

Doi: [10.15863/TAS](https://doi.org/10.15863/TAS)  
**International Scientific Journal  
Theoretical & Applied Science**

p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)

Year: 2015 Issue: 02 Volume: 22

Published: 28.02.2015 <http://www.T-Science.org>

**SECTION 31. Economic research, finance,  
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## **DETERMINING THE MATERIALITY OF AUDIT ON THE PRACTICE OF KAZAKH ENTERPRISES**

**Abstract:** This article reveals the main aspects of the concept of materiality in the audit and methods for determining the relationship of materiality and audit risk, extent of audit procedures.

**Key words:** conception, materiality, audit, financial reporting, distortion, audit risks.

**Language:** English

**Citation:** Tleubayeva SA, Daribayeva L, Seitzhanova LS (2015) DETERMINING THE MATERIALITY OF AUDIT ON THE PRACTICE OF KAZAKH ENTERPRISES. ISJ Theoretical & Applied Science 02 (22): 55-64. doi: <http://dx.doi.org/10.15863/TAS.2015.02.22.11>

Economic reforms which are carried out under the state Strategy of Industrial and Innovation Development of Kazakhstan in 2003-2015 years and the implementation of the Strategy of becoming one of the fifty most competitive countries in the world, determine the need for radical changes in the audit system, which is impossible without a theoretical research on the formation and development of audit, including the ways of overcoming the contradictions between the theoretical and methodological foundations of historical and developing audit system [1]. Because of this reason, the question "Audit Materiality" should be the object of researchers' attention and the studied problem should be noted as one of the most actual problems.

Both intentional and unintentional misstatement of the financial statements may be at significant on the audit (affecting the reliability of financial reporting) or insignificant. The error indicator of the report directly affects the degree of its reliability.

Large individual errors identified during the audit are corrected in the financial statements. Other errors and inaccuracies, being small and insignificant, do not affect the decision which is taken by users of reporting. Therefore, they can be ignored in order to reduce labor costs for identifying and correcting the errors and timeliness of reporting. Thus, the auditor allows some

inaccuracy in accounting indicators, but he tries to show that the financial statements are accurate.

The audit obtains the particular importance for updating information, the establishment of inconsistencies of issued promotions. By this way audit improves the quality of decisions, the efficiency of market operations and contributes to the better use of resources at the disposal of the enterprise [2].

The audit is carried out on the basis of the contract of checking of the status of accounting and farm monitoring, compliance with financial and business transactions legislation, reliability of financial statements, as well as consulting, expert and other services provided by the auditors of companies and organizations. The main purpose of the audit is to ensure the reliability of financial reporting of enterprises.

Audit as an activity has to collect the facts relating to the functioning of the enterprise and is carried out by a competent independent person who makes a determination on the qualitative side of the operation, the provisions or information on the basis of established criteria.

Auditors are independent experts in the field of accounting, analysis, control, who have the appropriate license for the Law on Auditing, which control and analyze the production and economic activities of various industrial and economic systems on a contractual basis; also compile a

report on the final results of the systems studied over a certain period of time [3].

Collected facts about the operation or information or a subject to review are evaluated according to the standards or criteria. Such criteria may be established either from the outside, with external audit, or in the case of the internal audit of the flow direction and intent which are determined by the management for a particular audit;

The final stage of the audit inspection is to make the audit report, where the inspector informs uncovered states during an inspection of the circumstances and draws conclusions for those groups that exhibit this legitimate interest.

Audit in accordance with International Standards on Auditing (ISA) is designed to provide reasonable assurance that the financial statements taken as a whole are free of material misstatement.

The need for an audit is based on the requirements of users of financial statements. The requirement for an independent audit is to meet the need to ensure the objective of financial statements that are free from error and fraud, and appropriate to the needs of users.

Thus, the needs of people who need for providing the audited financial statements by that or another organization can be regarded as a direct objective of the audit. In other words, the purpose of an audit of financial statements is to express an opinion on how it can achieve (the financial statements) the financial position, results of operations and cash flows in accordance with applicable law.

