IMPROVING THE METHODS OF APPLYING THE LEVEL OF MATERIALITY IN THE AUDIT OF FINANCIAL STATEMENTS

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Abstract. *In this article, based on the users of financial statement information and their views on the concept of materiality in the audit, a proposal and recommendation was developed on the assessment of materiality in the audit of financial statements.*
Keywords: *financial statement, revenue, profit before tax, total assets, investors, creditors*

1. Introduction

We know that auditing is also a commercial activity, the main purpose of which is to make a profit through the provision of auditing and related services. Based on this aspect, the main tasks of auditors are to provide quality service to clients and thereby help them make relevant decisions.

One of the main obligations of auditors in accordance with the regulatory legal documents on audit activity is to give an opinion on the object of inspection by the auditor at the final stage of the audit. This idea serves to increase the confidence of the client. In addition, it was considered important that the audit opinion was prepared for the client as well as for other users.

According to the conceptual basis of the financial report, the following is noted on the financial report: "General purpose financial reports contain information about the financial condition of the reporting organization, that is, the economic resources of the enterprise and claims against the reporting entity, provides information about Financial statements also provide information about the consequences of transactions and other events that change the economic resources and claims of the reporting entity. Both types of information provide useful information for organizational resourcing decisions."[1]

Also included in this conceptual framework are the following: "Information is material if its omission, misrepresentation or concealment would be material to the general purpose financial statements that provide financial information about a particular reporting entity. users may influence the decisions they make based on these reports. In other words, materiality is a significant aspect of the entity, based on the nature or size, or both, of the items to which the information relates in the context of the entity's financial statements. Thus, the Board cannot establish a single quantitative threshold of materiality or predetermine what may be material in a particular situation."[2] it is emphasized separately. Based on the above, it is known that the assessment of materiality in the audit of financial statements has very important features.

2. Literature review

Non-professional investors, bankers and auditors suggest that they interpret audit reports differently. (Gray and Wright 2012)

Equity and debt investors do not use the same financial statement information to make investment decisions. (Holthausen and Watts 2001)

[1] Conceptual Framework for Financial Reporting was issued by the International Accounting Standards Board in September 2010. It was revised in March 2018.
[2] Conceptual Framework for Financial Reporting was issued by the International Accounting Standards Board in September 2010. It was revised in March 2018.

The interest of investors who want to become shareholders is related to net income, and what is required by auditors in the audit is to determine the level of importance of these income indicators as important indicators. (Bartov et al. 2002)

For debt investors whose enterprise aims only to lend, enterprise income is not considered an important indicator. Instead, debt investors may be more concerned with the company's liquidity, balance sheet strength, and the company's ability to service debt. (Jiang 2008)

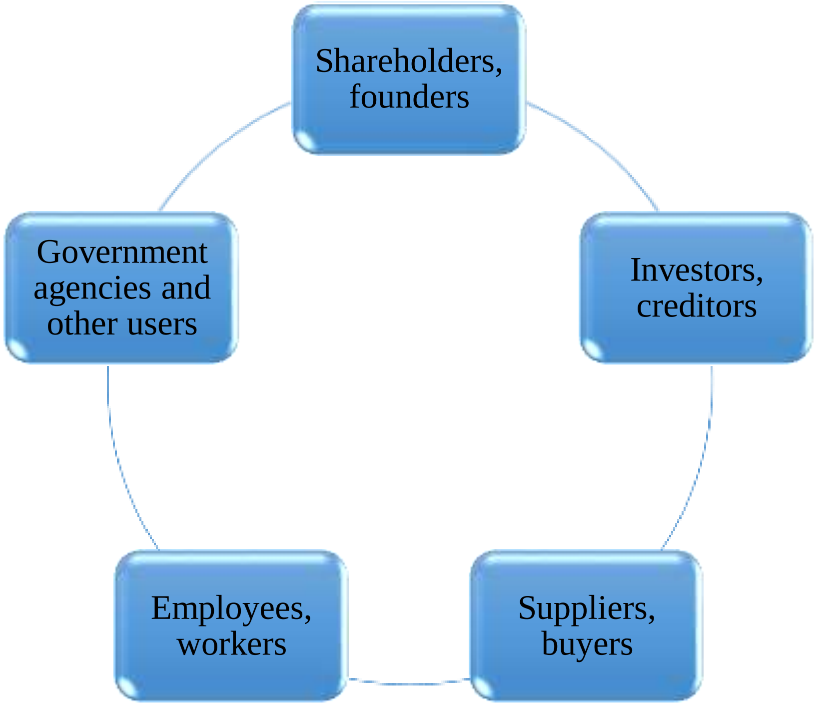
3. Research methodology

The research used induction, deduction, systematic and comparative analysis, grouping, experiment, adaptive methods, integrated approaches, analysis and approval of international experiences on the issues of asset impairment calculation and improvement of methods.

