

GUIDELINES FOR THE APPLICATION OF SAMPLING METHODS IN THE GATHERING OF AUDIT EVIDENCE

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ABSTRACT

This article describes the procedure for applying sampling methods in gathering audit evidence. Recommendations for improving the procedure for applying sampling methods were also developed in order to reduce the audit risk.

Keywords: *audit, audit evidence, audit sampling, statistical sampling, audit risk, materiality level.*

INTRODUCTION

Gathering evidence is one of the main processes of an audit and involves summarizing the results of analysis and gathering information to form an opinion about the reliability of the audited entity's financial statements and continuity of operations.

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 Akram Niktaba, Azim Aslani "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. Such documents through a test that determines how well the accounting controls work and through testing, accounting details of accounting are obtained” [1].

A group of economists said that “gathering audit evidence and assessing its reliability and relevance is increasingly complex. Direct and indirect stakeholders can influence the collection of audit evidence and, thus, auditor independence” [2].

According to Joseph F. Brazel, Christine Gimbar, Eldar M. Maksymov, Tammie J. Schaefer “however, skeptical behavior does not always produce the same outcome. For example, an auditor observes a red flag when evaluating audit evidence and exercises an appropriate level of skepticism by performing additional testing. Conducting an investigation would be consistent with exercising appropriate skepticism, but also requires added effort from both the auditor and the client and does not ensure that a misstatement will be found. It is possible that the additional testing leads to an acceptable explanation for the inconsistent evidence observed, such that no audit adjustment is necessary” [3].

A group of economists “the purpose of using a public accountant is to assess whether the statement made by management is fair or not. In carrying out the audit process, the auditor must provide a valid and reliable opinion. Therefore, the collection of audit evidence becomes something important. However, audit evidence can be used to express an auditor’s opinion” [4].

ANALYSIS AND RESULTS

Audit evidence is classified according to its characteristics:

by sources of acquisition: external, internal, mixed;

according to the method of obtaining: recording facts, determining documented facts, finding facts as a result of a special analysis;

by form of presentation: visual, written, oral;

according to the form of existence: documented, tangible and intangible objects, as well as legal entities and individuals who cooperate with the audited business entity and have information of interest to the auditor.

It should be noted that the evidence provided in writing from a third party or obtained by the auditor himself is the most reliable evidence.

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

The quality of the audit process largely depends on the audit documentation. 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 ISA 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.

The internal control system is assessed based on the requirements of ISA No. 315 entitled "*Identifying and Assessing the Risks of Material Misstatement*" and ISA No. 610 entitled "*Using the Work of Internal Auditors*". In our opinion, in order to

improve the quality of the audit, it is necessary to regulate the relationship to the internal and external audit within the framework of the same rules.

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 sampling 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 sampling 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 sampling should be appropriate to the nature and objectives of the audit.

The scope of sampling and sampling 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 sampling of auditors.

The conditions for sampling in the audit are as follows:

- the size of the main set must be large enough, otherwise the application of sampling 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 sampling 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

Figure 1. The conditions for sampling³.

Audit sampling 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 sampling of elements can be made arbitrarily. Sampling results are based on the auditor's judgment. Therefore, the use of non-statistical sampling is effective if the error rate is high.

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 sampling 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.

³ Made by author.

CONCLUSION

1. Analysis and summarization of data based on the application of various methods of data processing with the help of computer programs in various areas of the audit: assessment of importance and risk level, verification of the accuracy of turnover and balances in individual balance sheet items, assessment of the balance sheet structure in order to determine solvency, investors (owners) analysis of financial stability indicators to determine the level of protection of interests; analysis of business activity; analysis of the efficiency of financial and economic activity; assessing the flexibility of the economic development strategy and dividend policy of the subject under investigation.

2. Forming conclusions about the recording of operations and components of financial statements and accounting and internal control system. Based on the received evidence, an opinion is formed in all areas of the audit, data is compared with certain values, and appropriate recommendations are made for making corrections to accounting and financial statements, as well as suggestions for improving the accounting and internal control system and improving the financial condition of the audited business entity are developed.

3. Preparation and presentation of an interim summary of audit results with recommendations for correction of errors, improvement of the accounting and internal control system, and possible conclusions on the reliability of financial statements.

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