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DETERMINING THE LEVEL OF MATERIALITY OF AUDIT EVIDENCE

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ARTICLE INFO

ABSTRACT:

ARTICLE HISTORY:

Received: 14.09.2024

Revised: 15.09.2024

Accepted: 16.09.2024

KEYWORDS:

audit evidence, audit materiality, audit testing, users of financial accounts, quantitative error, significant error, non-significant error, investment property audit.

In the article, auditors may miss some errors in the examination of financial statements. Therefore, it is necessary to study both the qualitative and quantitative aspects of the error, and it is necessary to recognize the identified error as significant or insignificant. In the course of the audit, the auditor should determine the level of importance of the received information, and the issues of the quantitative error being considered both as a significant error and as an insignificant error depending on the nature of the transactions in the accounts.

INTRODUCTION

To improve the audit, it is necessary to deeply understand its content and essence. It is recommended that the auditor pay special attention to the possibility of distortion of relatively small amounts. Such distortions can accumulate and have a serious impact on the financial statements. Materiality should be studied not only at the level of financial statements, but also at the level of individual business transactions and disclosed information. Only a few scientists have conducted research in this area. Our domestic scientists R.D. Dustmurotov, A.K. Ibragimov, Z.T. Mamatov, B.A. Khasanov, N.F. Karimov and foreign scientists V.D. Andreev, A. Arens, D.J. Lobbek, A.D. Sheremet have also considered and expressed their views on improving the audit, changing the materiality and audit risk indicators at various stages of the audit. Materiality is a necessary concept in performing assurance engagements. Misstatements, including omissions, are considered material if, individually or collectively, they could influence the decisions of intended users taken on the basis of the subject matter information. The determination of materiality depends on the practitioner's professional judgment and the practitioner's understanding of the information needs of intended users.

It is important for the client and the intended users (if different) to understand that any assurance engagement involves inherent risk. Engagement risk is the risk that the practitioner will express an incorrect opinion when the subject matter information is misrepresented. Reducing engagement risk to zero is rarely possible or may be costly, so reasonable assurance is less than absolute assurance due to the following factors:

- use of random sampling;
- limitations inherent in the internal control system;
- most of the evidence available to the practitioner is persuasive, not irrefutable;
- use of professional judgment in gathering and evaluating evidence and forming conclusions based on such evidence.

MATERIAL AND METHOD

The use of the range method provides greater flexibility in the decisions being made. If the error is located at the lower and upper limits of the materiality threshold, for example, 1 - 2% of the balance sheet currency (total), then the auditor should increase the number of audit procedures performed to ensure that a well-founded decision is made. However, the question of how to present the results obtained becomes abstract. Therefore, in our opinion, the use of the range method in auditing is not very appropriate.

Induktiv uslubga muvofiq dastlab tekshirilayotgan buxgalteriya balansining ahamiyatli deb hisoblangan moddalari bo'yicha muhimlik darajalari aniqlanib, so'ngra olingan muhimlik ko'rsatkichlarini umumlashtirish yo'li bilan moliyaviy hisobotning umumiy muhimlik darajasi aniqlanadi.

In the inductive approach to assessing the accounting and internal control system of an entity, before summing up the materiality indicators determined for the items considered to be the most significant, they are adjusted in proportion to the previously assessed risk of non-detection for these items. For example, the balances of accounts included in these items, the turnover of these accounts, and groups of similar business transactions.

The use of the deductive method involves determining the overall materiality level for financial statements. Then this indicator is distributed between the items of the financial statements that are considered significant and the significant accounts of the accounting. We present a description of the methods for determining the materiality level using the deductive method in auditing in Uzbekistan and developed foreign countries in Table 1.

Methods for calculating significance levels using the deductive method

Methods	Methods List of key indicators	Importance criterion	Selection of the importance level value
According to the AQS "Materiality and Audit Risk"	Net sales revenue. Net profit. Balance sheet currency. Equity. Cost of sales	Dotted	Arithmetic mean.