The audit referred to an independent audit of the status and accounting in order to ensure the validity of the financial statements in accordance with regulations. The auditor should express an opinion on whether the financial statements give an objective opinion about the company or not. From this we can determine the subject of the audit is the facts reported in the financial (accounting) reports.

According to the law of RK (Republic of Kazakhstan) "On Auditing" audit can be determined as checking on the purpose of expressing the independent opinion on the financial statements and other information related to the financial statements, in accordance with the laws of the Republic of Kazakhstan [4].

A significant role in the regulation of audit activities plays a licensing system of audit activities and qualification certification of auditors.

Auditor is a person certified by the Qualification Commission and received a certificate of competence of "auditor". Qualifications Commission is a non-profit organization established in the legal form of the non-governmental institutions formed at the republican

conference chambers of audits that are known as its founders.

Auditing services licensed to implement state control over observance of legislation of Kazakhstan firms imposed on auditing. The presence of the auditor qualification certificate in the absence of a license does not give him the right to engage in audit activity as a business activity. Function of state control over auditing executed by the Ministry of Finance.

As it is known, the modern audit began its rapid development around the second half of the nineteenth century, together with the rapid development of joint stock companies as a form of capital, adequate large-scale industry, agriculture and trade. This happened due to the circumstances in the new conditions, the system of relations with the investor hired administration of joint stock companies have undergone significant, fundamental changes:

- property differentiation of the population, as well as the development of fictitious capital have caused a fundamental shift in the composition and in the guise of investors;

- making economic decisions based on biased information often leads to negative consequences, and even bankruptcies of some joint-stock companies;

- require special expertise to people who are able to express a professional opinion on the reliability of their statements;

- there was a significant gap between the administration (executive directors) of joint stock companies from directly by the owner in connection with the dramatic rise in their numbers;

- objectively interests administration companies as preparers and their investors (including shareholders), as well as other users of these statements;

- the beginning of the formation and development of the stock market as a modern form of capital movements.

All these factors are substantially directly related to modern developments in the Kazakh economy. In countries with established market economies are generally used, the following scheme of financial control bodies [5].

1. SAI, reporting to Parliament or to the President, which is charged with overall control of the expenditure side of the budget;

2. Tax Administration, which is subordinate to the government or the Minister of Finance of the State. These bodies responsible for monitoring of the state budget;

3. Control and audit units in ministries and agencies funded by the state budget, which obey the Supreme Audit Institutions or the relevant ministry

or agency. These officials detailed control of public funds in the budget structures;

4. The independent auditor's financial control. Its functions is to check on the treaty: the basis of reliability of the data-sheets, the legality of the transactions, the provision of consulting services in the field of accounting and reporting enterprises, institutions and organizations of non-state sector of the economy. The leading form of external financial control in countries with developed market economy is an independent auditing conducted by experts economists wide profile.

In world practice there are two fundamentally different concepts of regulation of auditing, largely due to the problems solved by the auditors.

The concept of materiality exists both in accounting and in the audit. Materiality, or sometimes say «materiality» (the literal translation of the English term materiality), is one of the basic concepts of auditing. Audit Materiality considered circumstances significantly affecting the accuracy of the client's financial statements. As a quantitative characteristic of such circumstances is the level of significance, that is, limit the distortion of financial statements from which cannot be taken on its basis the right decisions. Set clear and unambiguous criteria for materiality are not easy.

Preliminary judgment may include assessments of what is important to partition balance sheet, income statement and statement of cash flows, taken separately, and for the financial statements as a whole. One of the objectives of the preliminary judgment about materiality - to focus the audience's attention on the more significant financial statement items while determining the audit strategy. The procedure for determining materiality in the international audit practice regulatory standards is called «Audit Materiality» (ISA 320 «AuditMateriality») [6].

