

**Theoretical aspects of collection and analytical processing
of audit information in the Republic of Uzbekistan**

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Abstract.

This article is devoted to the consideration of the theoretical issues of collection and analytical processing of audit information in the Republic of Uzbekistan on the basis of theoretical and practical data.

Key words:

Audit evidence, analytical procedures, audit data processing, analysis, auditor's documents and their justification, auditor's report.

Introduction. Under the current circumstances of Uzbekistan integration into the global community, the topicality of the issue of reliability and validity of financial reporting has become actually evident. At the same time the main problem is that the audit evidence collected by the auditor in order to verify the validity of the financial statements is the main issue affecting the auditor's report and auditor's conclusion. That's why currently the issues of customers' performance, its evaluation as well as forecasting of customers' future activity have become very urgent.

In this context the issue of audit has become of a prior importance. Thus the "Action Strategy for for the five main priorities of the development of the Republic of Uzbekistan for 2017-2021" states the following:

"1. It is necessary to create appropriate conditions for further expansion of the privatization of the state property and simplification of its procedures and principles, reduction of the share of the state participation in the authorized capital of economic

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entities as well as development of the private entrepreneurship on the basis of the privatized objects of the state property;

2. It is required to improve investment environment, to actively attract foreign investments, namely FDI in the economic branches and regions of the republic;

3. It is necessary to introduce modern standards of the corporate governance and methods as well as to strengthen the role of the shareholders in the strategic governance of large companies (Strategy, 2017).

In order to improve the quality of auditor's conclusion and collect sufficient audit evidence in the Republic of Uzbekistan it is crucially important to pay a particular attention to the audit procedures, including the technique of collecting audit evidence. In order to enhance responsibility of audit organizations, their authorized capital has been increased and compulsory audit liability insurance has been introduced.

Literature review.

The key issue in the audit process is the collection and processing of the data necessary for audit. In this respect, auditory data, audit evidence and its collection are considered to be the most important issues. This issue has been analyzed in the scientific papers of many economists-scientists who have stated the following: "The audit evidence should be relevant and sufficient. The relevance of the evidence is the fact how it is important for solving any problem, and the adequacy is determined in each particular case by assessing the auditor's risk and internal control system. In any case, the auditor should be fully convinced by the sufficiency and reliability of the evidence necessary for developing truthful and well-grounded conclusion" (Tulakhodjayeva, 2004)

Professor R. Dusmuradov expressed the following opinion on this point: "When we say "evidence" we imply the process of obtaining a factual fact, which either proves or denies the existence of another fact" (Dusmuradov, 2003).

In addition, some practical measures have been done to classify the audit evidence, including the classification of the audit evidence collected in the audit process by the type, source, and the way of obtaining.

By its types audit evidence is divided into written and verbal evidence.

Written evidence (documents and written explanations) can be more reliable than verbal evidence. However, in some cases verbal evidence can be very important and useful.

By the type of obtaining, audit evidence can be divided into internal, external, and mixed type. Internal audit evidence consists of information received from the business entity in a written or verbal form.

External auditor evidence contains information from third parties received in a written form (typically by written request of an audit company).

Mixed auditor's evidence contains information that has been obtained in a written or verbal form from a business entity and certified by a third party in a written form.

Audit evidence is classified as follows:

- a) evidence obtained by confirming the facts;
- b) evidence obtained by determining the formalized documents;
- c) evidence determined in the result of conducting specialized analysis.

In Russia special audit standard № 5 - "Audit evidences" gives the following definition to the audit evidence: "Audit evidence is considered any information required by the auditor to express an opinion on the reliability and validity of the accounting and financial reporting indicators".

Russian economist-scientist A. Sheremet expressed the following opinion on the audit evidence: "Audit evidence - is the information obtained by the auditor during the audit which is considered the basis for the auditor's opinion developed as a result of the analysis of this information"(Sheremet and Suyts, 2006).

