

FEATURES OF THE APPLICATION OF METHODS AND PROCEDURES IN COLLECTING AUDIT EVIDENCE

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Abstract: This article is devoted to the issues of the application of methods and procedures in collecting audit evidence, in which the relevance of the use of methods and procedures in collecting evidence, the description of the methods and procedures used in this process, analytical procedures used in collecting audit evidence, methods of collecting evidence based on the auditor's logical approaches, distinctive aspects of audit evidence collection procedures and the procedure for performing evidence collection procedures are described based on the author's research. Also, the article examines a number of problems awaiting solution in the application of methods and procedures in collecting evidence, and formulates practical recommendations for their positive solution.

Key words: Audit, audit evidence, evidence collection methods and procedures, inventory, analytical procedures, control tests, control tools, inquiry, logical approach, scanning, evaluation, calculation, statistical analysis, hypothesis and forecasting, testing or questionnaires, alternative balance sheet preparation

It is known that in the current Law "On Auditing Activities" entitled "Mandatory Audit" Article 35 states that joint-stock companies, banks and other credit organizations, insurance organizations, investment funds and other funds that pool the funds of legal and natural persons and their trustees of investment assets, charities, public funds and other funds whose source consists of allocations of legal and natural persons, in the charter fund (authorized capital) belong to the state economic subjects and state unitary enterprises with a share, stock and commodity exchanges, according to the end of the reporting year, the balance value of assets and income from the sale of products (works, services) and the average annual number of employees are higher than the established norm. However, the dependence of this article on audit evidence is that the auditor has to collect audit evidence of various content on the activities of the entities named above. Another specific aspect of this issue is that there are specific differences in the methodology for collecting audit evidence, as well as in the organization of audit audits in the activities of insurance companies, banks and other business entities (requirements of the regulatory and legal framework), and in the different characteristics of production and service activities.

As noted above, evidence is information collected by auditors during the audit process, which includes primary documents of the audited entity, analytical and summary accounting documents, financial and statistical reports, explanatory and verbal letters received from the responsible persons of the enterprise, oral explanations of the responsible persons of the audited entity, information from third parties having economic relations with the enterprise, etc.

In accordance with the requirements of international auditing standards, evidence is collected based on the following actions (Figure 1).

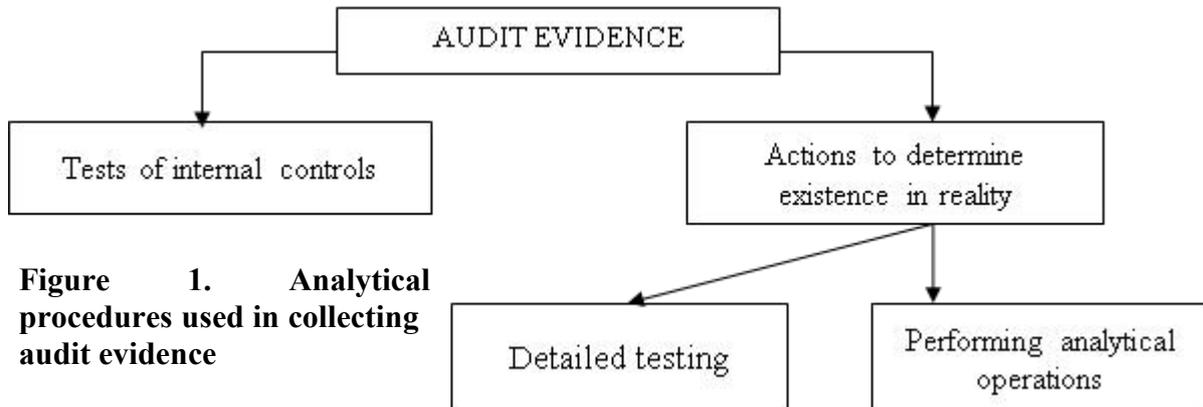


Figure 1. Analytical procedures used in collecting audit evidence

In the process of collecting evidence, it is considered effective to use procedures such as inspection, observation, inquiry, confirmation, recalculation, re-examination and analytical procedures.

When collecting evidence through the inspection procedure, the correct reflection of transactions in the accounting records and documents of the enterprise, the state of assets and liabilities is studied.

By performing the observation procedure, the auditor understands the process of obtaining evidence as a result of direct inspection of the activities of the audited enterprise's officials (internal auditors, internal control personnel). The observation method is usually used in cases where the auditor does not have sufficient documented or confirmed information on a certain operation.

Inquiry in evidence collection refers to obtaining information about the activities of the audited entity from internal or external sources by asking for it.

Verification refers to the process of collecting evidence that the information in the accounting documents of the enterprise is correct (reliable) by comparing it with information from other sources.

