

## THE IMPORTANT ROLE OF AUDIT EVIDENCE IN AN AUDIT

EGAMBERDIYEVA SALIMA RAYIMOVNA

Faculty of Economics Associate Professor of "Accounting in production"  
Karshi Engineering and Economics Institute, Uzbekistan.

KHAMRAYEVA ZILOLA KHAMRO KIZI

3rd year of Student of Accounting and Audit,  
Karshi Engineering and Economics Institute, Uzbekistan.

SAMADOV ORTIQ ABDUALIM UGLI

3rd year Student of Finance,  
Karshi Engineering and Economics Institute, Uzbekistan.

### ABSTRACT

As you know, it is the responsibility of auditors to provide an opinion on the financial statements of any business entity. The reliability of the conclusion, in turn, depends on the auditor's high level of personal and professional knowledge and the validity of the evidence gathered. Not only property owners, but also investors and creditors are interested in the impartial opinion of the auditors on the financial statements of the business entity. Banks even use them to buy and sell shares, to make decisions about lending and lending. This article also discusses the important aspects of audit evidence in auditing companies. Sequences and problematic situations in the collection of audit evidence have also been studied in detail.

**KEYWORDS:** Auditor, audit, audit evidence, evidence collection sequence, evidence collection sources, reliability and validity of evidence, types of audit evidence, problematic situations in the audit.

### INTRODUCTION

As in all socio-economic spheres, a number of positive steps have been taken in recent years to form and develop auditing.. In particular, over the past years, the country has formed a regulatory and methodological framework for auditing. Also, as a result of the creation of a simplified and indefinite system of licensing of these activities, some barriers to the entry of local audit firms into the international cuisine of large audit companies have been removed. [1] In general, auditing is a form of business activity. The role of auditing in the development of enterprises is invaluable. The reason is that only an audit report can assess the level of performance of enterprises. However, it should be noted that the reliability and validity of an audit opinion also depends on how and when the audit evidence is collected. Before going into the details of the audit evidence, it should be noted that the requirements for the quantity and quality of audit evidence, as well as the actions taken to obtain them, are set out in № 50 - NAS (National Auditing Standard) "Audit Evidence". year It is mandatory for all audit firms to apply the requirements of this standard when conducting audits. According to this standard, audit evidence is information collected by audit firms during the audit and substantiates the audit opinion. [ 2]

### MAIN PART

As for the documents required for the collection of audit evidence, they are the basis for the financial statements, the initial documents and accounting records of the enterprise, as well as documents that serve the reliability of such evidence. We believe that audit evidence is reliable when it is sufficient and consistent with each other. The auditor should gather sufficient audit evidence to justify the financial statements by performing the following steps:

- ✚ detailed verification of the correctness of the turnover and balances on the accounts in the financial statements;
- ✚ analytical activities;
- ✚ inspection of internal control means;