Regarding this issue other scientists-economists S.Bychkova and Ye.Itigilova expressed the following point: "It is important that audit evidence is adequate and reasonable because the way how these indicators have been collected can make an impact on the audit plan and the amount of audit revisions because adequacy of the

audit evidence is directly related to the nature of the auditor's conclusion" (S.Bychkova and Ye.Itigilova, 2008).

Another approach has been demonstrated by P. Kamishanov who has said: "In the result of the audit the management must obtain a comprehensive information on the true condition of the business, execution of liabilities on the tax and extrabudgetary payments by financial organizations as well as efficient and targeted use of budgetary funds. Thus any economic entity or a bank, as well as individuals are trying to obtain a reliable information about the activity of the organization" (Kamishanov, 2008).

Audit evidence is collected by audit organizations and auditors to express a justified auditor's opinion and serves as the basis for the auditor's opinion.

The majority of the documents compiled by the auditors during the audit process are as follows:

- the form of the documents compiled during the audit is determined by the company's internal standards in each audit company;
- the results of the study and evaluation of the accounting system; questions regarding different sections of the accounting formalized by the officials of the bookkeeping department, schedule of the documents circulation, the chart of assigning official office duties in the accounting, the technique used for assessing and calculating and compliance of the regulation of the accounting policy;
- results on study and evaluation of the internal control system (responses of clients given to questions of accounting and management officials about different objects and ways of internal control);
- description of the peculiarities of the client's taxation (a list of taxes payable by the client; a list of tax preferences provided for clients); as well as bases for these preferences;
 - peculiarities of calculating a taxable base for certain taxes;
 - analysis of residuals by accounts;
 - the results of the appraisal of the compliance of the contracts concluded by

the client with applicable laws;

- the most important financial and economic indicators of the enterprise;
- analysis of the financial position of the company;
- schedule for audit checks performed by the auditors and their assistants who are involved in the audit;
- the protocol reflecting the essence of the audit performed, participants of the audit process, the time and the volume of audit nature, timing of the audits performed and the volume of audit activities executed;
- formalization of the results of the auditor and auditor assistant in compliance with the company's internal standards;
- copies of negotiations of auditors with experts, specialists and consultants.

Discussion and conclusion.

The audit evidence is directly reflected in international standards. International Standards of Auditing – ISAS has a special section V – “Auditor evidence” (500-599). This section includes 9 standards. However, only 6 national standards of auditing related to the audit activity (NSAS) have been adopted in the Republic of Uzbekistan till present time. While comparing these standards we can notice the following:

Table 1

Comparative analysis of the ISAS with the NSAS

International Standards of Auditing	National Standards of Auditing
ISAS № 500- “Audit evidence”.	NSAS № 50- “Audit evidence”.
ISAS № 510- “Primary agreements – initial residuals”.	
ISAS № 520- “Analytic practice”	NSAS № 13- “Analytical practice”.
ISAS № 530 – “Audit selection”	NSAS № 14- “Audit selection”.
ISAS № 540 – “Audit of valuables assessed in the accounting”	NSAS № 10- “Another information in the structure of financial reporting”.

These standards determine the adequacy level of evidence available in the international practice of auditing activities and requirements for their collection.

ISAS № 500- “Audit evidence” provides the following definition to the audit evidence: “Audit evidence is information obtained by the auditor in formulating the conclusions on which the auditor’s opinion is based. The audit evidence includes the primary documents and accounting records underlying the financial statements, as well as supporting information obtained from other sources.”

Requirements to the quantity and quality of audit evidence of national standards of auditing activities in Uzbekistan, as well as actions to be taken for their obtaining are set out in NSAS №50 “Audit Evidence”. The requirements of this standard are compulsory for execution by all audit companies while conducting audit.