Recalculation refers to obtaining evidence by the auditor of the correctness of the information in the primary documents and other documents of the enterprise by performing various arithmetic calculations or independently performing other calculations.

Evidence collection by re-examination refers to an independent re-examination of the results of the initial audit of the activities of the audited entity.

The auditor should use such methods or procedures when collecting evidence that the auditor personally performs these methods or procedures or directly participates in this process and as a result ensures that the reliability of the evidence is not challenged. The most effective evidence collection practices include checking the status of document preparation, recalculation, observation (direct participation in internal control audits), checking the correctness of the documentation process and the accuracy of accounting transactions, and studying the legality of business transactions carried out in the enterprise's activities.

In practice, effective audit methods for collecting evidence include the use of expert services, technical and laboratory analysis, formal inquiries, obtaining external confirmation letters, performing analytical procedures, and scanning.

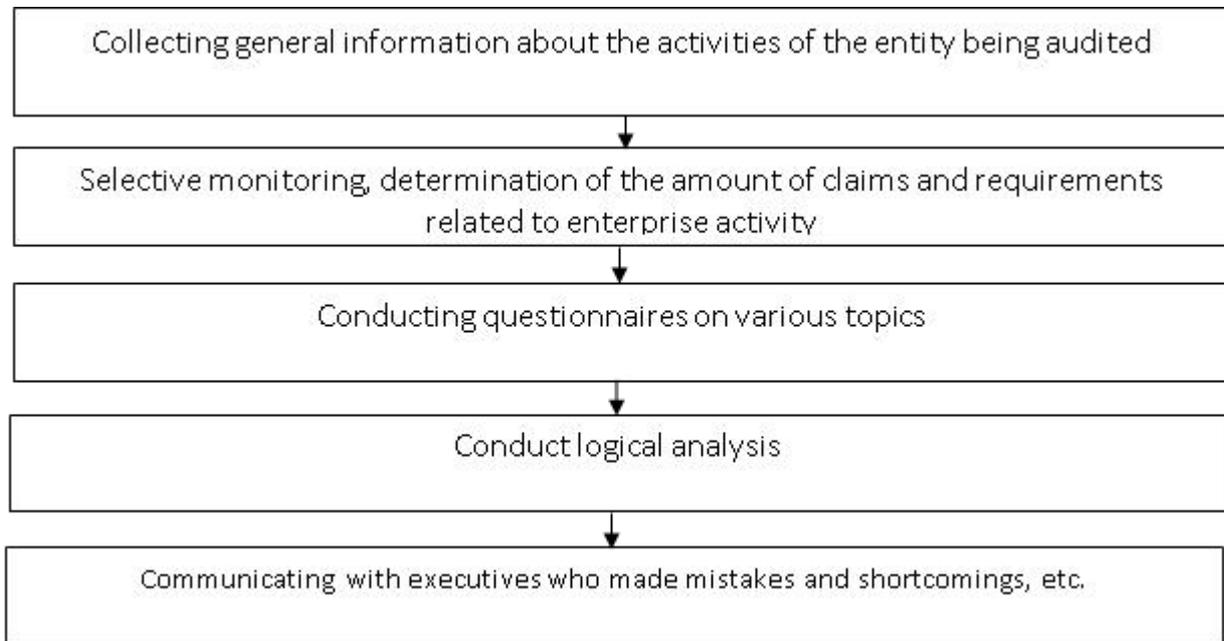
Today, in audit practice, the following methods are widely used in the process of obtaining audit evidence:

1. The auditor's use of direct inspection methods and procedures (inventory, documentary inspection, and study of the state of implementation of business transactions);
2. Observation;
3. Confirmation of the request (oral and written) and its implementation (authenticity);
4. Recalculation (preparation of a counterbalance);
5. Performing analytical procedures.

Also, in addition to the above, in the practice of collecting audit evidence, the following methods can be used in addition to the auditor's independent research (Figure 2).

Figure 2. Methods of collecting evidence based on the auditor's logical approach (conclusions, opinions)

Audit evidence is formed on the basis of appropriate supporting sources (auditor's analytical



observations, photographs, videos, etc.), confirmed documents, instructions (surveys, expert opinions) and economic and mathematical analyses. When evidence is obtained through the use of direct inspection methods and procedures by the auditor, the nature of the object (issue) being examined, its source and the state of the enterprise's internal control system are characterized. All the above-mentioned methods of obtaining audit evidence differ from each other in the following ways (Table 1).

