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# THE IMPORTANCE OF RISK-BASED INTERNAL AUDIT IN ENSURING THE FINANCIAL STABILITY OF ENTERPRISES

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**Abstract.** This article discusses the importance, ways and prospects of implementing risk-based internal audit in enterprises. In particular, it discusses ways to increase the financial stability of enterprises through the use of risk-based internal audit.
**Keywords**: financial stability, internal audit, risk-based, financial ratios

## Introduction

Financial stability is an important factor determining the long-term viability of an enterprise, and a risk-based internal audit system serves as a strategic tool in ensuring this stability.

In today's complex economic environment, internal audit should include not only the inspection function, but also a tool for resource management, financial decision support, and early identification of risks. It is from this perspective that the work of internal audit in combination with financial analysis methods requires new approaches to stabilizing the financial condition of the enterprise.

The use of financial indicators in the internal audit process is one of the important tools for increasing the effectiveness of internal audit.

The risk-based internal audit model allows for a thorough analysis of the overall financial condition of the enterprise, resource flow, liquidity level, profitability potential and asset efficiency through financial indicators. The internal auditor analyzes key indicators such as net profit margin (NP margin), return on total assets (ROA), current liquidity ratio (CR), and equity ratio for the department or type of activity selected as the object of internal audit, and determines how the enterprise deviates from its line of business. For example, if the CR indicator of the enterprise being internally audited is below 1.1, this indicates not only a risk of timely payment of current liabilities, but also a risk of insolvency. Such situations prompt the internal auditor to conduct a deeper investigation, that is, to identify the causes of this situation, factors such as the cost structure affecting it, the state of receivables, or seasonal differences in sales.

## Literature review and methodology

A review of the scientific and practical literature on the role of risk-based internal audit in ensuring the financial stability of enterprises shows that in recent years, in addition to the traditional control functions of internal audit, new approaches have been formed aimed at supporting strategic management. Arens, Elder, and Beasley (2017) in depth covered the role of internal audit in increasing the reliability of financial statements, while Moeller (2016) provides a detailed analysis of the main principles of risk-based internal audit, in particular, the mechanisms for assessing risks, identifying priorities, and strengthening control systems.

Spira and Page (2003) show the inextricable link between internal control and risk management, emphasizing the transition of internal audit in enterprises from a traditional inspection function to a strategic advisory function. Arena and Azzone (2009) empirically demonstrated the importance of organizational factors, such as management support, independence, qualified personnel, and modern technologies, in improving internal audit effectiveness.

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The methodological basis of the study is the international standards on the risk-based internal audit concept (IIA, 2017), modern audit theory, and best practices in corporate governance. The study was carried out in the following stages:
*Theoretical analysis - study of international scientific literature, regulatory and legal documents on internal audit, risk management and financial stability, as well as the experience of Uzbekistan.
*Practical analysis - the practice of introducing risk-based internal audit in domestic and foreign enterprises, their financial indicators and the stability of the internal control system were studied.
*Comparative analysis - the experience of Uzbek enterprises was compared with international practice, and priority areas for improving the effectiveness of risk-based audit were identified.

**Results**

Combining risk indicators (KRI) with financial analysis serves to increase the analytical and monitoring capacity of internal audit activities. In this approach, KRI indicators are linked to financial analysis parameters, that is, signal indicators expressing risk potential are combined with the financial justification of internal audit decisions. For example, financial indicators such as the growth rate of receivables, net profit margin, current liquidity ratio, and asset turnover rate can be evaluated as risk indicators. When they deviate from certain threshold values, a danger zone is created. These indicators are analyzed based on predefined trigger mechanisms and monitored in real time.
To effectively implement this integration mechanism, a table is created that clearly shows the relationship between KRI indicators and financial analysis parameters. Below is a practical example of such a table.
Table 1.
**Integrated mechanism between risk indicators (KRI) and financial indicators**

| № | KRI indicator | Financial analysis indicator | Integration mechanism description | Risk signal level (Threshold) |
|---|---|---|---|---|
| 1 | Accounts receivable growth rate | Accounts receivable turnover ratio | If receivables exceed 90 days and turnover begins to slow down, credit policy is weakened. | 90 days + rotation > 60 days |
| 2 | Profit margin decline | Net profit margin | Profit decline relative to revenue - product profitability or costs out of control | NP margin < 5% |
| 3 | Liquidity pressure | Current liquidity ratio | Decreased ability to meet obligations on time - insolvency risk | CR < 1,2 |
| 4 | Slowdown in asset turnover | Total asset turnover ratio | Assets are underutilized - investment efficiency is declining | Turnover < 1.5 times/year |
| 5 | Operating expenses increase | Operating profit share | Out-of-control expenses are a sign of internal control weaknesses | Opex ratio > 75% |
| 6 | The predominance of short-term liabilities in | Share of short-term liabilities | Short-term pressure - a threat to financial stability | > 65% of total commitment |