Calculating the importance level for 10 key indicators	Long-term assets. Equity. Current assets. Accounts receivable. Accounts payable. Loans and advances. Net sales proceeds. Current expenses. Other income. Other expenses	Interval	Arithmetic mean
Choose the smallest indicator	It can be anything.	Dotted	The smallest value of importance
The method of increasing the indicator step by step (used in large Western companies)	The largest indicator of the balance sheet currency. Net sales revenue.		An exponent raised to the power of 2/3 and multiplied by a coefficient

RESULTS AND DISCUSSION

When an auditor identifies an error, he or she should first assess its qualitative aspect, and then its quantitative aspect. The figures in the financial statements and some of the information in their annexes may be incorrect. However, one should not conclude that the financial statements are incorrect in general.

Errors may include:

- errors in calculations;
- errors in individual indicators (useful life of tangible assets, bad debts).

The auditor may omit errors in the financial statements in the following cases:

- if the errors are very small and do not affect the decisions of users of the financial statements;
- if a significant amount of expense is required to correct those small errors;
- if the time required to correct those small errors would extend the period for issuing the financial statements.

During the audit, the auditor must check the materiality of the information received. In this case, both the qualitative and quantitative aspects of the error should be studied. Any violation and error may be qualitative in nature, but quantitative or not. For example, the use of incorrect correspondence can reduce or increase turnover. In one case or another, the detected error can be recognized as material or immaterial (Figure 1).

Determining the significance of audit evidence

Identified violations

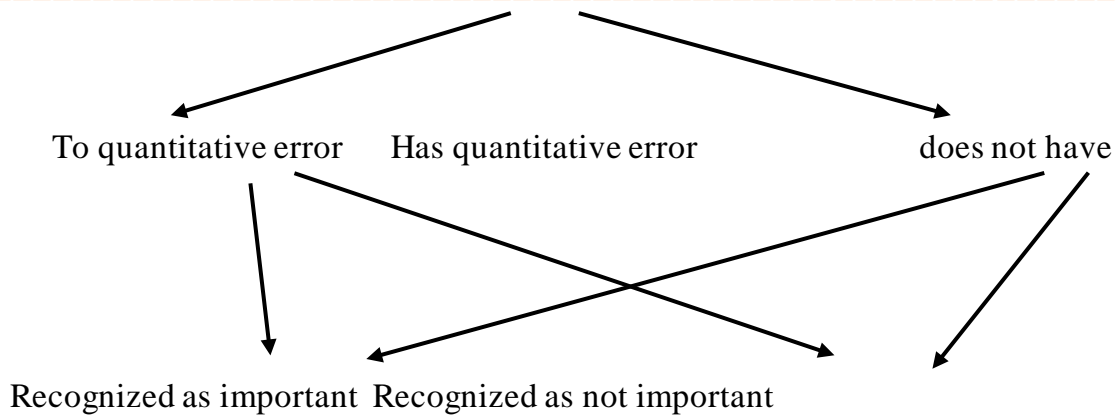


Figure 1. Determining the significance of audit evidence

The process of recognizing material errors is difficult to quantify and is usually dependent on the subjective judgment of the auditor.

On the other hand, a quantitative error can be considered both a material error and an immaterial error, depending on the nature of the transactions in the accounts. The classification of errors detected by auditors is given in the standard entitled <<Auditor's Action When Mistakes Are Detected in Financial Statements>>. According to the standard, both intended and unintended errors can be assessed as material or immaterial errors.

