Article

Features of Auditing Foreign Trade Operations and Risk Assessment Mechanisms

S.I. Khujamuradova[1]
Associate Professor, Department of Accounting and Taxation
Doctor of Philosophy (PhD) in Economic Sciences
Alfraganus University
Email: surayyoxujamuradova@gmail.com

Abstract: The article examines important aspects and risks in the audit of foreign trade operations. The political, territorial, temporal, and value aspects of export and import transactions are studied, and their impact on financial reporting is demonstrated. Proposals have been developed to improve the audit of foreign trade activities.

Keywords: Foreign trade operations, accounting, financial reporting, contract, risk, business transactions, audit inspection, settlements.

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1. Introduction

Against this background of a global economy, the participation of national firms in international trade/transactions is growing. In this exchange, the business relations emerging behind export and import divisions directly affect enterprise economic stability and its efficiency factor. Operations of this kind have some unique characteristics and their effective evaluation and auditing need a high professional standard.

In so doing, the following important aspects characteristic of foreign economic operations should be taken into consideration when analyzing and seeing through the organization of such an operation. These traits set foreign trade operations apart from other economic activities and are important for tax administration in general, especially with respect to the planning and performing of audits.

2. Results and Discussion

Political aspect.

3 pesos because of which the foreign economic activity will depend not only on internal politics, but also external in the person's home countries, acting like opposite party from other country and third parties. In the export-import contracts it is necessary to take into account all international conventions and legislation of the parties to the transaction. Legal bases and the problems of international political factors aside, the territorial (geographical) dimensions in foreign

trade transactions are also significant.

Territorial aspect.

With the buyer and the seller are in different countries, this implies that goods cross international borders, where customs regulation should be observed. Moreover, the territorial element is particularly relevant in services and works exportation/importation. As services and works are intangible, there is no way of identifying how they have physically crossed a border; customs authorities do not control transactions with services and works. In addition, spatial distance and logistical conditions influence the duration of transactions. Thus, the time dimension of a foreign trade agreements should be carefully examined as well.

Temporal aspect.

From the conclusion of all the material terms and conditions of a foreign trade contract to the delivery of goods, time may pass so long. Transaction Performance Problems: Not Just A Matter of Time The execution time of transactions is not only a question about time but it must also be carefully investigated in terms of the economic efficiency in operations, especially when dealing with their value aspect.

Value aspect.

Intentional businesses get one to work in complex economic situations linked with the emergence of transportation costs. For instance, transportation distances inside the CIS countries can be much longer than China-Uzbekistan route but transportation expenditures can be less. However, transportation tends to be relatively expensive for goods imported from overseas regardless of the distance. As a practical matter, transportation costs can represent as much as half of the contract value of imported merchandise and even more in some situations. The cost aspects are strongly related to the choice of currency in foreign trade contract settlements. So the process of Foreign Currency Settlements would also be seen an as important point to be covered.

Settlement procedure.

One of the unique characteristics of import contracts is that they fix contract price in foreign, not domestic, currency. When settlements between partners are in foreign currency, there are always exchange controls in export-import operations. This sets them apart from other domestic transactions in the national currency (Uzbek soum) on the territory of the Republic of Uzbekistan.

In addition to everything, these features give an additional complexity and risk of the foreign trade deals. It is, then, natural to identify and concentrate attention on the principal audit risks associated with these operations.

In the literature dealing with audit, different regimens are applied in the case of external economic activity as a subject to auditing. In particular, the audit of financial statements and additional financial data is regulated by Article 32 of the Law of the Republic of Uzbekistan "On Auditing Activity," which consists in verification carried out by the auditororganization for determining reliability and compliance with accounting law [1].

Export-import operations as objects of audit may be classified into the export-import of material assets (goods, machinery and so on) and intangible assets (the outcomes of activity, services). For the purposes of particularising the nature of each category, it is necessary to classify each type of operation in foreign trade, so as to establish specific audit planning objectives.

Additional dangers for enterprises in the conduct of export-import operations are a consequence of the lifting part of restrictions concerning foreign trade issues. Key risks The principal risk factors include:

Business risk, where unsuccessful performance of a material contract may give rise to liability for a large sum and thereby will deprive the business enterprise of anticipated profits essential for expansion. In some cases [it] even may result in bankruptcy, since one of the peculiarities of export-import transactions is the gap (as a rule it is quite durable) which separates negotiating, concluding and performance of contract.

Financial risk, which is the risk that an organization does not have adequate working capital or unwanted to meet its debts (both repayment and interest commitments) on time and in full.

Exchange rate risk The Fund is exposed to the risk of fluctuations in exchange rates when settling foreign trade contracts, particularly changes in the value of the national currency - Uzbek soum relative to foreign currencies. Currency depreciation may lead to negative exchange differences and financial loss.

The risk of inefficiency, or when the total expenses of the enterprise for performance of obligations under foreign trade contracts exceed revenues from resale of goods, and when the quality characteristics of purchased raw materials do not correspond to their intended processing purposes.

Materiality of error in accounting and reporting, because exportimport arrangements have peculiarities both with respect to their introduction. These add complexity and difference from other business dealings, which in turn increase the chance of either mistakes or frauds in accounting and reflecting.

All of the preceding risk factors increase the likelihood of a misstatement in financial reporting. Errors occur because we don't identify and neutralize these risks fast enough.

3. Conclusion and Recommendations

From the analysis above, it can be concluded that foreign trade operations have exerted a particularly large impact on the financial stability of enterprises and has played an exaggerated special role in enterprise accounting and settlement system. All these political, territorial, temporary, value and settlement features of such operations determine that the auditor need to be experienced as very well as have a lot of expertise.

The risks involved in import-export operations must be addressed such as, commercial risk, financial risk and currency risk and operational inefficiency and settlement risks need to be critically analyzed during audit exercise apart from being recorded in the books of accounts. Otherwise financial information will become untrustful and may lead to wrong strategic decisions in the enterprise direction.

The study led to the following recommendations:

- Establishing independent audit guidance after audit standards for external trade operations to harmonise the approach in auditing.
- Enhancement of qualifications of auditors in international auditing and external economic activity that will ensure the correct analysis of complicated operations.
- Carrying out the risk identification and assessment for foreign-invested enterprise's foreign trade business, in order to early forecast and reduce the risks.
- Foreign trade is accounted and reported separately in the financial statements for transparency and ease of audit.
- Broadening the use of insurance/hedging instruments for managing exchange rate risk in order to lower exposure to currency risks.
- The adoption of these recommendations will help to further develop the foreign trade transparency and efficacy, as well as the quality of audit.

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