According to the definition by the NSAS of the Republic of Uzbekistan № 50 “Audit evidence”: “Audit evidence is the information collected by an audit company in the audit process and which justifies an auditor’s conclusion. To obtain audit evidence, the primary documents and accounting records that are the basis for the financial statements as well as other supporting information obtained from other sources are used. Audit evidence should be sufficient and adequate”. Consequently, according to this standard, audit evidence should be adequate and reliable to be used to develop an auditor’s conclusion.

In the process of collecting adequate and justified evidence by audit companies to develop an appropriate auditor’s conclusion, in our opinion, a particular attention must be paid to the following factors:

- assessment of the nature of the joint-stock company accounting and financial reporting as well as the system of internal and external control system, that is evaluation of the internal audit independence and risk of the control;
- the scope of audit procedures and audits carried out by an audit company;
- the data base of the audit evidence and justification of their reliability by the evidence.

According to the NSAS № 50 “Audit evidence” audit procedures are divided into several groups and audit companies can obtain audit evidence by performing the following audit procedures (Figure 1).

Adequacy of audit procedures represents the quantitative amount (limit) of the audit evidence required to provide an auditor’s report.

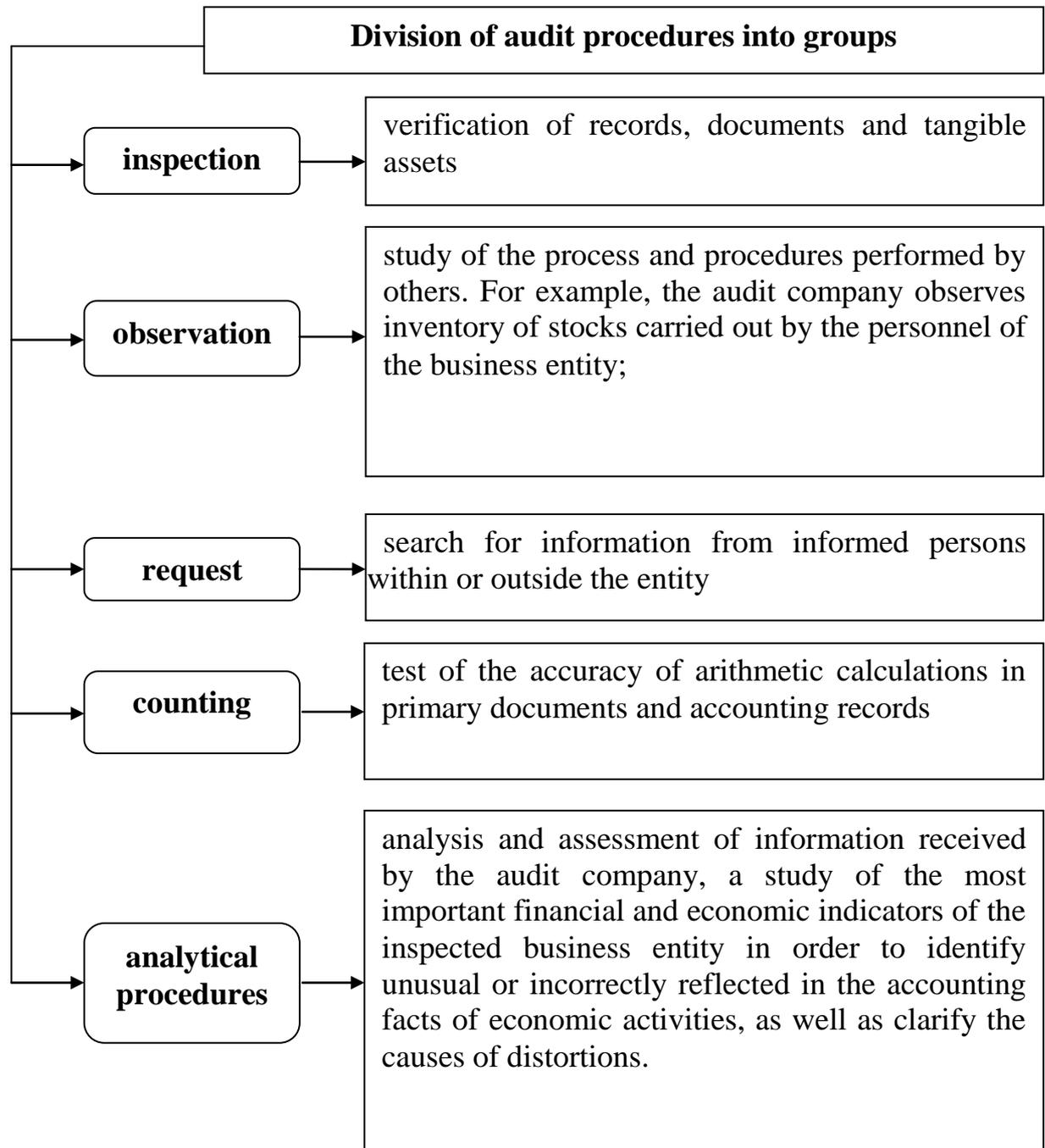


Figure 1. Grouping of audit procedures

Compliance of the audit evidence identifies the quality of significance and reliability of the audit evidence required for formulating the auditor's opinion.

Adequacy of audit evidence is a qualitative measure of audit evidence, which means the significance and reliability of audit evidence in the expression of an audit company. In order to obtain sufficient and adequate audit evidence, an audit company should consider the following factors:

- the nature of accounting and internal control systems of an economic entity, as well as an assessment of inherent and control risks;
- the volume of procedures performed by the audit company;
- source and reliability of available information.

Audit evidence is reliable when it is confirmed by documents and the actual state of assets and liabilities. When assessing the reliability of audit evidence of the audit company, the following general rules should be observed:

a) audit evidence obtained from external sources (for example, confirmation received from a third party) is generally more reliable than evidence obtained from internal sources;

b) the audit evidence obtained from internal sources is reliable if the existing accounting and internal control systems are effective;