IFRS (International Financial Reporting Standards) Materiality is defined as the crossing, inaccurate or incorrect interpretation of the fact of accounting information, which in the light of the surrounding circumstances makes it probable that the judgment is made on the basis of this information, could change or it could affect inaccurate or incorrect facts. A.B. Bogopolskii stated: «Although it is possible to use the generally accepted practice in a particular case study materiality threshold remains difficult task for each individual across IFRSs and accompanying audit standards ISAs. This is a separate exercise, which requires the use of highly professional judgments and assumptions used in the models in the determination of individual and aggregate materiality» [7].

Based on this definition, only the user of the financial statements is entitled to determine the

level of materiality. Since the financial statement is a fairly wide range of users, each of them has a different idea of the level of materiality. So, for investors of the company is essential information on the results of the company, the dynamics of income and assets of reality. For potential investors will be essential information about the financial sustainability of the enterprise, potential changes in demand for manufactured products, and the profitability of investments and the reality of investment projects.

Auditors use the concept of materiality (the material) as follows:

1) as the basis for planning the test in determining important, atypical and may include mistakes articles and accounts, which should be given special attention;

2) as a basis for evaluation of the collected audit evidence;

3) as a basis for a decision about the type of audit opinion.

The wording of the standard auditor's report recognizes statements present fairly, in all material respects. The phrase "in all material respects" should inform users that the opinion expressed by the auditor in his report, refers only to material financial information. The concept of materiality is important because any of the auditors is not able to guarantee the accuracy of financial statements up to the last penny, dime or tiyn.

Materiality has both qualitative and quantitative aspects. Distortion of the facts in the financial statements may not be much, but nevertheless provide the basis for its disclosure. Because of the dual influence of qualitative and quantitative factors to determine the materiality concept is difficult to apply in your work and attempt to establish a single harmonized standard is useless. In addition, the concept of materiality inevitably inherent considerable subjectivity: that one auditor considers essential to friend Rate as insignificant. However, precisely define the boundary of materiality is not possible due to lack of opportunities in accounting measurements and constraints imposed on the process and technology audit. In planning the auditor should take into account the factors that may cause significant distortion of financial statements. Based on the analysis of the significance level of materiality, the auditor takes to test and what are the characteristics balances and turnovers on the accounts of accounting, the auditor must decide which articles he will study very carefully and in what cases will apply sampling or analytical procedures in order to reduce the overall audit risk to an acceptable level.

In general, the link between the level of materiality and audit sampling volume can be represented by the example of guidelines for

obtaining audit samples AISRA (American Institute of Certified Public Accountants -American Institute

of Certified Public Accountants). Table 1 shows the criteria for assessing materiality:

**Table 1**

**Criteria for assessing the materiality.**

Assessment of balance sheet items	Allowable deviation
Articles with the most significant balance	4%
Articles with a significant balance	5%
Articles having less significant balance	6%

Table 2 lists the recommended sample sizes depending on your auditor admissible norm deviations. Determination of the allowed rate of

deviations is the result of evaluation of materiality test population, and to define it, you can use the following criteria:

**Table 2**

**Determination of the sample size.**

Norm deviation	Allowable deviation in %										
0,00	149	99	74	59	49	42	36	32	29	19	14
0,25	236	157	117	93	78	66	58	51	46	30	22
0,50	**	157	117	93	78	66	58	51	46	30	22
0,75	**	208	117	93	78	66	58	51	46	30	22
1,00	**	**	156	93	78	66	58	51	46	30	22

The specific procedure for determining materiality is set independently of each audit firm. Without going into technical details of the work table, it can be noted that the deviation is 2% of the sample was 149 documents, and in fixing the less strict assumptions about 5% - is only 59.

The less stringent criteria set materiality, the smaller the amount of audit sampling and therefore less extent of audit procedures on the merits. Audit procedures are essentially the most time consuming. Accordingly, it can be concluded that in setting more stringent criteria of essentiality, the complexity and cost of the audit increases, and vice versa. Auditors are not recommended neither too low nor too high levels of materiality.

In the first case, the check will take more time and effort than the auditor applying the average

level of importance. Such verification will be more expensive, time duration, and as a consequence of the non-competitive. At too high a level of significance when testing will be conducted less audit procedures, and as a result, increases the risk of undetected and, therefore, the total amount of audit risk. The overall decline in the quality of checks carried out by such a policy also makes uncompetitive.