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| | | | | |
|---|---|---|---|---|
| | the composition of liabilities | | | |

As shown in this table, internal auditors can determine which KRI each financial indicator is related to and form a realistic risk profile by evaluating them in an integrated manner. This approach also introduces preventive controls at the enterprise level, that is, the internal auditor identifies deviations at an early stage and makes specific recommendations for their resolution. This turns financial analysis from a statistical basis into a strategic control tool. In an integrated model, the recommended indicators are connected to a continuous monitoring system, and automatic internal audit alert systems are created based on their dynamics. Thus, the combination of financial analysis and KRI indicators creates a significant advantage not only in identifying risks, but also in managing them.

The introduction of risk-based internal audit in enterprises is an important strategic tool for strengthening financial stability. Through its implementation, the following main results can be achieved:

**Increased efficiency of early identification of risks.** Through a systematic assessment of financial, operational, strategic and legal risks during the internal audit process, the ability to predict potential threats in advance and develop measures to reduce them increases.

**Improved quality of financial management decisions.** A risk-based approach creates the basis for making prompt and informed decisions based on audit conclusions that are clear, reliable and timely provided to management.

**Strengthening of the internal control system.** Identification of weak control points during the audit process and development of recommendations to eliminate them helps strengthen internal control mechanisms.

**Stable growth of financial stability indicators.** Risk-based audit helps prevent financial losses by directing resources to high-risk areas, significantly contributing to stabilizing the financial position of the enterprise.

**Increased investment attractiveness.** Increased transparency and reliability of financial statements have strengthened the confidence of investors and creditors.

**Discussion**

Modeling the impact of internal audit recommendations on financial results is one of the important tools for strengthening the strategic role of internal audit. In this process, the impact of internal audit recommendations on financial indicators is assessed in advance - in particular, on indicators such as net profit, profitability, liquidity, asset turnover, cost dynamics. For this, a modeling approach consisting of several stages is used. At the first stage, the current financial situation is analyzed and the main weak points are identified. At the next stage, predictive (prognostic) scenarios are created for each of the measures recommended by the internal auditor (for example, reducing costs, optimizing inventory, replacing risky counterparties, strengthening control procedures). Based on these scenarios, changes in financial indicators are modeled. For example, reducing excess inventory in the warehouse based on an internal audit recommendation leads to a reduction in inventory costs by up to 10%, which increases the operating profit margin by 1.5-2%. Or, by accelerating the collection of overdue receivables based on the internal audit recommendation, cash flows will increase by up to 12%, which will positively affect the current liquidity of the enterprise. This modeling uses mathematical methods (for example, multi-step regression, "what if" scenarios, simulation analysis). The impact of each recommendation is assessed individually or in a complex manner, and a set of measures that will bring the highest financial benefit is developed.

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Financial strategies developed based on internal audit recommendations include reviewing the activities of profit centers, analyzing low-profit product lines, deepening market segmentation, and optimizing marketing strategies. In this process, profitability indicators, such as net profit margin, operating profit, and return on total assets (ROA), change in direct dependence on the internal audit conclusions. Internal audit conclusions not only assess the current situation, but also create the basis for forecast indicators for strategic financial planning. This, in turn, ensures the effective allocation of resources and the direction of investment flows to priority areas.

In conclusion, by strengthening the integral connection between internal audit findings and liquidity management, the enterprise not only ensures financial stability, but also effectively establishes resource allocation in operational activities. Based on the results of internal audit, financial managers not only eliminate existing problems by predicting cash needs, redistributing resources or searching for alternative sources of financing, but also increase the stability of the liquidity strategy. Therefore, the integration of internal audit and liquidity management should be considered an integral part of financial management in modern enterprises.

The effective implementation of risk-based internal audit directly contributes to the strengthening of the internal control system in the enterprise, increasing the reliability of financial information, strengthening investor confidence and sustainable growth of the enterprise's capital. Therefore, the development of risk-based internal audit should be considered a strategic priority for every business entity that aims to ensure financial stability.

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