Table 1
Different aspects of the audit evidence collection process

№	The content of the different aspects of the evidence collection process
1	Naming of the evidence gathering process to be performed
2	List of documents used in the evidence collection process
3	List of identified errors and deficiencies in violation of the requirements of regulatory and legal documents in the performance of evidence gathering operations
4	The content of standards and requirements used in the process of gathering audit evidence
5	Description of tools used in evidence collection

6	Forms of reflecting the results of the evidence collection process (table, accounting records, etc.)
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The above-mentioned methods or actions performed in the process of collecting evidence differ from each other in content and procedure. In particular, recalculation is a recalculation (verification) of the correctness of calculations and other arithmetic calculations performed by the accounting department of the audited entity. This method of obtaining evidence is carried out on a selective basis, and in this case, the international standard for auditing called "Audit Selection" should be used in the audit selection process.

The next method of collecting evidence is to determine the authenticity of the information in the documents being examined as evidence with the help of an expert. In this case, it is necessary to study the presence of signatures of responsible managers in documents containing important information, the correctness of the correspondence of the additions and changes made to them to the dates of preparation and approval.

Verification action is to study the correctness of the recording in accounting documents and the correspondence of the amounts of material assets of the enterprise in the document and in reality.

During the audit, the auditor obtains evidence of varying degrees of reliability, depending on the state of the internal control system of the entity under review and the significance of the evidence. When applying this audit procedure, the main attention is paid to the actual existence of material assets, their valuation and ownership are taken into account later.

When obtaining audit evidence, special attention should be paid to the current conditions of their storage, that is, the presence of original copies of documents created by third parties in the audited entity or third parties and the personal possession of documents prepared by the audited entity. In this case, their actual existence and formalization are examined.

The inventory method of obtaining evidence is a process of live comparison of the quantitative and qualitative indicators of the property and assets of the audited entity in the document and in reality. The results of the inventory are reflected and summarized in the comparison-comparison registers and inventory acts. In our opinion, it is advisable to study the existence and storage condition of the property and assets of the audited entity during the inventory process by measuring, counting, comparing, comparing documents and the actual state, and visually inspecting them. During the inventory process, the auditor uses audit working documents, such as the comparison-comparison register, the inventory act, explanations and receipts received from officials who made errors and shortcomings, as evidence. The observation method is considered the most effective method for collecting audit evidence, and the use of the method requires study (observation) over a certain period of time. This method is performed by the auditor comparing transactions in individual primary documents with transactions in summary documents, for example, to understand the process of studying the revaluation of inventory and fixed assets of an enterprise or the correct and timely reflection of unrelated transactions in financial statements.

By collecting evidence through examination of documents, we mean the auditor's examination of the existence and authenticity of documents confirming a certain economic transaction. In this process, the impact of the information in the relevant documents of the enterprise on the final financial result of the enterprise is also studied, and a general conclusion is drawn. By the alternative balance sheet method of obtaining audit evidence, we

mean the formation of evidence by redrawing the forms of the enterprise's financial statements based on the information from the enterprise's primary documents. The importance of this method is that it allows you to determine the cost of products (works, services) manufactured at the enterprise, identify deviations from the established norm in the production process, and assess the correctness of the determination of financial results. These methods also allow you to determine the reliability of the enterprise's financial statements and assess the correctness of the calculation of balances in accounting accounts. This is necessary not only to substantiate the auditor's opinion, but also for the enterprise's management to make appropriate decisions about the current state of use of property and funds at the enterprise.

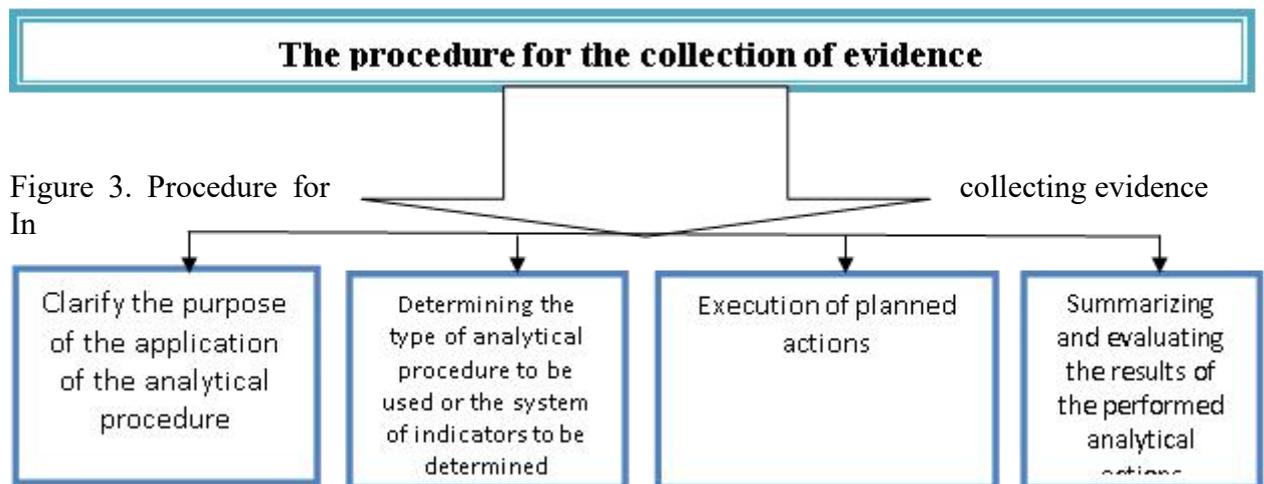
Another effective method of collecting audit evidence is the method of obtaining evidence through oral inquiries from the management, responsible employees or third parties of the audited entity. The form and content of the questionnaires to be taken from the responsible persons from whom information is being obtained should be prepared in advance. In this case, the results of the questionnaire should be formalized by the auditor in the form of a brief protocol of information about the person from whom the questionnaire (information) is being obtained. These documents are attached to the working documents drawn up at the end of the audit.

