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REQUIREMENTS FOR DETERMINING THE LEVEL OF MATERIALITY IN THE AUDIT

Author: Tolqinov Dilshodkhoja Olim Ogli
Affiliation: Master of TDIU MUA-10 group

Annotation:
This article addresses the requirements for determining the level of materiality in an audit. As a result of the research, the determination of the level of materiality in the audit has been scientifically substantiated.
Keywords: audit, auditing activities, importance, international auditing standards.

Introduction

At the stage of auditing the accounting and internal control system, the auditor always faces the same problem, namely, how to estimate the audit risk and how to minimize it(Baxtishodovich, Suyunovich, News, & 2017, n.d.; Blanchard & Flint, 2017; Zhipeng, Society, & 2001, n.d.).

Auditors work in an effort to obtain information that convinces them that there are no errors in the reports or that there is even a minor error, and that reflects the real picture of the client's financial and economic performance. Auditing requires the independence of the auditor in justifying and making decisions. When examining the company's reports, it evaluates the errors identified in them: these errors are divided into significant and insignificant types according to their nature and content.

The second article of the Law of the Republic of Uzbekistan "On auditing" states that auditing is "... entrepreneurial activity ..." (Article 2). This means that this activity is carried out on the basis of an agreement between the audit organization and the client-enterprise. In performing its contractual obligations, the audit organization may not, in practice, fully cover the objects of the audit. As a result, the financial statements confirm them with a certain degree of risk, without being able to guarantee that they are absolutely accurate. Therefore, there is always a certain degree of risk in the auditor's work. Clearly, the opinion expressed in the auditor's report may not always be absolutely correct. However, almost always the information should be useful to users. Ensuring such utility is associated with a certain level of importance and risk and requires their proper assessment(Li, Qian, Howard, & Wu, 2015).

The concept of materiality is defined differently in audit sources (scientific papers, textbooks, standards, etc.) based on a common ground. For example, Professor M. M. According to Tulakhodjaeva, "errors and omissions in the report, which can confuse users in decision-making, resulting in wasteful financial costs, losses and damages, are serious, significant (material)." In general audit practice, the boundaries of materiality are defined as follows:

$0 < J < 1$ (or as a percentage $0 < J\% < 100$)

The probability within this threshold represents the possibility (or impossibility) of assessing these errors to determine whether there are errors that affect the reliability of the entity's reports, and to make appropriate audit decisions. This is the component that qualitatively characterizes importance. The component that characterizes the quantitative aspect of significance is expressed through its specific levels.

The determination of materiality in international audit practice is governed by the Standard №320, Significance in Auditing (ISAs 320, Audit Materiality).
The standard states that in all serious cases, the reliability of the financial statements means the level of accuracy of the indicators in it, so that qualified users of the report will be able to draw the right conclusions and make the right decisions(Chichester et al., n.d.).
Auditors use the notion of materiality as the basis for audit planning when identifying the most important, rare, and erroneous reporting items and accounts. Particular attention should be paid to such items and accounts. Significance is also used in evaluating the audit evidence gathered and in deciding which audit opinion to form.
Thus, the notion of materiality is the primary and fundamental source for determining the extent of the error that can be made by the auditor and the scope of the audit to be performed and the form of the audit opinion to be drawn up (positive or negative).
This statement informs users that the opinion expressed in the audit opinion applies only to financial information that is considered relevant. The concept of "materiality" is necessary because no auditor can guarantee that the financial statements are 100% accurate(Radnor Zoe (School of Business and Economics, Loughborough University, Loughborough & O'Mahoney (Cardiff Business School, Cardiff University, Cardiff, 2013).
The detection of significant errors by the auditor depends on many factors. These include an assessment of serious errors by both management and the auditor; limited time and cost of inspections; the client "waits" for the auditor to identify errors; degree of independence of the auditor; his conscientiousness; the external auditor's confidence in the internal control system; details of the accounting policy adopted by the enterprise and some of its rules; compliance of accounting policies with the requirements of regulatory documents.