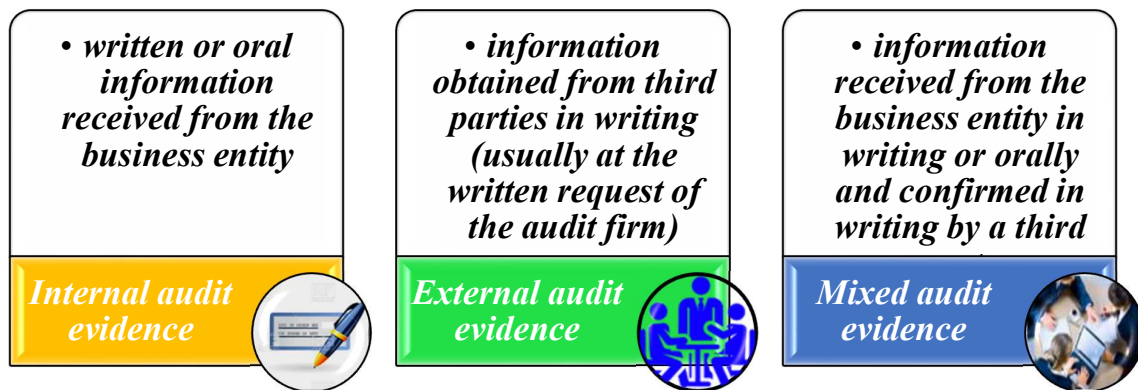
In this case, if we explain the concept of evidence, the evidence is the basis for confirming or denying the existence of another fact, or the fact about a certain fact, which allows to form an opinion about this fact with some degree of certainty. The process of obtaining data is understood. Information is a collection of facts about a business. It is true that every auditor uses an analytical process to conduct an audit. The analysis is the auditor's observation of the facts in the client's financial statements and the formation of his own opinion. Obviously, the main purpose of audits is the auditor's independent opinion on the reliability of the financial statements of business entities. To do this, the auditor needs to gather evidence that allows a reasonable and clear opinion as to the reliability of the report or the denial of its reliability. Reliability is the ability of these financial reporting data to be used by qualified users to draw accurate conclusions about the performance of business entities and to make decisions based on these findings. More specifically, the evidence gathered by the auditor indicates how reliable and accurate the evidence is. The question is, what determines the reliability of the evidence? The reliability of the evidence obtained during the audit depends on factors such as independence and resource competence, and the effectiveness of the internal control system. It should also be noted that if the auditor has collected the evidence independently, then its reliability is far superior to the evidence it receives from the audited entity. Only when all the evidence gathered is sufficient can it be credible. The adequacy of the evidence is often determined by its quantity and quality. The auditor can only conclude on the adequacy of the evidence that mitigates audit risk based on an assessment of the internal control system and the extent of the audit risk. The more reliable the internal control system and the lower the audit risk, the less evidence the auditor is required to gather.

In determining the adequacy of the evidence, the auditor is also required to consider the following: whether the evidence obtained from independent sources (third parties) is more reliable than the evidence obtained from the client's employees; that the information obtained as a result of an independent audit or analysis of the audit organization is more reliable than the information obtained from third parties; that audit evidence in the form of documents and written instructions is more reliable than oral instructions. In general, the auditor should consider the possibility of comparing conclusions drawn from the use of evidence from a variety of sources. The amount of information required for an audit assessment in accordance with applicable standards is not strictly limited. Therefore, the auditor may, based on his or her professional judgment, make an independent decision as to the amount of information required to reach an opinion on the reliability of the entity's financial statements. However, the timely collection of audit evidence is also important. That is, information and evidence that is not collected in a timely manner can become obsolete and useless over time. The timeliness of each auditor's judgment indicates that the evidence relates directly to the period under review or to certain serious events that occurred after the client-entity's report was prepared but before the auditor's report was issued. The closer the evidence is to the timing of the report being examined, the more accurate and credible it will be. It should also be noted that, in accordance with the principle of prevention rather than correction of the patient, if the evidence of errors and inaccuracies is submitted to the administration of the client before the submission of the audit report to the tax authority, then in accounting it is possible to make the necessary adjustments to the reports. This can prevent the company from overspending. However, if an audit is conducted after the report has been submitted to the tax authority, it is not possible to make a correction, but errors and omissions identified in the current period can be corrected in a timely manner.

In general, the basis of audits is the search for audit evidence. That is, to summarize the data in order to form the reliability of the financial statements (or unreliability), the compliance of financial transactions with the established rules and regulations of accounting, as well as the auditor's personal opinion to form an audit opinion and involves evaluation. [3]

We think it is important to take this into account. In particular, the evidence gathered in the course of an audit is diverse and categorized according to its type, variety, source, and method of obtaining. Accordingly, the type of evidence is also divided into 2 types: oral and written. It is known that written evidence (documents and written explanations) can be much more reliable than oral evidence. In particular, the evidence obtained from the auditor's direct observation and study of financial transactions is the most reliable. Audit evidence in the process of reviewing documents; by conducting written and oral interviews with employees of the business entity and third parties; may be obtained during the auditor's direct

observation of the execution of accounting procedures and business activities. Audit evidence can be divided into internal, external and mixed evidence, depending on the source.



Evidence from independent sources is also considered reliable. However, in some cases, the evidence gathered from different sources in the same case may be contradictory. In this case, the auditor will need to gather additional information to resolve the conflict and to ensure the reliability of the evidence gathered and the validity of the conclusions. If the auditor is not able to gather sufficient evidence on a problem, he or she should report it in his or her report. Provides detailed information on the problem that caused the difficulty in drawing conclusions. If the client does not provide the auditor with the required amount of documentation for a full audit, or if the auditor is unable to gather the necessary audit evidence, the auditor has the right to refuse to conduct the audit. This is because a conclusion made on the basis of arbitrary and insufficient evidence can lead to serious problems.