4. Analysis and discussion of results

According to the conceptual basis of financial reporting, the purpose of general purpose financial reporting is to provide financial information about the reporting entity that is useful for making decisions on the provision of resources for existing and potential investors, creditors and other creditors. However, on a conceptual basis, information in financial statements may be of interest to a number of external and internal users in addition to being useful to investors and creditors.

In general, in our opinion, the following groups of users can be included in the composition of users of financial reports: investors, creditors, suppliers of goods, employees, customers, state institutions, in general, those who are interested in the activity of the enterprise, who have established direct and indirect contact with it or want to establish, individuals and legal entities.



1- fig. Types of users of financial reporting [3]

Due to the fact that these users have established relations with the company in different directions, their important indicators on the business activity of the company and the financial reports prepared by it are also different.

Also, these users have different approaches or needs regarding the use of financial reports of enterprises and organizations, which can be seen in more detail in the table below:

Table 1

Indicators of interest to users of the financial report [4]

[3] Systematized by the author
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User	Indicators of interest to users
Shareholders/investors	• Profitability (return on investment, ability to pay dividends)
Potential investors in the startup	• Income • Assets (e.g. patents)
Creditors like banks	• Total assets (debt protection) • Profitability (ability to serve interest)
Tax authorities	• Profitability (income tax collection) • Income

It can be concluded from the data of the above table that the use of indicators in financial statements or productivity, efficiency, liquidity related to these indicators in making management decisions of clients (users) of audit services will be different. Therefore, the same importance level or importance indicators cannot be applied to different customers and users.

As noted, there are no specific guidelines for calculating or setting the materiality level for an audit, and it is entirely a professional judgment based on experience for auditors. However, there is a 5-step approach that auditors follow to determine and use materiality in audit engagements.

Also, one of the other features of materiality in the audit is that the level of materiality and the indicators of materiality in the financial statements are different depending on the users of the results of the audit. For example, if the audit was conducted for investors, banks for the purpose of investment or loan to the enterprise, and the audit report was prepared for this purpose, the important indicators and levels of this audit report are significantly higher than those of the audit conducted for the state and tax authorities. different indicators and levels.

In the table below, economic entities are divided into types depending on their structural structure, business activity, and the composition of indicators that are important for users who are interested in them is given.

Table 2

Indicators of importance depending on some structural structure of economic entities [5]

Structural structure of economic subjects	Indicators used to determine significance
Enterprises listed on stock markets	- income before taxation; - if the enterprise suffered losses from the main activity, in case of high fluctuations in income, a number of other indicators, in particular, indicators such as net income from sales, total assets and net assets are also important indicators. can be
Normal commercial organizations	- pre-tax income
Commercial organizations with fluctuating income	- income before taxation; - income and expense indicators related to the sale of securities; - indicators related to depreciation in securities;

[5] Systematized by the author

	- income and expense indicators related to the purchase; - indicators related to impairment of goodwill; - cost indicators related to the reorganization of the enterprise; - other unusual cost indicators.
Commercial organizations that have reached a critical point	- income before taxation; - if the enterprise suffered losses from the main activity, in case of high fluctuations in income, a number of other indicators, in particular, indicators such as net income from sales, total assets and net assets are also important indicators.
Small commercial organizations	- income before taxation; - net income from sales; - total assets.
Commercial organizations in the state of sale	- income before taxation; - total assets.
Non-profit organizations	- net income from sales; - gross profit; - total assets.

As mentioned above, due to the fact that the objectives, business activities, status and structural structure of enterprises and organizations are different, the auditor should take into account the fact that the important indicators in the financial reports are also different when determining the level of importance.

5. Conclusion

Based on the above-mentioned opinions and comments, we can conclude that the indicators and level of importance in the audit are first determined and determined based on the results of the audit, depending on the potential users. One type of user may have different opinions on importance indicators than another type of user. Since auditing is a commercial activity, the main task of auditors is to form a complete, honest and objective audit opinion based on the wishes of clients. For this reason, the auditor relies on his professional opinion in determining the indicators of importance.

Such auditors will be able to evaluate indicators that are important according to their nature and quantity based on the client's request or, if not, with the help of generally accepted calculations.

Based on the conceptual framework, we can conclude that the auditor considers the indicators that are important to the quantity, i.e., the level of importance in terms of indicators such as net sales, profit before tax or, if not, total assets. We believe that it is appropriate to calculate based on the general recommendation character or to rely on professional judgment, while it is appropriate to determine the indicators that are important by nature based on the customer's demand or the business activity of the subject he is checking.

In addition, the auditor will have to document the procedure performed to determine the level of importance in documents and consider this documentation process as one of the necessary working documents. Depending on the situation, the auditor will be able to agree on processes related to this importance with the client and approve the necessary documents together.

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