c) the audit evidence collected directly by the audit company is, as a rule, more reliable than the audit evidence obtained from the business entity;

d) the audit evidence obtained in a written form is more reliable than the audit evidence obtained orally.

Audit evidence is reliable if they are collected from different sources and do not contradict each other.

If the audit evidence obtained from one source is inconsistent, or the audit evidence obtained from different sources is inconsistent or contradictory, the audit company should identify additional procedures that will provide reliable evidence.

If the audit company fails to obtain sufficient evidence to express an opinion on the financial statements, it should reject development of the auditor's report. Audit

evidence can be obtained by conducting tests of the economic entity's internal control system and substantive procedures.

Tests of internal control systems are procedures carried out by the audit company to obtain audit evidence for assessing the state of accounting systems and internal control of an economic entity.

The main aspects of the accounting and internal control systems of an economic entity for which audit evidence is to be obtained are the following:

- structure (whether the accounting and internal control systems have an appropriate structure designed to prevent or detect and correct distortions);
- functioning (whether systems of accounting and internal control are effective).

The substantive procedures are procedures performed by the audit company in order to obtain audit evidence on the existence or absence of material misstatement in the financial statements.

In carrying out substantive procedures, the following issues are examined:

- availability of assets and liabilities as of the end date of the reporting period;
- full reflection of assets, liabilities, business transactions and events in the financial statements;
- reflection of assets and liabilities at an appropriate cost;
- accurate reflection of the amounts of business transactions and events in the financial statements;
- reflection of income and expenses at the relevant period.

Thus it is possible to draw a conclusion that, in our opinion, audit evidence is information collected by the audit company in the audit process and justifies an audit report. Audit evidence can be: formulation of accounting which is the basis to develop an auditor's conclusion, primary accounting and generalized data, the data which constitutes the basis for compiling financial statements as well as account residuals, business-plan data, information obtained from external information sources as well as the data which isn't related to the accounting. This information should

serve as a sufficient basis for the expression of the auditor's report because on the basis of these facts it is possible to give either a positive or negative conclusion.

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