№50 NAS “Audit Evidence” states: If the business entity is not provided with the full set of documents by the business entity and it is able to collect sufficient audit evidence on any account and (or) transaction Otherwise, the audit firm should reflect the situation in its report and may raise the issue of drawing up a negative audit opinion. [2.1]

This means that if a company really wants to know how its business is doing and if there are any shortcomings, and if it really wants to address them and improve, then it will try to gather enough evidence for the auditor. The reason is that the company will receive a negative conclusion from the audit due to insufficient evidence. This means that it leads to more costs and inspections. Admittedly, there are many shortcomings in conducting an audit. For example, it is up to the company to choose the organization to conduct the audit. Isn't that a way to get to know each other? Also, when conducting an audit, when will the company be inspected and in which department or subdivision will it be announced in advance? Doesn't the fact that it was announced mean that the real evidence will disappear? That's right- this is not about me. But you can't do that without rice. After all, the essence of an audit is not to punish or extort money. The essence, on the contrary, is to contribute to the prosperity of the enterprise, to analyze its internal capabilities, to explain and draw conclusions on how to eliminate mistakes and shortcomings. As you know, theory is a little different from practice. However, having theoretical knowledge means understanding the essence of what is being done. Accordingly, there may be a discrepancy between practice and theory in the sequence in which audit evidence is collected. However, given that the theory is also known after it has been put into practice, the sequence of evidence collection can be summarized as follows:

- First of all, formulate the purpose of gathering audit evidence. This is because the fact that the contract relates to the overall audit plan and audit program makes it much easier to gather evidence.
- Selected audit procedures №3- NAS “Audit Planning”—should be specified in the audit program by the appropriate auditor. In this case, which of the audit procedures (test of control instruments or in essence) inspections) and to determine in which areas it is appropriate to apply necessary.
- Essentially to have sufficient and convincing evidence audit and analytical procedures are used. Auditor used to examine certain sections of the account and report detailed description of their actions should be included in the program. It describes the content of the actions to be taken to verify certain transactions, or pre-designed approximate lists can be used.

➤ Methods of obtaining audit evidence (recalculation, inventory, compliance with the rules of accounting for business transactions, approval,—oral questioning, document review, tracking, analytical activities) in the standard listed. In gathering evidence, the auditor determines: what methods to use in a particular situation; the sequence in which the audit should be performed against which entities (assets, liabilities, liabilities, entities, etc.) should be treated. The sufficiency and reliability of the evidence obtained by the auditor is ensured through the coordination of various actions, methods and sources of evidence.

➤ Collection of information for audits. To do this, the necessary list (template) of normative-questionnaire and reporting data for each section of the audit program is created. The list of normative-questionnaire data is formed as a basis. The auditor determines this list in relation to the audited entity. Employees involved in the audit should be familiar with the contents of the documents on this list. Before starting the audit, it is necessary to compile a list of accounting information - documents and registers that will be required from the client-enterprise. At this stage, the auditor is identified when planning the audit depending on the size of the selection. The statement may be voluntary, depending on the situation, or it may be made by filling out specially designed working paper forms.

➤ Achieving the purpose of an audit by evaluating the evidence gathered—and defining its role in determining reliability. In evaluating the evidence, it is necessary to determine: the independence of the source, the fact that the obtained facts and other information can be used as evidence (ie, it is not against the law); the relevance of this evidence to the object under investigation; selection volume and methodology. In short, the auditor needs to ensure that there are no material misstatements in the financial statements.

## CONCLUSION

In conclusion, the importance of audit evidence plays a significant role in any business, whether it is a public organization or a private audit. The reliability of an audit opinion often depends on the same evidence. The clearer and more consistent the evidence, the greater the auditor's ability to work, as well as his or her ability to draw positive conclusions. The inadequacy or concealment of evidence is the fault not only of the auditor but also of the entity. However, it should not be overlooked that the effectiveness of audits depends to some extent on the skill with which the methods used to gather audit evidence are used. As the saying goes, if both sides work for the same positive goal, we think that a positive result will be achieved.

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