Therefore, the audit firms by semi empirical go to the optimal or close to the materiality level. Certain deviations from it upward or downward occur, which reflects the preference policy and management of the audit firm.

In general, the relationship of significance, extent of audit procedures and audit risk can be represented as follows (Table 3):

**Table 3**

**Relationship between the materiality extent of audit procedures and audit risk.**

Parameter	Lower limit	Upper limit
Materiality level	1-2%	10-15%
The required audit procedures	More	Less
Detection risk	Low	High
Audit Risk	Low	High
Feature level substantially	more severe	less stringent

As can be seen from the table between the level of materiality and audit risk degree there is an inverse relationship:

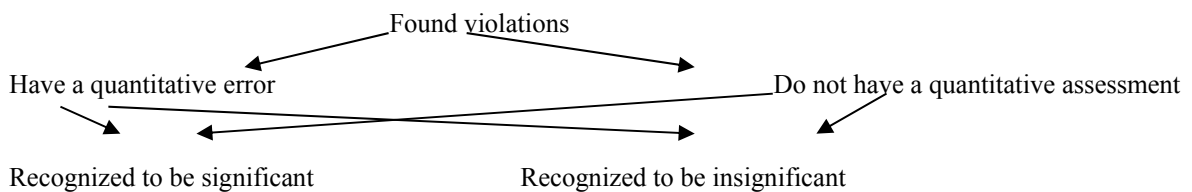
- a) when more stringent criteria for a significant level of audit risk is lower
- b) at least as stringent criteria of essentiality higher audit risk. This provision follows directly from the preceding paragraph, where it was examined the relationship of level of importance and extent of audit procedures.

If the audit decision on the use of less stringent values of level of importance compared with the planned (for example, 8% instead of the planned 5%), the auditor is obliged to take measures to reduce audit risk. To this can be done as follows:

- a) to perform additional testing procedures of controls to reduce control risk
- b) to reduce detection risk should increase the amount of audit procedures that increase the time required to check and increase the volume of audit samples.

When an error is detected, the auditor should determine its nature (qualitative aspect) and then quantify the error. The latter is not always possible; in the course of the audit can be detected error, the total arithmetic value of which it is difficult to determine.

During the test, the auditor should evaluate the significance of the information received. It also takes into account both quantitative and qualitative aspects of violations or errors. Any violation identified by auditors is based on a qualitative nature, and depending on the nature of the violations may or may not have a quantitative assessment. For example, in the application of an incorrect correspondence accounts can be identified over or under speed or balances, but the observation of a lack of log credit cash order is hardly possible to quantify. And in both cases, found notes can be recognized and significant and insignificant (Figure 1):



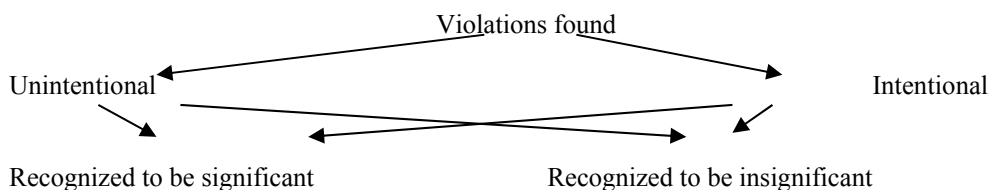
**Figure 1- Materiality assessment of audit evidence depending on the number of errors.**

The situation recognition of significant errors that do not have a quantitative expression is rather complicated, and as a rule, is based on the subjective opinion of the auditor. As an example the case detection auditor illegal operations at the facility can be given. Such violations are found to be significant, regardless of their size and the total measurement.

On the other hand, the same quantitative error can be viewed as a significant, and how insignificant, depending on the circumstances and nature of the transactions on the account. For example, an error in the 5000 tenge on the account

"Cash on hand", identified as a result of fraud detection, will be recognized as more significant than the error of the same amount in "Prepaid expenses" associated with irregular correspondence accounts. In other words, the significance of a deliberate error is higher than not intentional.