The auditor should consider materiality in the following cases:

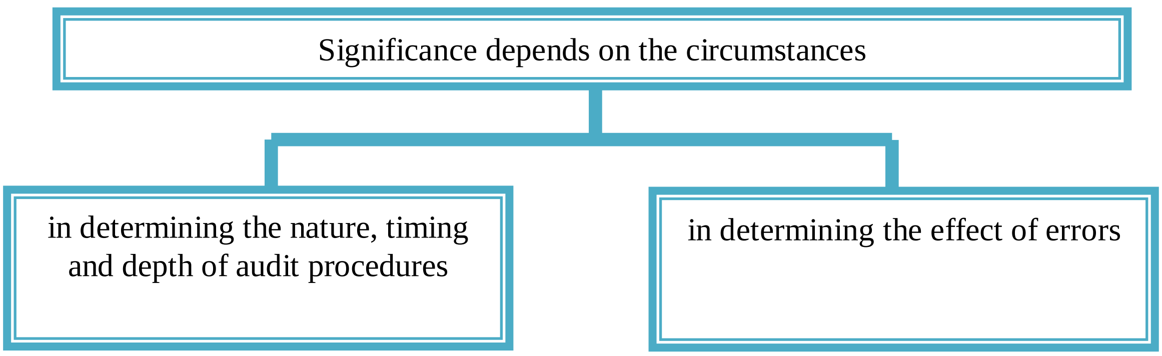

Figure 1. Significance depends on the circumstances.

The economic essence and content of "importance" is widely used in the practice of international audit firms. In this case, the following steps of practical implementation of significance are usually performed:

1. Preliminary calculation of the maximum allowable amount of errors on the object under inspection in general (first stage);
2. Distribution of the detected quantity between the elements within the object under inspection (second stage);
3. Determining the actual amount of errors made on the basis of testing on individual elements and the total volume (third stage);
4. Compare the initial calculated amount of the maximum number of errors allowed

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(first and second stages) with the amount actually determined (third stage) and draw the final conclusion (fourth stage).

The first two stages relate to the planning of the audit, and the next to the evaluation and generalization of its results.

In order to determine the level of materiality in the planning and conduct of the audit, the auditor must comply with the regulations governing the auditing activities of the Russian Federation, unless the auditor has very strict requirements.

can be based on personal standards. It is not easy to establish a clear and unambiguous criterion of importance. In order to explain the essence of the information obtained in the introduction to the "audit", it is important that the auditor obtains any documents necessary to enrich his knowledge about the activities of the audited economic entity.

The auditor documents and organizes the knowledge of the economic entity in the form of the following permanent file:

- history of economic entity development;
- existing list of activities;
- the status of the accounting policy and its changes;
- Information that is relevant not only to the condition of the entity at the time of the audit, but also to future audits.

The main methods of obtaining knowledge about the activities of the economic entity are:

- study of the general economic conditions of the audited economic entity (for example, national economic policy, customs control and taxation system set by limits and quotas);
- Analysis of territorial features affecting the activities of the economic entity (for example, the geographical location of the region and tax conditions);
- Taking into account the characteristics of the industry in the activities of the economic entity;
- Familiarity with production technologies and organizations;
- Collection of information on the analysis of the structure of private capital, share quotations and location;
- Collection of information about the personnel of the economic entity, the types of products produced, the methods of accounting used (for example, accounting policy, reporting form, type of depreciation calculation);
- Collection of information on organizational and production structures, current marketing policy, fixed assets and customers;
- Analysis of the activities of an economic entity in the securities market (for example, the issuance of promissory notes, the sale and purchase of shares);
- Existing and interrelated divisions, subsidiary accounts, consolidated financial reporting methods, income distribution procedures at the disposal of the organization;
- Collection of information on the legal and financial obligations of the economic entity (determination of the level of availability and internal economic risk;
- Get acquainted with the organizations of the internal control system. The auditor can obtain knowledge about the activities of the economic entity from the following sources:
- official publications in legal publications, professional, network and regional journals and monographs;
- official reports of economic entities, statistics, bank reports;

• normative and legal acts aimed at the activities of the audited economic entity;

