



## Improving The Methodological Problems of Determining the Level of Importance in Auditing Inspections

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### ABSTRACT

This article examines the methodological basis for determining the level of materiality in audit firms and identifies problems in this area, as well as measures to eliminate and improve them.

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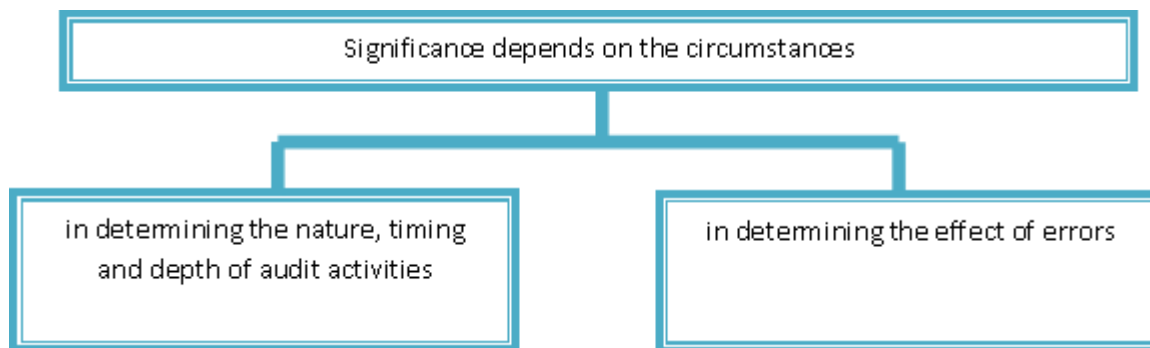
It is known that as a result of deepening reforms and liberalization of the economy in our country, the number of users of accounting information is growing. The level of importance for each of them may vary. For example, information on the results of the enterprise, the fairness of its assets and the dynamics of profits are important for shareholders. For investors, information on the financial stability of the enterprise, changes in demand for products, return on investment and the validity of investment projects may be important. Taking into account the important role of auditing in the national economy, during the years of independence, great attention has been paid to the further improvement and development of the system of external auditing in the Republic. As noted by President Sh. need the issues of modernization of industries and regions, increasing their competitiveness, development of export potential should be in the center of our constant attention. The third article of the Law of the Republic of Uzbekistan "On Auditing" states that auditing is "... auditing - business activities of audit

organizations to provide audit services (Article 3). 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, it confirms them with a certain degree of risk, without being able to guarantee that the financial statements are absolutely accurate. Therefore, there is always a certain degree of risk involved in the auditor's work. Apparently, 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. In general audit practice, the boundaries of materiality are defined as follows:

$$0 < \mathcal{J} < 1 \text{ (ёки фоиз хисобида } 0 < \mathcal{J}\% < 100 \text{)}$$

Probability in this range 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 a component that qualitatively describes importance. The component that characterizes the quantitative aspect of significance is expressed through its specific levels.

The auditor should consider materiality in the following cases:

