AUDIT OF DERIVATIVE FINANCIAL INSTRUMENTS IN ACCORDANCE WITH ISA

Turaev Abdurakhim Nortojievich
DSc, professor of TSEU
Mamadaliev Bekzodbek Abdusalomovich
Independent researcher

Annotation: *Guidelines for planning and performing audit procedures with respect to the statements on the basis of which the financial statements relating to derivative financial instruments are presented are provided by the Regulation on International Auditing Practices (IAPC) No. 1012 "Audit of derivative financial instruments". The nature of derivative financial instruments is becoming more complex,their use is becoming more common, and the requirements for accounting for these instruments with fair value and other information provided in the financial statements are unstable, most often the company's management underestimates the risks associated with the use of derivative financial instruments.*

Key words: *The standard defines "derivatives" as a general term used to refer to a wide range of financial instruments whose value "depends" or "is produced" by reference rates or prices (interest rates, exchange rates, share prices, and commodities).*

Guidelines for planning and performing audit procedures with respect to the statements on the basis of which the financial statements relating to derivative financial instruments are presented are provided by the Regulation on International Auditing Practices (IAPC) No. 1012 "Audit of derivative financial instruments". The nature of derivative financial instruments is becoming more complex,their use is becoming more common, and the requirements for accounting for these instruments with fair value and other information provided in the financial statements are unstable, most often the company's management underestimates the risks associated with the use of derivative financial instruments. The standard defines "derivatives" as a general term used to refer to a wide range of financial instruments whose value "depends" or "is produced" by reference rates or prices (interest rates, exchange rates, share prices, and commodities).The standard specifies the existence of linear and non-linear contracts. Linear contracts are defined as contracts that provide mandatory cash flows at a future date, and non-linear contracts are defined as contracts with options features, where one party acquires rights without acquiring obligations, and the other party delivers the underlying asset.

According to IAS 39 "Financial Instruments: Recognition and Measurement", a derivative has the following characteristics: − its value changes as a result of changes in the interest rate, the security exchange rate, the commodity price, the exchange rate, the price or rate index, the credit rating or credit index, or another variable (usually referred to as the "reference"). the acquisition requires a small initial investment compared to other contracts, the exchange rate of which reacts in a similar way to changes in market conditions − - it is calculated in the future. The most common linear contracts are forward contracts (currency contracts and forward delivery agreements), futures contracts (futures contract for the purchase of oil or electricity) and swaps. In the section of the standard "Responsibilities of management and those charged with governance", it is noted that those charged with governance are responsible for: − developing

and implementing an internal control system to monitor risks and exercise financial control; providing sufficient assurance that the entity's use of derivatives is within the scope of risk management and ensuring compliance with the requirements of the International Financial Reporting Standard. responses - for the integrity of the entity's accounting and financial reporting system in order to ensure the reliability of management financial statements on derivative activities. According to the section "Auditor's responsibilities", the auditor should clearly explain to the entity that the purpose of the audit work is to form an opinion on the financial statements. This section lists the types of specialized skills and knowledge that the auditor should have (operational characteristics and risks inherent in the industry in which the entity operates; derivatives used by the entity and their characteristics, etc.). The section "Business Knowledge" requires that the auditor has sufficient knowledge to identify and understand events financial statements , the progress of the audit, or the auditor's report. Such knowledge is necessary for the auditor to assess the inherent risk and risk of the control system, as well as to determine the nature, timing and scope of audit procedures. The section" Key financial risks " provides their classification. These include: market risks, credit risk, insolvency risk, and legal risk. In accordance with the section "Statements under review", the statements on the basis of which the financial statements have been prepared include those made by management, whether explicitly or implicitly, and contained in the financial statements prepared on the basis of the applicable conceptual framework. They can be categorized as follows: existence, rights and obligations, origination, completeness, valuation, measurement, presentation, and disclosure. The types and content of risks are discussed in the section "Risk assessment and internal control systems". It also highlights the role of internal audit and presents the areas of activity of the internal audit service (improving the overall review of the degree of use of derivatives, analyzing the compliance of methods and procedures with management compliance, analyzing the effectiveness of control procedures, etc.).The section describes the risks of, the monitoring system, provides the types of key issues to be evaluated after testing (whether transactions with counterparties were entered into carefully depending on the credit risk inherent in them; whether counterparties sent confirmations; whether the purpose of the derivative instrument was correctly approved, including its possible changes in the future, as in the case of hedging or speculation; whether operations were correctly reflected, as fully and accurately they were reflected in the accounting records with subsequent reflection in the auxiliary accounting book and final reflection In the section "Substantive procedures", it is emphasized that when determining the nature, timing and scope of audit procedures, the auditor needs to take into account the issue of materiality, as well as the need to apply analytical procedures. The section "Substantive procedures for assertions" provides information on the types of tests of substantive checks for assertions about the existence and occurrence of derivatives. According to the section "Obtaining additional understanding about hedging", the auditor should collect audit evidence that demonstrates management's compliance with the effective hedge accounting requirements in accordance with the applicable financial reporting framework (including recognition and documentation requirements), and that management has expectations that the hedge will be highly effective both before the transaction begins and continuously during the execution process. The "Management Statements" section requires the auditor to obtain appropriate statements from management, including written statements, on matters material to the financial statements, if it is assumed that sufficient and relevant audit evidence путем cannot be obtained otherwise. At the same time,the auditor should also receive statements и from persons directly involved in derivatives. In the section "Contacts with management and those responsible for management", the auditor notes that after obtaining an understanding of the entity's accounting and internal control systems (if necessary, control tests), the auditor should gain an understanding of the issues to be discussed with management and those responsible for management. The final section is called "Glossary of Terms". It contains more than 50 relevant terms.

Since PIAP No. 1012 "Audit of Derivative Financial Instruments" does not have a Russian counterpart, we recommend that you follow the Provisions on International Auditing Practice when conducting appropriate audit procedures.

Literature:

1. Code of Ethics of Professional Accountants and International Standards of Audit, 2001. Moscow: ICRSBU. 2002. 804 p.
2. Zharylgasova B. T., Suglobov A. E. Mezhdunarodnye standarty audita: uchebnoe posobie [International standards of audit: a textbook]. 2008. 400 p.
3. Suglobov A. E. Mezhdunarodnye standarty audita v regulirovanii auditorskoy deyatel'nosti [International standards of audit in the regulation of audit activity]. Moscow: Ekonomist, 2007, 256 p.