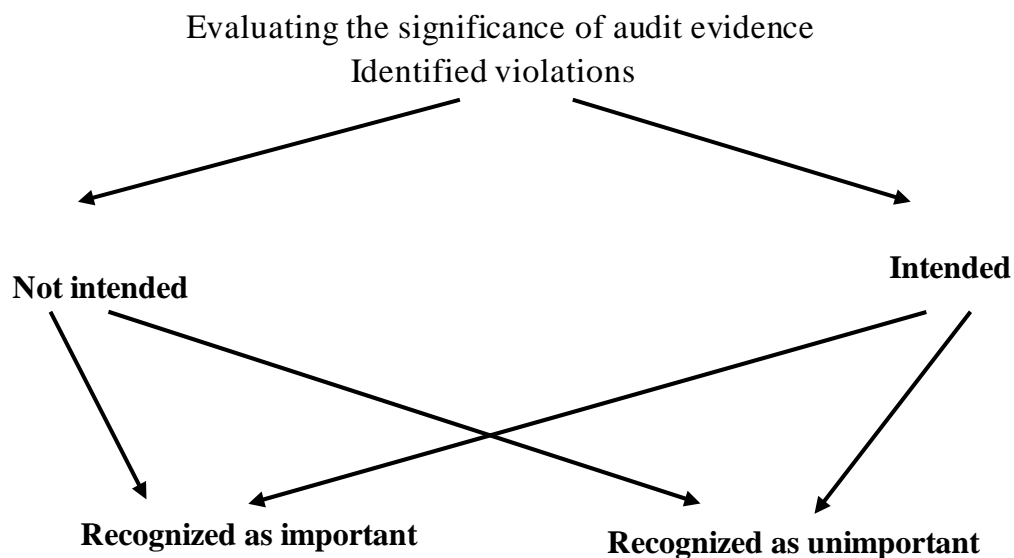
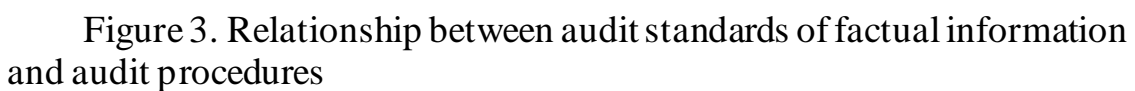


Figure 2. Evaluating the significance of audit evidence

The significance of any error also depends on previous errors. In short, one error leads to another.

The above measures are extremely relevant for the effective use of investment property objects in enterprises, their accounting and control based on market requirements. Auditing standards determine all aspects of audit audits. In particular, auditing standards play an

important role in the process of collecting evidence during an audit and presenting it as evidence when drawing up a conclusion. The standard also addresses situations where materiality and audit risk indicators may change at different stages of the audit. Such situations may arise as a result of the auditor obtaining additional information as a result of audit investigations and as a result of unforeseen circumstances during the audit process. Therefore, when planning audit investigations, the auditor is advised to set the acceptable materiality level deliberately lower than the materiality level intended to be used to evaluate the audit results. Because this measure reduces the likelihood of misstatements going undetected and provides a certain level of assurance when assessing the consequences of misstatements identified during the audit.



In order to effectively organize an investment property audit, it is necessary to pay special attention to the collection of evidence. Audit evidence is of particular importance in the examination. After all, American economists say that evidence will later help auditors determine audit procedures [4. 175].

Evidence collection is closely related to audit procedures. Currently, their interrelationships are not used in national audit organizations for the quality of the audit. Evidence serves to determine the actual information available in the audit and the audit procedure. This process is shown in Figure 3.

