



THE PROCEDURE FOR GATHERING EVIDENCE IN CONDUCTING A PERIOD COST AUDIT

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ABSTRACT

This article describes the process of gathering evidence in a period cost audit. As a result of the research, recommendations were developed to improve the evidence collection process.

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INTRODUCTION

Gathering evidence is one of the main processes of the period expenses audit and involves summarizing the results of the analysis and gathering information to form an opinion about the continuity of the business entity being audited.

Audit evidence is information analyzed by the auditor about the business entity, which can be obtained both from the entity itself and from third parties, on the basis of which an appropriate opinion is formed about the completeness and reliability of financial statements and the financial condition of the audited entity.

LITERATURE REVIEW

According to ISA 500 "Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information"[1].

According to Stefan Zuca "The auditor can use other information as audit evidence to reach conclusions through valid reasoning., information which may consist of documentary evidence obtained from external sources, sources internal to the client, and other information developed by, or available to,

the auditor”[2].

Chnar Abdullah Rashid said that, “Audit procedure is a method utilized to collect audit evidence. Audit test or audit technique is used interchangeably”[3].

Akram Niktaba and Azim Aslani said that, “The auditing evidences are written and electronic information that allow the auditor's to reach to a conclusion by reasoning. In this regard, the audit documentation helps the auditor to adopt a starting point to be able to comment about the accounts and financial operations of the company”[4].

ANALYSIS AND RESULTS

In the period cost audit, evidence provided in writing from a third party or obtained by the auditor himself is the most reliable evidence.

Sources of audit evidence are:

- primary documents and accounting registers;
- documents received from third parties;
- results of analysis of financial and economic activity;
- the results of comparing the client's documents with each other and with the documents of third parties;
- inventory documents and reports;
- materials of court proceedings related to the investigated business entity;
- financial statements;
- the results of the analysis of the financial status of the audited economic entity;
- the results of the analysis of the dividend policy of the audited business entity;
- periodicals that research the network problems of the business under investigation.

Documentation of the audit process creates a basis for internal quality control. In this case, according to the requirements of AXS No. 230 entitled "Audit documentation", all inspection results should be formalized in specific working documents.

The quality of the audit of period costs depends largely on the documentation of the audit. It is determined by the quality of the working documents that record the audit evidence collected during the audit. The document can be prepared on paper in the form of standard forms and tables and in other forms. However, the data collection procedure of IAS 230 entitled "Audit documentation", ensuring the control of audited data; does not reflect issues such as recording audit results in order to provide evidence of the reliability of financial statements. At the same time, it is necessary to obtain enough audit evidence to draw up an audit opinion on the company's financial statements.

The choice of methods of obtaining audit evidence depends on the following factors: riskiness of business, level of financial condition, organization, operation and quality of internal control and accounting systems.

However, in our opinion, it is appropriate to obtain audit evidence in two main ways: a substantive examination and an examination of internal controls.

The choice of the audit method is determined by the results of the preliminary assessment of the reliability of the internal control system and the audit risk. In auditing the internal control system, it is necessary to gather evidence on the effectiveness of the accounting and internal control systems. It should be noted that in large enterprises, where many operations take place, it is not possible to conduct a gross inspection of all economic operations. Therefore, the audit selection can usually be used to check individual operations related to currency transactions, export-import contracts, construction, and information services. Therefore, it is necessary to use a sample test, which allows applying the results of the selection to the entire population. Audit sampling is effective when the auditor selects items from a large pool and does not have information such as the extent, magnitude, and direction of errors.

One of the main requirements for selecting an auditor is its representativeness. Audit selection should be appropriate to the nature and objectives of the audit.

The scope of selection and selection directions are determined by the specific characteristics of the client's activity, accounting and internal control system, and the level of audit risk. In our opinion, it is necessary to base the auditor's experience and professional qualifications on the selection of auditors.

The conditions for selection in period cost audit are as follows:

the size of the main set must be large enough, otherwise the application of selection methods will be ineffective;

the margin of error must be sufficiently low;

each unit in the master set must be clearly defined;

the choice must fully correspond to the purpose set by the auditor;

the selection should ensure the maximum reliability of the master set data;

the main set should be the same both by the category of operations and by their value;

each unit in the master set must have an equal chance of being selected.