Classification of errors identified by the auditor is given in ACI "Actions of the auditor in identifying misstatements of financial statements." In accordance with the standard, and intentional and unintentional distortion can be estimated as essential or nonessential (Figure 2):



**Figure 2 - Materiality assessment of audit evidence depending on the distortion.**

Significant errors may depend on the following circumstances for this error. For example, in assessing the net assets of the overstatement found at 500 m. In general, such error is a course of immaterial. But, if in a particular situation, taking into account such amendment the net asset value is less than the authorized capital of the organization, such an error is found to be significant.

Significant may be recognized and errors affecting the trend of core indicators. For example, the detected error in inflating the balance sheet profit for 2000 tenge, insignificant in normal circumstances, can be considered significant if with such adjustments previously been a steady profit growth gives way to fall. A similar rule can be applied to other articles. In any case, the completion of the audit, the auditor is required to assess the cumulative effect of the errors identified. In some cases, insignificant error for each of the balance sheet items are measured in total determine the issuance of the audit report, other than an unqualified.

There are three levels of importance to select the audit report:

1. Minor amounts. If the financial statements contain inaccuracies, but these errors are unlikely to affect the decision of users of financial statements, this inaccuracy is considered to be insignificant, and in this case issued a standard unqualified report.

2. The amounts are significant, but do not distort the overall impression of the overall financial statement presentation. The second level of significance occurs when the presence of inaccuracies in the financial statements will be affected by the decisions of users, although the overall financial statements objectively reflect the state of affairs. For example, if during the audit, the auditor found that the cost of inventories significantly overstated, but the value of stocks is insignificant in the total value of assets of the company and all other balance sheet items are formed correctly.

To decide on the type of audit report, the auditor should evaluate the potential impact of the detected errors, including retained earnings and tax payments, and if the cumulative effect of all the calculated factors will not be recognized as essential to reporting in general, issued conditionally positive audit report (the conclusion with reservations).

3. The amounts so essential and so common that jeopardized the objectivity of the financial statements as a whole. If there is confidence that the audited financial statements users will inevitably take on its basis the wrong decisions, the auditor should abandon an opinion on these statements, or to issue a negative audit report. That is, if stocks

have a high enough proportion of the asset balance, the auditor will issue more negative audit report.

Given the choice between conditionally positive and negative audit report, it is necessary to clarify the influence detection of significant errors in the reporting of the balance sheet as a whole. This is usually called as spreading inaccuracies. For example, inflated the cost of inventory, affects only the article of reserves and retained earnings, but the errors found by the same amount in the determination of sales volumes and the impact on accounts receivable and tax payments and retained earnings. In the second case, the probability of issuing a negative audit report above, since the prevalence of errors above [8].

In practice, in each situation to decide on the degree of importance taking place hard enough. ACI determines the conditions for issuing an unqualified opinion by the following conditions:

1) identified in the course of the audit and the alleged distortions must be much less than the level of materiality,

2) qualitative deviations of the order of accounting and reporting requirements of the relevant regulations should not be significant.

Thus both of these conditions must be met simultaneously.

Materiality may be defined as an absolute value and as a relative. Establishment of the absolute boundaries of materiality is used infrequently. Indeed, the sum of fifty thousand tenge can be significant for a small business, but to a large holding company, it is unlikely to be significant. On the other hand, some auditors believe that the error over a certain size will be essential in all conditions. For example, the sum of five hundred thousand tenge will be substantial (material), regardless of other circumstances.

In practice, the most common is the definition of materiality in relative terms from the baseline that is a percentage or fraction. Relative values can be established as a point and a range of values. For example, if the value of the balance sheet profit of 50,000 tenge, the materiality level can be set to 3% (whereas its monetary value will be 1500 tenge), or in the range of 2-4% (then equivalent cash amount to range from 1000 to 2000 tenge). Here 2% will be called the lower boundary of materiality, a 4% respectively top.