• results of participation in special seminars, conferences and similar events;

• explanations and confirmations received from the staff of the audited economic entity;

• third party claim;

• the advice of the auditor who conducted the previous audit;

• primary documents, protocols collected from the board of directors and shareholders, past accounting statements, accounting regulations, documentation, organizational and production structure;

• identification of organizational divisions and branches allocated to a separate balance sheet, economic transactions and methods of their calculation and taxation;

• results of work of the involved experts;

• using the auditor's previous experience;

• materials from tax audits and lawsuits;

The initial consideration may include the valuation required for the balance sheet sections, the income statement, and the cash flow statement obtained separately for the separate and financial statements. One of the purposes of the initial consideration of materiality is to draw the auditor’s attention to a more important point in the financial statements in determining the audit strategy.

In international audit practice, the procedure for determining materiality is governed by the materiality standard in audit.

Significance in American Financial Reporting Standards is defined as the size of the document, the misinterpretation and misstatement of the accounting information, and the existing compliant obligations to make it true and to change the reasoning based on that information or to produce unreasonable, erroneous evidence. Based on this definition, the user of the financial statements has the right to determine the level of materiality of the information.

In American jurisprudence and the Association of Auditors, the term "average depositor" is used in conjunction with the term "average depositor."
In Russia, the term “qualified user of the report” is used as a synonym for the above two terms. In general, these terms refer to the shareholder who needs to be notified, but this does not necessarily mean an in-depth analysis of the financial statements.

Auditors apply the concept of materiality as follows:

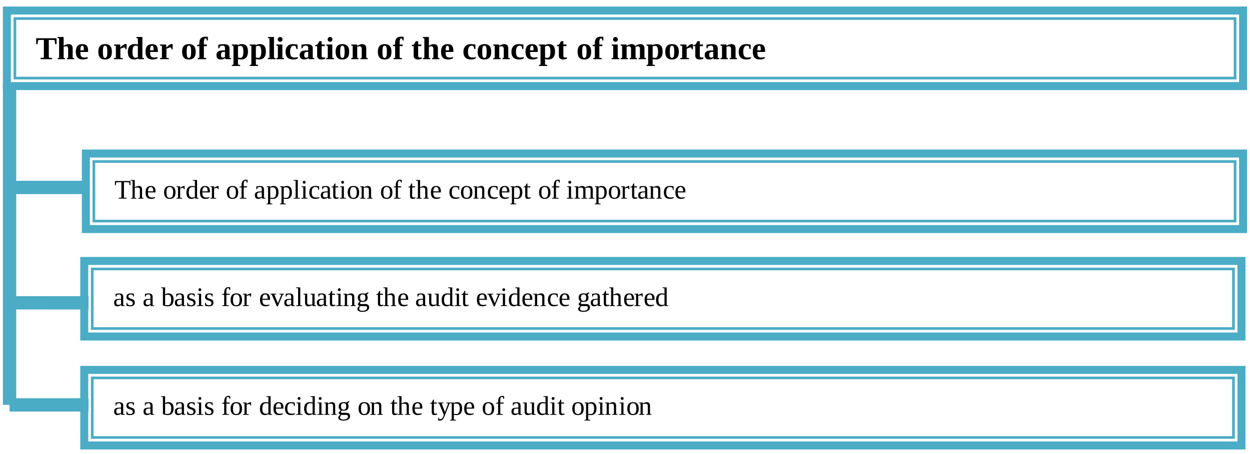

Figure 2. The order of application of the concept of importance.

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Determining the level of materiality in Russian national standards is similar to international practice and understands the limited errors of accounting reporting. The level of materiality ensures that the qualified user of the reports from the beginning has a high probability of coming to the right conclusions and making the right decisions based on these reports.

Conclusion

Quantitative and qualitative factors of accounting information have a specific impact on determining the level of materiality in the audit. In this case, even a qualitatively insignificant amount of error may not be significant in terms of quantity (within a certain level of significance), but may negatively affect the economic potential of the enterprise and the financial stability and reputation of the bank.

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