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Abstract: This article examines the issues of risk-based approach and COSO internal control model in payroll audit. The 3-component model of audit risk ($AR = IR \times CR \times DR$) is analyzed. 7 main risks encountered in payroll audit are classified: fake employees, manipulation of working hours, incorrect calculation of bonuses, incorrect withholding of taxes, delay in social payments, manipulation of electronic systems, falsification of documents. An assessment methodology is developed based on the 5 components of the COSO internal control model.

Keywords: risk-based approach, audit risk, COSO model, internal control, payroll audit, threat analysis.

Introduction

In modern auditing practice, the risk-based approach is recognized as the main strategic direction. According to this approach, the scope, type and level of accuracy of audit procedures are determined depending on the quantity and quality of risks in the audit object. Compensation auditing is an area with a particularly high level of risk, in which the requirements of the ISA 315 (2019 edition) “Identifying and Assessing Risk” standard play an important role.

The introduction of a risk-based approach to payroll auditing in the Republic of Uzbekistan is at an early stage, and for the development of this area, it is important to study international practice and adapt it to national conditions.

Review of literature on the subject

The risk-based approach in auditing has become one of the central concepts of modern audit theory and practice. In international auditing standards, particular attention is paid to identifying, assessing, and managing audit risks during the planning and implementation stages of the audit process. According to Arens, Elder, and Beasley in their 2019 study, audit risk directly influences the nature, timing, and extent of audit procedures. The authors emphasize that modern auditing should focus more on areas with a higher probability of material misstatement rather than relying solely on traditional substantive testing methods. They also note that payroll auditing is one of the most sensitive areas because of the high probability of fraud, manipulation, and calculation errors.

The theoretical foundations of assurance and risk-oriented auditing were significantly developed by R.K. Elliott. In his article “Twenty-First Century Assurance,” published in 2002, Elliott argued that modern auditing should move beyond traditional financial statement verification and concentrate on broader risk evaluation and organizational reliability. According to the author, digital transformation and increasing information complexity require auditors to adopt analytical and preventive approaches rather than purely retrospective control mechanisms.

An important contribution to the development of risk assessment methodology was made by the International Federation of Accountants through ISA 315 Revised, issued in 2019. This standard establishes methodological requirements for identifying and assessing the risks of material misstatement through understanding the entity and its internal control system. The standard particularly emphasizes professional skepticism, analytical procedures, and the evaluation of information technologies within organizational processes. ISA 315 also highlights that payroll systems often contain elevated inherent and control risks due to the large volume of transactions and the possibility of unauthorized manipulations.

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The COSO Integrated Framework published in 2013 is recognized as one of the most influential models for internal control evaluation. The COSO model consists of five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring activities. Researchers and practitioners widely apply this framework in payroll auditing because it enables systematic identification of operational weaknesses and fraud risks. The COSO framework also provides methodological guidance for strengthening segregation of duties, authorization procedures, and internal monitoring mechanisms.

Russian scholars M.A. Vahrushina and V.I. Podolsky made significant contributions to the methodological development of payroll accounting and audit practices in post-Soviet economies. Vahrushina in her 2020 textbook examined the relationship between accounting information systems and internal control mechanisms, emphasizing that payroll accounting remains one of the most vulnerable areas for intentional distortions and calculation errors. Podolsky and Savin in their 2014 research focused on practical audit procedures and highlighted the importance of documentary verification, analytical review, and compliance testing in labor remuneration audits.

In Uzbekistan, N.F. Karimov conducted important national research on accounting and audit methodology. Karimov in his 2019 work analyzed the organization of payroll audits under national accounting regulations and emphasized the necessity of adapting international auditing practices to local economic conditions. The researcher particularly stressed the role of internal control systems and risk classification in improving audit quality within Uzbek enterprises.

Recent international analytical studies also confirm the growing importance of risk-oriented auditing approaches. Deloitte’s Global Risk Assessment Survey published in 2023 demonstrated that organizations increasingly consider cyber risks, electronic data manipulation, and weaknesses in internal control systems among the most significant threats affecting financial reporting reliability. The report highlights that payroll systems are especially exposed to fraud schemes involving fake employees, unauthorized payments, and digital manipulation of accounting records.