Scanning is understood as the study of a set of data in documents related to the issue under study in the same direction. As an example, this is done by comparing the data in the accounting records with the data of the income and expense accounts of the financial statements and the data of the primary documents related to them.

Audit practice shows that the most effective method of collecting evidence is to perform analytical procedures. In our opinion, analytical procedures are understood as the process of assessing deviations (deviations from the norm) between the indicators of the enterprise's financial statements and identifying the causes of their occurrence using economic and mathematical methods. In turn, this process is carried out by performing economic and mathematical calculations of the collected audit evidence. In this case, through various economic and mathematical calculations, indicators are determined that assess the financial condition of the enterprise. These indicators include the daily sales receivables ratio (DSRI), gross profit sales profitability ratio (GMI), asset quality index (AQI), income growth index (SGI), depreciation and amortization index (DEPI), selling and administrative expenses index (SGAI), financial dependency ratio index (LVGI), asset allocation index (TATA), sales profitability, inventory turnover, return on authorized capital ratio, current liquidity ratio, absolute liquidity ratio, debt-equity ratio, equity-debt ratio, financial reporting indicators, statistical reporting indicators, and to determine these indicators, documents such as data on the enterprise's partners (counterparties), tax reporting indicators, and data from inspections (audit control, tax control and other forms of control) are used as evidence.

During the audit, the auditor can use analytical operations to generate information about the audited enterprise's activities, identify errors in financial reporting forms, assess the continuity of the enterprise's activities, determine the indicators of efficiency and stability of the activity, and prepare information for the management of the enterprise regarding the results of the audit.

In our opinion, it is appropriate for the auditor to perform analytical actions in the following sequence when collecting evidence (Figure 3).



our opinion, it is advisable to carry out the process of collecting evidence based on financial reporting indicators by performing the following analytical operations:

comparing the results of the actual activities of the audited entity with the average indicators of the industry - this includes the characteristics of the product (work, service) produced by the entity (demand and supply in the market, complexity of the production process, etc.), the current state of compliance with the accounting policy of the enterprise and the market opportunities of the enterprise's activities;

determining the difference between the actual (actual) indicators of the enterprise's business plan indicators - used to identify the reasons for the differences between the planned and actual results of production (service provision) activities of the audited entity;

identifying various indicators characterizing the financial condition of the enterprise and determining the reasons for their changes;

assessing the continuity of the enterprise's activities (viability indicator);

comparing the indicators of the current and previous reporting periods of the audited entity;

assessing the significance level (impact on financial statements) of the identified deficiencies (deviations from the norm);

forecasting the level of change (growth, decrease) of the financial indicators (data) of the enterprise in the current period in the future, etc.

It should be emphasized that all methods and procedures used in the audit process can be used in the evidence collection process, and their effectiveness in collecting evidence directly depends on the skills and qualifications of the auditor and assistant auditors. A description of the methods used in the audit is given in detail in the research work of economist I. Meliev.

In the process of collecting audit evidence, along with the above methods, the following methods can be widely used:

assessment;

calculation;

statistical analysis;

hypothesis and forecasting;

conducting testing or questionnaires;

drawing up an alternative balance sheet;
systematic review;
going concern assessment;
obtaining external confirmation from third parties;
performing analytical procedures, etc.

The auditor may use other methods and procedures during the audit, depending on the nature of the transaction or object being audited. When collecting evidence, the auditor should examine the legality of the transactions carried out in the enterprise and the reliability of the financial reporting indicators based on a critical approach to the activities of the enterprise.

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