

SIGNIFICANCE DEPENDS ON THE AUDIT RISK, THE AUDIT PRACTICES, AND THE SCOPE OF THE SELECTION

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Annotation:

This article discusses aspects of the level of materiality related to audit risk, audit practices, and scope of selection. As a result of the research, the level of materiality of the audit risk, the audit practices are scientifically substantiated.

Keywords: audit, auditing activities, importance, international auditing standards, auditing practices.

The auditor should take into account the facts that lead to significant confusion in the financial statements when planning the audit. It decides which materiality to accept and which items of the financial statements to study carefully based on the analysis of balances in the accounts and cash flow, and in which cases to reduce the overall audit risk to an acceptable level using audit selection methods and analytical procedures. should.

It should be noted that there is an inverse relationship between the level of materiality chosen by the auditor and the audit risk. This inverse relationship should be taken into account in determining the scope and timing of audits. Hence, if the auditor finds it necessary to reduce the level of materiality, his audit risk (risk-taking risk) will increase, and vice versa (Lamers & Khamzina, 2010; Lima & Moreira, 2014; Sharma & Dyer, 2009; Vladimirovna Zhidkoblinova, 2013; W. Anderson, 1954).

If the auditor decides to use a lower level of materiality during the audit, then he or she should strengthen measures to reduce the audit risk. To do this, it must identify the risk of controls and the risk of uncertainty as follows:

- a) reduce the risk of controls (if possible). This requires additional testing of the controls during the inspection;
- b) reduce the risk of uncertainty, (if possible). To do this, the auditor must:
 - Modification of existing audit procedures, increasing their number and changing their content (reshaping, modification);
 - increase the time spent on inspections;
 - Increasing the volume of audit selection.

It should be borne in mind that the internal economic risk indicator does not change and may change only if the facts that were not taken into account during the preparation of the overall audit plan, but are actually identified during the audit.

Assessing materiality and risk is one of the most important steps in an audit. Its competent implementation not only creates a quality audit report and conclusion, but also lays the foundation for the sustainable development of the client organization, as well as the audit organization. If the audit is successful and the tax authorities do not object to the client, the audit organization will not only receive income, but also increase its reputation. As a result, an audit firm can retain its clients and gain new ones, as well as achieve a high rating in the audit services market.

The purposes for which accounting information is used determine the optimal level of information risk in all important aspects of that information. During audits, the question of whether or not to include certain items in the audit report often arises and is considered very carefully. The general rule is that the significance of the identified deficiencies should be assessed in terms of the reliability of the financial statements in general.

- this information is important if the availability of error information is able to influence the subsequent decisions of qualified users;

- this error is significant if the error confuses qualified users, and then the decisions they make based on this information are not similar.

The auditor should make a final decision on whether to continue the audit or whether it may accept the deficiencies identified in the accounting report. The optimal level of information risk depends on:

a) market audits of the type of audit or other forms of control, the services of auditors on agreed measures, etc .;

b) the interests of key users of the audit opinion.

In order to reduce the speed (number) of audits in any audit of an enterprise (ie its audit), the risk of making a significant error should be considered too low or the risk of not preventing or noticing significant errors in internal control should be considered low. In the absence of such an assessment, auditors are overworked in areas where there is a high risk of error.

Therefore, when planning an audit, it is necessary to use all the knowledge of the following: the characteristics of the business, its areas of internal control, the state of accounting, the types of errors that are more likely to occur and may affect the accuracy of accounting records. At the same time, the experience of previous years is of great importance for the audit firm. For example, in a company where the staffing and accounting system has not changed over the years, records are well maintained, and there are few problems with the audit, the level of risk is low (Affairs & 2004, n.d.; Kenebayeva, 2017; Oliver, 2013; Sivanenthira, International, & 2014, n.d.).

The audit risk assessment is performed during the analytical audit performed during the preparatory phase of the audit. The analytical audit determines the scope and timing of work, the status of accounting, the effectiveness of internal control, the upper limit of audit risk.

Based on all this, the value of the audit is determined; then the adjustment of the risk factor must also be taken into account. Analytical review begins with the conversion of an enterprise's balance sheet into an analytical balance sheet. To do this, all regulatory items are eliminated and the net worth of the enterprise property and debt obligations are removed. This allows you to calculate the actual amount of private funds involved in the formation of the property of the enterprise.