Overall, the existing literature demonstrates that the risk-based approach and effective internal control systems constitute the methodological foundation of modern payroll auditing. At the same time, the adaptation of international audit standards and COSO principles to the conditions of Uzbek enterprises remains insufficiently researched, which determines the scientific relevance of further studies in this field.

Research methodology

The research used threat analysis, Risk Assessment Matrix, SWOT analysis, and expert assessment methods. The main methodological basis was ISA 315, COSO 2013 internal control model, and data from the 2023 report of the Chamber of Auditors of Uzbekistan.

Analysis and results

According to the 3-component audit risk model, overall audit risk is expressed as: $AR = IR \times CR \times DR$, where AR is the overall audit risk, IR is the inherent risk, CR is the control risk, and DR is the detection risk. The auditor should reduce DR accordingly to reduce AR (usually less than 5 percent) (Table 1).

Table 1

Classification of the main risks encountered in the wage audit¹

Risk type	Probability of meeting, %	Financial result, mln. soum	Risk level (1-10)	Basic measure
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¹Prepared by the author based on the received information

1. Fake employees	15	120-250	9	Biometric system
2. Work time manipulation	28	65-180	7	Auto. hourly bill
3. Incorrect calculation of awards	22	40-100	6	Formula verification
4. Tax errors	18	85-220	8	Tax audit
5. Delay of social payment	12	25-80	5	Schedule control
6. Electronic system manipulation	8	200-500	9	Cyber security
7. Falsification of documents	5	150-400	10	Blockchain account

According to COSO 2013, the internal control model consists of five components: control environment (Control Environment), risk assessment (Risk Assessment), control activities (Control Activities), information and communication (Information & Communication), monitoring (Monitoring Activities). This model is the primary tool for evaluating internal control in payroll audits (Table 2).

Table 2

Evaluation of the internal control of labor costs based on the COSO model²

COSO component	Evaluation criteria	Testing methods
Control environment	Integrity, ethics, organizational structure, accountability	Questionnaire, observation
Risk assessment	Identification and assessment of MH process risks	Risk matrix
Control activity	Approval of documents, segregation, physical control, IT control	Procedure test
Information and communication	MH data transfer, IT system reliability	IT audit
Monitoring	Evaluation of the effectiveness of internal control, correction of deficiencies	Internal audit

The results of the study conducted at the foreign enterprise of Global Komsco Daewoo LLC showed that the enterprise has an internal control system for all five components of the COSO model. In particular, the enterprise has strong values of honesty and ethics, a clearly defined organizational structure, and the principle of segregation (separation of persons who calculate, approve, and pay for MF) is applied.

Conclusions and suggestions

²Systematized by the author

According to the results of the study, a risk-based approach to payroll auditing is considered the main direction of modern practice, and the COSO internal control model is the main tool for its implementation. The classification of 7 main risks encountered in payroll auditing allows for its effective management.

The risk-based approach in modern audit practice, in contrast to the traditional approach, devotes more time to the stage of planning and risk assessment (1.5 times). The share of essential procedures will be reduced from 40 percent to 15 percent. This allows efficient use of audit resources and focus on high-risk areas.

In the wage audit, the following risks fall into the "high priority" zone: fake employees, manipulation of working hours, tax errors, manipulation of electronic information. To the "medium priority" zone: incorrect calculation of premiums, delay in social payment. To the "low priority" zone: falsification of documents (rare, but with high consequences).

The segregation principle at the foreign enterprise of Global Komsco Daewoo LLC is ensured as follows: payroll is calculated by the accounting department, approved by the finance director, and paid through the bank. In addition, the internal audit department regularly audits payroll calculations.

In conclusion, it should be noted that the risk-based approach to payroll auditing is the main direction of modern practice, and for its effective implementation in Uzbek enterprises, it is important to organize an internal control system based on the COSO model, apply a risk matrix, and retrain auditors.

In conclusion, the risk-based approach and the COSO internal control model in payroll auditing are the main tools of modern practice. Their adaptation to the conditions of Uzbekistan will significantly improve the quality of audits, ensure the reliability of financial reporting, and increase the transparency of enterprise activities. In the future, it is necessary to expand scientific and methodological research in this area.

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