METHODS OF DETERMINING THE LEVEL OF IMPORTANCE BASED ON INTERNATIONAL PRACTICE IN THE ECONOMIC CONDITIONS OF OUR COUNTRY

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Abstract. *In this thesis, the specific features of the methods of determining the level of importance in the audit of financial statements in the economic conditions of our country based on international practice have been researched.*

Key words: *materiality, single method, variable method, mixed method, mathematical-formula method*

The auditor selects and examines only the most significant errors in order to perform the audit with high quality and, at the same time, at the lowest cost for the client.

During the audit, the auditor should consider materiality and its relationship to audit risk. Materiality (importance) is the largest amount of misstatement that can be recorded in the financial accounts without misleading users. Reliability of financial statements in all important respects means the degree of accuracy of financial statement indicators, in which a qualified user of this statement is able to draw correct conclusions and make correct decisions based on it.

The importance of information is the property of it that makes it capable of influencing the decisions of a rational user of such information.

In the "Conceptual Framework for the Preparation and Presentation of Financial Statements" developed by the Committee of International Accounting Standards, "materiality" is interpreted as follows:

"If the omission or misrepresentation of information is likely to influence the economic decisions of users based on the financial statements, such information is considered material. Materiality, in certain circumstances, depends on the amount of material or error. depending on whether they are perceived as nonrepresentative or misrepresentative.Thus, what matters is not the initial qualitative description necessary for the information to be useful, but rather the initial or shows the calculation starting point".

In developing the audit plan, the auditor determines the acceptable level of materiality in order to quantify material misstatements. However, in addition to the magnitude (amount) of importance, it is necessary to pay attention to its description (quality).

A qualitative misrepresentation could lead to, for example, inappropriate or incorrect statements of accounting policies that are likely to mislead a financial user, and subsequent enforcement by regulatory authorities. and, as a result, it is possible to avoid legal deficiencies that lead to a significant decrease in the ability of the entity to perform its activities. The concept of materiality is defined differently in auditing sources.

For example, prof. M.M. Tulaxodjaeva’s by definition "Errors and omissions in the report, which may lead to misleading users in making decisions, as a result of unnecessary financial expenses, failure and damages, are considered serious, important (material)".

In general auditing practice, it is accepted to set the materiality thresholds as follows:

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

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Probability within this range indicates whether or not it is possible to determine the presence of errors affecting the reliability of the reports of economic entities, to assess these errors in order to make appropriate audit decisions. This importance is a qualitatively descriptive component. The component that describes the quantitative aspect of importance is represented by its certain levels.

"The concept of materiality means the highest value of a violation of a financial report, from which a qualified user of this report will not be able to draw correct conclusions and make correct decisions based on it. When determining the absolute value of the level of materiality, the auditor The most important indicators describing the reliability of the audited report of the business entity, hereinafter referred to as the basic indicators of the financial statement, should be taken as a basis.

Auditor:

- determining the nature, time and depth of audit procedures;

-must consider the importance when evaluating the impact of errors.

The assessment of importance (materiality) depends on the auditor's experience and qualifications and is determined by him for each client based on the size and characteristics of the enterprise's activities. Therefore, different auditors and audit firms approach this problem completely differently.

Some of the financial statement indicators may not be sufficiently accurate. However, based on this, it is not possible to conclude that the report is completely unreliable or does not accurately reflect the real situation. Uncertainties can arise from errors in calculations (eg, in the calculation of depreciation amounts) or estimation (eg, depreciation periods of fixed assets, bad debts). However, when such inaccuracies are found by the auditor, appropriate corrections should be made to the report. However, corrections are not always made by the client immediately, there are cases where corrections are not made at all.

In most cases, auditors miss inaccuracies in accounting reports, for example:

- if they are insignificant and do not affect the decisions of users of financial statements and, therefore, are not considered important;

-if the costs for detecting minor errors and correcting them are high;

- if the time spent on this extends the period of publication of the accounting report.

Thus, auditors assume that accounting figures are absolutely accurate and that accounting is not.

The following can be taken as the most important indicators and the percentages applied to them can be set as a recommendation (Table 1).

Table 1

Calculation of the level of importance according to the main indicators of the financial report

Main indicators	**The value of the main indicators (m.s)**	**%**	**Sum of significance level (m.s)**
1	2	3	4
Income from the sale of products (work, services) (Form 2, line 010)	723491,0	5	36175,0
Production cost of sold products (work, service) (Form 2, line 020)	177826,0	3	5335,0
Total period expenses (Form 2, line 040)	32833,0	3	985,0

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Private capital of the enterprise (Form 1, line 460)	241567,0	5	4831,0
The total amount of the balance (line 380 in the asset or line 700 in the liability of Form 1)	135945,0	10	13595,0
Work in progress (Form 1, line 150)	322762,0	3	6455,0
Retained earnings	23819,0	2	476,0

This indicator can be considered in more detail in R. Dosmuratov's textbook "Audit basics". Two main approaches are used in assessing materiality - inductive and deductive.

An inductive approach assumes a separate rating for each item, and then adds the ratings together to determine the overall importance. However, such an approach should be used very carefully, because an error in one item of the report may not be important, but it may be important (material) in another item.

Deductive approach - assumes that the overall importance of the financial statement is determined, and then, to determine the size of each account, the assessment given by the individual items of the statement is distributed. By applying the deductive approach, it is possible to eliminate the situation where the sum of the materiality assessment for individual items is higher than the amount that can be allowed for the statement of financial results, the balance sheet or the cash flows.

