of audit procedures is influenced by external factors (frequent changes in

legislation, political and economic situation in the country, competition in the audit services market, level of entrepreneurial activity) and internal factors (errors in management, personnel policy, managerial competence, psychological climate in the team) [4].

The calculation of audit risk requires an assessment not only of the main aspects of control, but also an assessment of internal and external factors. In this case, a systematic approach and comprehensive assessment allows you to make the most effective audit plan of the enterprise. The auditor should examine a preliminary assessment of the extent of the risk of non-compliance with internal control to calculate the risk of non-detection of errors [4].

Reducing audit risk to an acceptable level is possible only through a preliminary assessment of the inherent risk and the risk of non-compliance with internal control. It is necessary to adhere to the principles of reducing audit risk to acceptable: audit risk and its components should be conducted rationally, audit risk assessment should not aim to reduce the number of audit procedures, it is better to reduce the final value of audit risk than to reduce the scope of sample testing [2]. Based on this, the auditor plans [2]:

- 1) the tests aimed at verifying the related parties of the enterprise;
- 2) the terms of carrying out independent procedures;
- 3) the scope of independent procedures.

There are several issues in audit risk assessment, including [5]:

- 1) a small number of research and scientific works on the issues of risk assessment of non-detection and the procedure of such assessment;

- 2) the vast majority of authors do not distinguish between the concepts of "risk detection" and "risk of selective method (sample verification)";

- 3) the lack of a unified methodological approach to assessing the components of audit risk in scientific papers, articles, regulations.

Minimization of audit risk is possible by choosing the right methods of identifying and recognizing the risks. After selecting methods, the auditor collects information and processes it, identifies risks (determining the nature of risks and their classification; study of risk parameters), determines the nature of the consequences of recognizing risk events, assesses risks (choice of assessment; construction of risk model; choice of risk assessment methods and techniques; quantitative or general risk assessment based on the results of the selected methods) and finally determines the directions of risk reduction, and forms measures to minimize or avoid them [4].

Therefore, an audit risk is an opportunity for an auditor to give an incorrect opinion that affects the development of an entity's plan of action. The assessment of the inherent risk and the risk of non-compliance with internal control has a direct proportion to the audit risk and its reduction. Minimization of audit risk and development of appropriate measures is achieved by the correct choice of methods for identifying risks and assessing them. But the lack of a single methodological approach to assessing the components of audit risk indicates a lack of awareness of this issue and requires further investigation.

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