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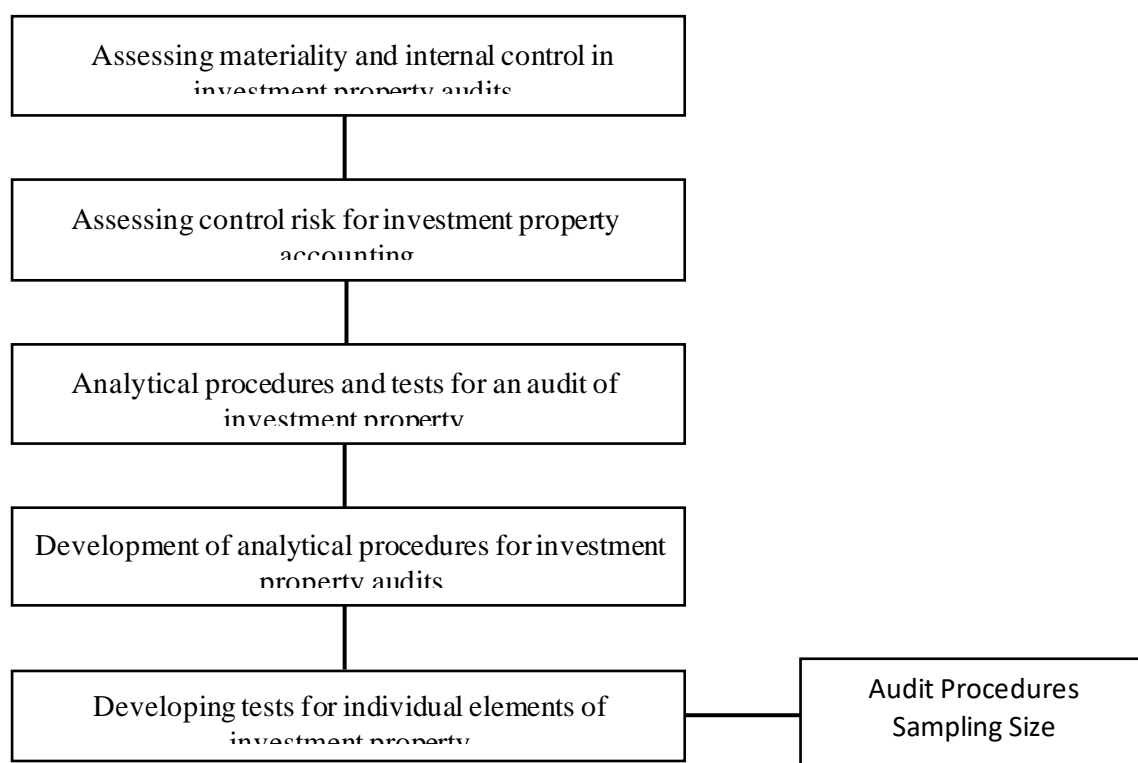


Figure 4. Development of investment property audit tests.

It is known in international practice that the use of the testing method in conducting audit audits gives a positive effect. It is also advisable to apply the testing method in the

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audit of investment property. In our opinion, the testing process in the audit of investment property should be organized as follows (Figure 4). As can be seen from the diagram above, testing procedures in an audit allow for the entire scope of the audit: assessing the level of materiality and the internal control system, determining the level of risk, and determining the audit procedures and the size of the sample population used in the audit.

In general, testing is a highly effective method for auditing investment properties. In our opinion, it not only allows us to assess the reliability of the internal control system, but also allows us to make adjustments to the audit program.

CONCLUSION

In conclusion, we can say that in the “International Standards on Auditing and Quality Control” the issue of materiality is presented in two directions, more precisely in two sections of the ISA:

- Materiality in the process of planning and performing the audit in ISA 320-“Materiality in Planning and Performing the Audit”;

- In determining and evaluating the materiality levels of identified misstatements in financial statements in ISA 450-“Evaluating Misstatements Identified in the Process of Conducting an Audit”.450 The purpose of the ISA, “Evaluating Misstatements Identified during an Audit,” is to explain how to apply the materiality criterion in assessing: a) the impact of identified misstatements on the audit; and b) the impact of identified misstatements (if any) on the financial statements.

ISA 320 notes that, because of the dual nature of quantitative and qualitative factors, it is not possible to establish a single, consistent quantitative criterion for determining materiality. However, it is necessary to consider both the magnitude (quantity) and the quality (description) of misstatements. 2. An example of a qualitative misstatement is an accounting policy that is not sufficiently qualified and qualitatively designed. Financial statements prepared on the basis of such accounting policies can lead to confusion for users of information.

The auditor is advised to pay special attention to the possibility of misstatements of relatively small amounts. Such misstatements can accumulate and have a significant impact on the financial statements. Materiality should be considered not only at the financial statement level, but also at the level of individual business transactions and disclosures.

List of used literature

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