

IMPROVEMENT OF OVERDUE RECEIVABLES AND PAYABLES AND THEIR
AUDIT

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Abstract. The efficient management of overdue receivables and payables is critical for maintaining financial stability and operational continuity within organizations. This article explores strategies for improving the management of overdue accounts and presents an enhanced framework for their audit. By integrating contemporary digital tools and aligning with regulatory requirements, the study offers practical solutions for addressing key challenges associated with overdue accounts. The findings are expected to provide actionable insights for financial managers, auditors, and policymakers.

Keywords: Overdue Receivables, Overdue Payables, Financial Management, Audit Framework, Digital Technologies, Risk Management, Liquidity, Profitability.

INTRODUCTION.

Overdue receivables and payables present significant risks to financial stability and operational efficiency. Organizations frequently encounter challenges in managing overdue accounts, including strained liquidity, reduced profitability, and reputational damage. The absence of robust audit mechanisms further exacerbates these issues, leading to inefficiencies and heightened risks. This article seeks to address these concerns by proposing methods to enhance the management of overdue accounts and improve audit processes through the integration of modern technologies.

Literature Review

Overview of Receivables and Payables Management – Receivables and payables management refers to the practices and policies adopted by organizations to ensure timely collection from debtors and payment to creditors. Efficient management minimizes financial risks and enhances cash flow.

Causes of Overdue Receivables and Payables – The primary causes of overdue accounts include poor credit assessment, inefficient collection processes, economic downturns, and inadequate monitoring systems. Studies highlight that weak internal controls and misaligned policies often contribute to prolonged delays.

Consequences of Overdue Accounts – Overdue accounts negatively impact an organization's liquidity and profitability. Prolonged overdue receivables lead to bad debts, while delayed payables may result in penalties and damaged supplier relationships.

Role of Audit in Managing Overdue Accounts – Audits ensure transparency, accountability, and compliance with financial regulations. Advanced audit methodologies, supported by digital technologies, are increasingly being utilized to enhance the accuracy and reliability of financial reporting.

Technological Innovations in Auditing – Digital tools such as blockchain, artificial intelligence (AI), and data analytics offer transformative solutions for auditing. These technologies enable real-time monitoring, predictive analysis, and enhanced fraud detection, thereby improving the audit of overdue accounts.

Research methodology.

Research Design – a mixed-method approach was employed, combining qualitative and quantitative techniques to analyze the management and audit of overdue accounts.

Data Sources – Primary data was collected through surveys and interviews with financial managers and auditors. Secondary data was derived from financial reports, audit records, and academic literature.

Sampling – The study focused on mid-sized and large organizations across various industries, using stratified random sampling to ensure a representative dataset.

Data Analysis – Quantitative data was analyzed using statistical tools, while qualitative data was subjected to thematic analysis to identify key trends and insights.

Analysis and discussion of results.

An independent evaluation of financial information from an organization's accounts payable records is called an accounts payable audit. It looks at how AP transactions are being documented and whether it gives a true picture of how your company operates. The accounts payable department is frequently the primary target of audits. This is because failing to register end-of-term payables can easily boost a company's net income. Because of this, AP is frequently the only subject of audits, leading to various forms of theft. As a result, the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board's fraud risk assessment guidelines are a major component of accounts payable auditing techniques.

Comparing general ledger transactions to your general ledger's numbers is the fundamental method of auditing an accounts payable department.

You can verify if transactions for the fiscal year are included in your end-of-year financial statements by doing cutoff tests. An audit verifies that you have put in place an internal control system that accurately and promptly records everything.

An AP audit cannot be conducted in a standardized manner. Usually, the auditor makes the decision. A company's size, shape, and desired level of completeness are taken into consideration while selecting a method.

The implementation of GAAP regulations will vary by state. Some states allow public companies to push extra reports that don't need to follow GAAP standards or rules. Despite these differences, auditors are generally looking for the same things, which include:

- Completeness
- Accuracy
- Validity
- Compliance of records
- Proper disclosure

This confirms whether an organization's records present an accurate view of the business. The sole purpose of an audit is to establish an effective internal control system. This is typically done in four separate stages.