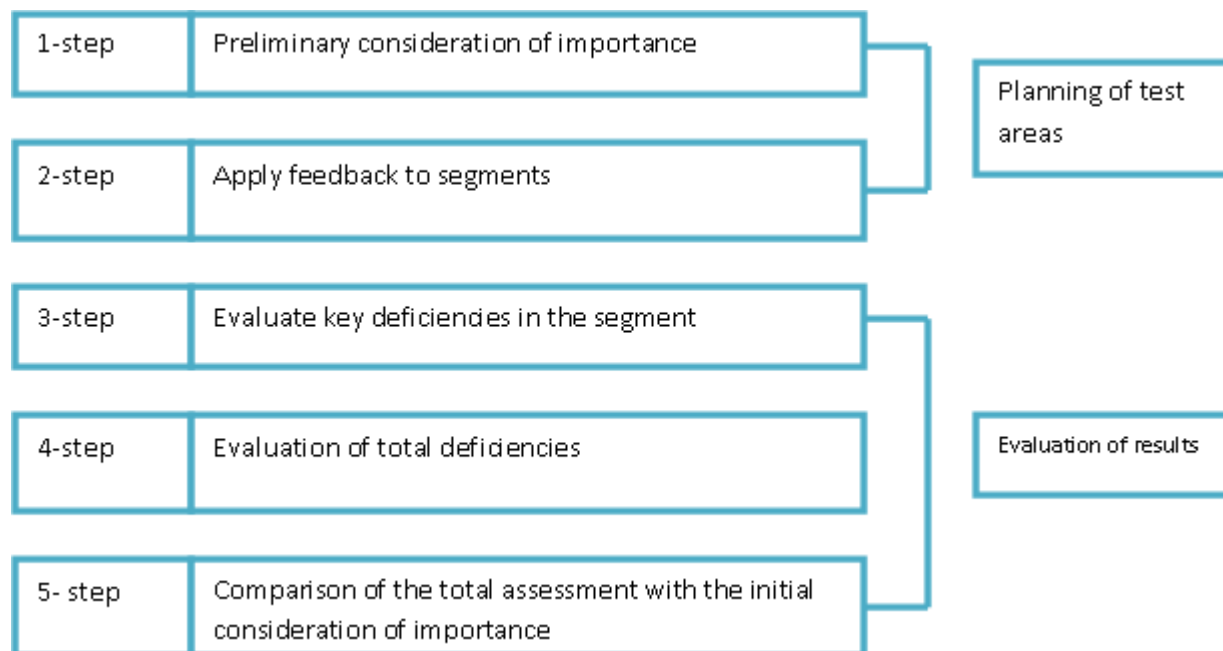


**Figure 1. Significance depends on the circumstances.**

The economic nature and content of “materiality” are widely used in the practice of international audit firms. In this case, the following steps are usually taken to implement the significance in practice: 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 among 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 initially calculated sum of the maximum errors allowed (first and second stages) with the amount actually determined (third stage) and draw the final conclusion (fourth stage). 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. Significance in U.S. financial reporting standards is determined by the size of the document, the misinterpretation and misstatement of accounting information evidence, and the existence of relevant compliant obligations to make it true and the change in that information-based reasoning or the occurrence of unfounded, misstatement. Based on this definition, the user of the financial statements has the right to determine the level of materiality. The principle of materiality in an audit is the basis for resolving many issues, a specific guarantee. This rule forms a logical sequence between the stages of the audit, between the scope and content of the audit procedures, between the rules for evaluating the audit evidence collected and the form of the audit opinion. Significance determines the amount of error that can be tolerated and, ultimately, the form in which the audit opinion

is drawn up. Significance is determined during the development of the audit plan and program, as its level affects the future scope of work and the conclusion to be made at the end of the audit. The issue of assessing materiality in an audit involves, first of all, the selection of a clear framework that includes one or more indicators of the financial statements and a quantitative criterion of materiality - a method of quantifying potential errors. U.S. scientists E.A. Arens and J.K. According to lobbies, the application of the level of importance is divided into 5 stages<sup>1</sup>.

To apply significance, the concept of the maximum amount of error allowed for each individual synthetic and analytical account is used.



**Figure 2. Sequence of application of the level of importance.**

Today, the problem of materiality assessment is relevant due to the need to apply national standards of auditing in auditing practice. The practical significance of materiality assessment issues requires each audit firm to develop its own method of selecting the materiality base and its method of calculating the amount.

In doing so, it is recommended that the level of materiality of the accounting system be assessed using the accounting system risk indicator, determining that the significance of the accounting system depends on the quality indicator. This will allow for more detailed and high-quality financial reporting audits and reduce labor costs.

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.

In summary, the assessment of materiality 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 earn

<sup>1</sup> Аренс Э.А., Лоббек Дж.К. Аудит. - М: Финансы и статистика, 2001. с.230.

money, but also increase its reputation, as a result, the audit organization will be able to retain and acquire new clients, as well as achieve high ratings in the audit services market.

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