The interdependence of significance and risk levels can also be determined by the following three main levels of importance:

The first level includes errors, the sum of which is very small and insignificant in content, and this information has no effect on the user's decision-making. For example, the customer misapplied depreciation rates in the calculation of depreciation, resulting in an increase in the cost of the product and a decrease in profit. The auditor identified this error and determined its value. However, this amount is so small compared to other indicators of the

report that it did not affect the auditor's final opinion, which may also reduce the level of risk that the auditor has set for himself.

The second level includes significant errors in the report that affect the user's decision making. In this case, the external report is generally objective and useful. However, the prevalence of such errors may exceed the overall level of error by the level of risk set by the auditor and lead to a decrease in confidence in the auditor.

The third level includes errors in accounting and financial reporting that cast doubt on the overall accuracy and objectivity of all information in the report. Users of the report may make a completely wrong decision by relying on such erroneous information. The auditor analyzes the extent of the effect of the error on other indicators of the report, assessing whether the error actually applies to the third level of materiality. For example, a product sold in excess of a specified amount has a significant effect on the financial statements, such as the balance of finished goods, accounts receivable, operating income, and income tax arrears, ie, assets, liabilities, and shareholders' equity in general. Such errors can also be intentional in order to better reflect the client's financial condition. In such cases, the auditor may determine the third level of materiality and, in its conclusion, express a negative opinion about the state of the account and the report.

When planning an audit, the auditor should identify the factors that cause a material misstatement in the accounting. In doing so, the auditor should examine which of the balances and cash flows on the accounts, examine which items of the report, and in which cases the auditor selects and applies analytical procedures.

The relationship between materiality and audit choice can generally be determined by a criterion set by the AICPA (American Institute of Sworn Accountants). Table 4 below recommends the degree to which the sample size depends on the permissible deviation criteria set by the auditor. Determining the permissible level of deviation is the result of an assessment of the level of materiality, and the following conditional criteria are used to determine it:

1. Substances with very significant residue - 4%
2. Substances with significant residue - 5%
3. Substances with insignificant residue - 6%.

Table 1. Determining the size of the sample

The norm of differentiation	Permissible norm of differentiation, %										
	2	3	4	5	6	7	8	9	10	11	12
0,00	149	99	74	59	49	42	36	32	29	19	14
0,25	236	157	117	93	78	66	58	51	46	30	22
0,50	*	157	117	93	78	66	58	51	46	30	22
0,75	*	208	117	93	78	66	58	51	46	30	22
1,00	*	*	156	93	78	66	58	51	46	30	22

* In such circumstances, the choice is inappropriate.

Determining the exact procedure for determining materiality is decided by each audit firm independently. If we look at Table 4, if the allowable difference is 2%, then the sample size will be 149 documents.

The lower the level of materiality, the larger the scope of the audit selection and, accordingly, the larger the volume of audit activities. Significance depends on the size of the audit. If we set strict criteria for materiality, then the diligence and value of the audit will increase, and vice versa.

It is not recommended that the auditor apply a very low or very high level of materiality. In the first case, verification requires a lot of time and effort. Such an inspection can be costly and time consuming. In the case of a very high level of materiality, low audit procedures may be applied and the risk of non-compliance (safety risk) may be high.

Therefore, western audit firms follow a semi-empirical path to select the closest or optimal option.

The audit is always in sync with the risk. The auditor needs to understand what the risk ends with, its nature, its components, its maximum limits.

- There is an inverse relationship between audit risk and audit importance:
- the audit risk is low when there is a more significant level of significance;
 - the audit risk is high when the materiality level is not very strict.

In general, the relationship between audit risk, audit practices, and levels of materiality can be summarized in the following table:

Table 2

The relationship between audit risk, audit practices, and levels of materiality

Indicator	Lower limit	The upper limit
Significance level	1-2%	10-15%
The volume of audit work required	A lot	Kam
Inviolable risk	Past	High
Audit risk	Past	High
Significance levels	A more rigorous level of importance	A less rigid level of importance

Correctly linking audit risk, audit practices, and levels of materiality will help improve the quality of audit work.

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