In developing the audit plan, the auditor determines the acceptable level of materiality in order to quantify material misstatements. However, in addition to the magnitude (amount) of importance, it is necessary to pay attention to its description (quality). An example of a quality misrepresentation could be an inappropriate or misleading statement of an accounting policy that is likely to mislead a financial user and lead to further restrictions by regulatory authorities and as a result of this, it is possible to avoid any legal deficiency that leads to a significant decrease in the ability of the entity to perform its activities. The auditor should consider the possibility of misstatements in relatively small amounts that, in the aggregate, could have a material effect on the financial statements. For example, an error in processing at the end of the month can lead to a significant error in the future if such an error is repeated every month. In planning the audit, the auditor considers what could cause the financial statements to be materially misstated. The auditor's assessment of the materiality related to the net balance of the accounts and the series of transactions helps the auditor to make a decision on the issues, for example, what material should be used for examination and analytical procedures. This allows the auditor to select audit procedures that, together, reduce audit risk to an acceptably low level.

The auditor should cover the situation in one of the following ways:

a) reduce the assessed control risk where possible and confirm the reduced level by conducting extended or additional control tests, or

b) to reduce the risk of non-detection by changing the description, duration and volume of planned treatments.

The auditor's assessment of materiality during the initial planning of the engagement may differ from the assessment given during the assessment of the results of the audit procedures. It may arise from changes in the auditor's knowledge of the entity's activities when it arises or as a result of conducting an audit. For example, if the audit is planned until the end of the reporting period, the auditor plans the results of financial and economic activity and financial condition. Although actual results of operations and financial condition may differ materially from those projected, the assessment of materiality and audit risks may change. In addition, in planning the audit, the auditor may deliberately set an acceptable level of materiality at a lower level than intended for evaluating the audit results. This can be done in order to reduce the possibility of undetected uncertainties and

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to provide the auditor with a level of confidence in assessing the impact of uncertainties during the audit.

Based on the experience of foreign countries, there are several ways to calculate the level of importance.

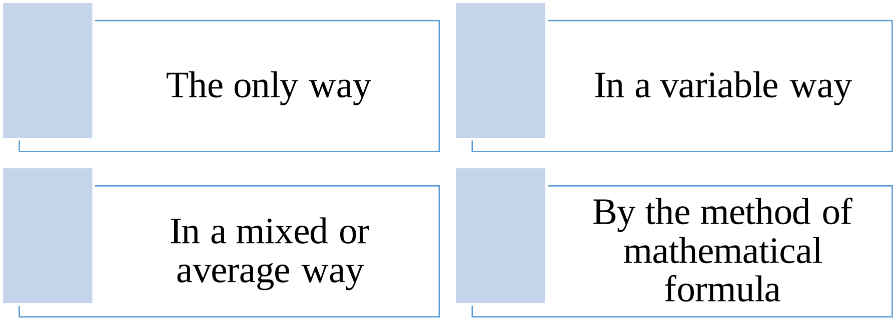

Figure 1. Methods of calculating audit significance based on a quantitative approach [1]

The only way. In some literature, it is also called the "basic rules" method. In this method, materiality is determined based on a single audit materiality level. Usually, the auditor applies several levels of significance depending on the financial reporting indicators. For example, 5% for pre-tax income, 0.5% for total assets, 1% for private capital, revenue from the sale of products (works and services) net income is set as 0.5%.

Variable method. This method is similar to the single rule method mentioned above, but in this method, the level of importance is determined on a variable scale depending on the amounts of financial reporting indicators. For example, if the gross profit is 20,000,000 soums, the importance level is 2-5%, if the gross profit is in the range of 20,000,000 to 100,000,000 soums, the importance indicator is 1 If the gross profit is between 100,000,000 soums and 1,000,000,000 soums, the significance level is considered to be 0.5-1%, and the gross profit is 1,000,000,000 soums. If it exceeds m, the significance level is 0.5%.

A mixed average method. In this method, the importance level of several financial reporting indicators is considered as the importance level in a single method, and their arithmetic mean is found, and the importance of the financial report is determined based on this found arithmetic mean.

Mathematical formula method. In this method, significance is calculated based on a mathematical formula based on statistical analysis. The method uses the rules of the single method or the rules of the mixed, average method, but it differs sharply from them. One of the world-famous mathematical formula methods is the method used by KPMG audit organization. For example, since 1986, there is a mathematical method used by the KPMG audit organization, according to which the organization takes the total assets of the client company and the net income from sales, and finds this indicator at the level of 2/3 1, Multiplies by a factor of 84 and the result is the significance value, which is in the form of the following formula:

$$\textbf{Importance=1.84*(greater of total assets and sales revenue)}^{2/3}$$

According to International Standards on Auditing No. 320, materiality is defined by the auditor as "…. both financial statements and separate accounts, transactions" are applied. It follows that the auditor calculates the level of importance for each accounting indicator, transaction, and financial statement separately.

[1] Systematized by the author.

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Although the standard allows for different levels of materiality at different stages, auditors prefer to determine the level of materiality for accounts and transactions at the initial stages. When an initial materiality is determined for accounts and transactions, the materiality level affects the audit of these indicators.

Based on the above, we can conclude that auditors calculate the level of importance in the audit of financial statements using a number of methods, in particular, using the single coefficient method, which is applied in proportion to the indicators of financial accounts, dividing them into groups based on the value of the indicators and by using a variable coefficient and by calculating the level of importance according to financial reporting indicators in a single way and by finding their arithmetic mean, or if not, by using a mathematical formula, they will be able to calculate the level of importance.

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