Audit selection is divided into non-statistical and statistical types. Generally non-statistical method is widely used in evaluation of internal control system. This method is used to determine the accuracy of accounting records or financial statements, which allows the auditor to obtain audit evidence and, after evaluating the characteristics of selected data, apply the validity of this evidence to the entire data set.

Using non-statistical methods, a certain set of elements of the object under investigation is checked, that is, the selection of elements can be made arbitrarily. Selection results are based on the auditor's judgment. Therefore, the use of non-statistical sampling is effective if the error rate is high.

Non-statistical sampling is widely used in forming the sample size from the main population and extrapolating the obtained results to the entire population. In this case, the sample is randomly generated using statistical tables or a sequence of random numbers. The use of this method is effective in the case of a random distribution of errors in the main set and a small change in the magnitude of the potential error depending on the number of sample elements.

Statistical sampling makes it possible to determine audit risk and determine the minimum sample size to gather sufficient evidence. Qualitative, cost and quantitative statistical samples are distinguished depending on the sampling unit. A selective audit is more appropriate when examining internal control operations. Selective audit is used to reduce control risk.

Selective investigation is carried out using quantitative methods: evaluation of the difference, comparison and average values for the unit. Variance estimation is used when both the accounting value and the audited value are available for each sampling unit. Extrapolated distortion is determined by multiplying the average distortion in the sample by the number of elements in the sample. In comparison evaluation, the estimation of the error in the set is determined by multiplying the amount of the total reflected set in the calculation by the percentage of distortion of this sample in the total sample.

It is appropriate to use this method when the amount of impairment changes in direct proportion to the accounting value of the elements. When estimating the average value per unit, the value used in the audit is used, not the error value for each sample unit.

When applying the audit sampling method, the auditor draws conclusions about the population based on the results of the selection, therefore, it is recommended to use statistical methods to take into account the existing flaws in the sample as an alternative to examining the entire set of data. Examining the sample size allows you to identify deviations rather than exact values. Therefore, it is necessary to determine the inaccuracy of estimates due to the randomness of the auditor's selection, the measure of their reliability and random distribution. In such conditions, the only way to obtain the most accurate

value of the characteristics of the population is to find the sample data that approximates the estimated parameter of the population with the greatest accuracy.

After determining the results of a statistical sample, a conclusion must be formed as to whether the population may have significant undetectable error or whether the sample is representative. There is always selection risk involved, that is, the risk of wrongly accepting a set and the risk of wrongly rejecting a set.

Incorrect acceptance risk is the risk that a batch will be accepted despite having a material error. False rejection risk is the risk that the auditor may conclude that a collection is materially misstated when it is not, in fact, misrepresented. These risks differ depending on the results of the decisions made by the auditor: if a significant error is missed in the sample audit, certain difficulties may arise for the auditor; if the auditor decides that the set is not presented objectively, the most likely option is to increase the sample size or perform other tests. It usually leads to a correct decision about the objectivity of the master set.

In conducting a sample audit, as in all stages of conducting an audit, in addition to the selection risk, there is an audit risk that is not related to the sample audit, which affects the representativeness of the sample. A non-sampling error occurs when the auditor does not detect exceptions and the auditor's tests do not reveal exceptions that exist in the sample for reasons unrelated to the sample size.

Sampling is used to reduce audit costs and minimize audit risk. In this case, the following decisions can be made: determining the size and range of the sample, selecting common elements, and evaluating the results.

According to AXS No. 530 entitled "Auditing Selection", two requirements are imposed on auditing selection: elements of selection must be selected from the main set; every element of the parent set must have the same probability of entering the sample, that is, the sample must accurately reflect the original set.

The optimal level of selection is mainly determined by the importance of the investigated indicator and the probability of errors. Sampling of collection units should ensure detection of existing errors without covering all elements of the master collection.

CONCLUSION

1. In order to increase the reliability of audit evidence and reduce the risk of information in decision-making by users of financial statements, it is necessary to collect information about the financial situation and development opportunities.

2. After performing all the necessary actions during the audit, the auditor must evaluate the completeness and quality of the implementation of all items of the audit plan and program, systematize, classify and analyze the audit results. According to the purpose of the audit, it is necessary to clearly group and classify the data obtained.

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