Before the audit takes place, you should gather all the necessary documents. The easier you make it on the auditor, the faster it goes. Consider the following to align with auditing standards:

- A detailed AP ledger
- Analysis of budgets compared to expense reports
- A review of internal controls
- Documentation of any unrecorded liabilities
- Overview of planned audit procedures
- A comprehensive risk assessment of accounts payable and expenses

- A summary of possible weak points in AP controls
- Documents on any fraud investigation

During an accounts payable audit, there are many objectives that an auditor is looking to meet. Here are some of the top goals:

Completeness – Auditing for completeness is typically the main objective in an AP audit and the most vital part of the process. The primary ways an auditor indicates whether documents have been adequately recorded and calculated are through:

- Cut-off tests
- Reconciliation
- Audit trails

A business must produce its year-end financial statements cut-off tests for cash payments and purchases of goods and services received by the end of the year. An auditor will then use an audit trail to match payments to recorded payables and look for any files with unmatched documents.

Validity – Auditors will also be looking at the validity of your accounts payable transactions and procurement process. An auditor will attempt to establish the legitimacy of a transaction by reaching out to suppliers and vendors for a confirmation request.

The number and type of vendors that receive these requests can vary depending on the type of business you run. Most auditors will contact regular suppliers and vendors, regardless of whether there is an outstanding balance or not.

It should also be noted that if an auditor discovers one or more open invoices for a vendor, they will reach out to a percentage of your business partners as well.

Compliance – All accounts payable transactions must be recorded in a specific way. When an auditor is looking at whether a business has followed general accounting principles and procedures, they're looking at compliance.

An audit usually starts from the back to the front. An auditor will begin with your year-end financial statements which can include documents like:

- Cash flow statements
- Income statements
- Balance sheets

An auditor can also choose random entries in your general ledger to trace back to their origin. Your company's audit trail allows an auditor to discover the exact path of a transaction. They can then evaluate whether the correct accounting procedures were used.

Disclosure – The final step to an AP audit is to ensure that all transactions and activity were properly disclosed. This means your payable balance must be recorded in your year-end financial statements.

An auditor will look for disclosure by inspecting things like current liability and cost of goods calculations. Unusual transactions may require footnotes to provide details for what can't be discerned from the simple recording.

As a final request, auditors may ask a business to disclose a mandatory management representation letter that attests that all financial statements fully represent the true accounts payable transactions and purchases.

A 2016 study by the Association of Certified Fraud Examiners found that organizations lose an average of 5% annual revenue every year due to fraud.

Accounts payable is highly vulnerable to theft and using software makes it easier to detect. An AP solution catches material misstatements, invoices that have been tampered with, and things like:

- Duplicate or photocopied invoices
- Invoices below the approved amounts
- Vendors or suppliers with PO boxes
- Invoices with rounded dollar amounts
- Documents with information missing

An electronic invoicing system is one of the quickest and most effective ways to deal with fraud because there is much less room for human error. Using AP software is like presenting a third set of eyes for your company's checks and balances. It neatly organizes critical information and immediately flags anything out of order. Additionally, automation will build an audit trail that cannot be misplaced, lost, stolen, or shredded. Smart software means your AP data is always in one, single spot. Completely protected. The more a business can digitize AP tasks, the less likely they are to be surprised by a negative audit. Automated procedures provide an extra level of security. It's an instant audit trail that makes it easier to search for documents and harder to fake them. There are a million reasons why a company should be interested in an accounts payable audit, whether it is internal or external. An accounts payable audit is an essential weapon against fraud and inaccuracy. An audit shouldn't scare you if you've done nothing wrong. It's an independent and systematic look into a company's AP records to ensure everything is being documented correctly. Even if there is a negative result, this should be taken as a learning experience on keeping tighter records and maintaining diligent fraud detection. An AP audit is more about risk assessment and is a process that should be appreciated.

Technology is the key to the future of accounts payable audits. Expectations will continue to rise, and laws will continue to alter. Governments will start to expect automation as more businesses and industries embrace it.

It's critical to get on board as soon as possible with the necessary preparation tools. Accounting procedures don't have to be feared anymore if you have a strong AP staff and the appropriate software.

The auditing process is made quicker, simpler, and less expensive by going digital. More significantly, it provides additional room for a company to plan for future activities and pursue a progressive strategy. The study underscores the importance of robust receivables and payables management practices and emphasizes the role of technology in transforming auditing processes.

Key recommendations include:

Adopting comprehensive credit policies.

Investing in digital tools for real-time monitoring and auditing.

Regularly updating internal controls and aligning them with regulatory requirements.

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