In establishing the boundaries of a point in 3% and 2,999% error in the article will be considered valid in material respects and in case of error in the 3.001% false. The difference may be negligible. Set range boundaries provide an approach to this problem more efficiently. In our example, when an error of up to 2% verifiable article will be considered as accurate in all material respects, and more than 4% - unreliable. If the error is in the

range of the lower and upper limits of materiality, the auditor most likely would have to increase the number of ongoing audit procedures. If additional verification proof of the reliability of accounting data will prevail, rather auditor decides on the reliability of the audited segment, and vice versa.

Standard dot border materiality is considered 5%. A similar level of materiality applies when disclosing information of financial statements. In the audit practice is most often considered that a deviation of up to 5% on all appearances will be negligible, and the deviation of more than 5% - significant. Accordingly, the standard range boundary is considered to be 5-10%.

The criterion of materiality is defined as reporting as a whole (total error) and to significant balance sheet items. Determination of significant or substantial to check the articles derived from selective nature of the audit. Really test operations during the reporting period for all accounts with the same accounting care are hardly possible, and the same is hardly necessary. In determining the material balance sheet items are taken into account both quantitative and qualitative parameters.

As a quantitative parameter is primarily used the absolute value of speed and the balance of a particular account of the balance sheet or their share in the total result of the speed or the balance sheet. In determining the significance the quality of the balance sheet or its contents are also taken into account. For example, at the same accrual terms «Cash» can be considered significant, and the article «Prepaid expenses» no. However, the auditor will proceed from the fact that the probability of errors in the accounts of cash above, in view of the possibility of fraud staff. Application of the criteria of essentiality to the accounts of the balance sheet (segment) is hampered by the following:

- 1) The auditors suggest that some accounts contain more errors than others,
- 2) take into account the need both understatement and overstatement of data
- 3) The cost of the audit should be comparable to the criteria of essentiality.

The sequence of applying the criteria of materiality can be represented as follows (Table 4):

**Table 4**

**The steps of determining materiality.**

Step 1. Preliminary judgment about materiality	Phase of planning materiality
Step 2. Application of pre-judgment to segments	
Step 3. Estimated total error in the assessment	Phase of segment results
Step 4. Evaluation of total error	
Step 5: Compare the total score with a preliminary judgment about materiality	

Ideally, the auditor at an early stage of the audit determines the amount of error in the financial statements, which he will be regarded as a test of materiality. Established criterion called «preliminary judgment about materiality» because it is the judgment of a professional, which may change during the audit, if circumstances change.

Preliminary judgment about materiality determines the maximum total error that the auditor's judgment, although it indicates the presence of errors in the financial statements has no effect on the decisions of qualified users. Judgment about materiality requires high professionalism from the audience.

Preliminary judgment about materiality form in order to facilitate the collection of relevant evidence to the auditor. If the auditor determines materiality as a low amount he needs to collect more evidence when checking these statements than in case a higher level of importance. As you work, the auditor often changes preliminary judgment about materiality. The basis for the evaluation and revision of "an updated assessment of materiality" may be a number of

factors. In order to effectively conduct an audit, the auditor should continuously evaluate the results of the procedures performed and repeatedly checked on the basis of these data, whether the level of planned procedures sufficient or excessive.

New facts and circumstances may also change the amount, the auditor considers essential for the individual items in financial statements or to the financial statements taken as a whole. For example, if the amendments to the statements made in the course of the audit, the parameters defined in the planning stages may vary. By the end of the audit level of materiality may be different than the planning stage. Auditor, who during the work does not overestimate the degree of importance and scope of the audit, has a better chance to inspect ineffective. Assessment of the importance of planning and audit must be regarded as dynamic rather than static audit assumptions.

Preliminary judgment about materiality segment is necessary because errors accumulate on the accounts and not in the financial statements as a whole. When the auditor makes a preliminary judgment about materiality segment, it helps him later to take a better decision about the reliability of statements.

In determining materiality segment there are two possible approaches:

- Deductive when initially determined overall materiality of the financial statements, which is then distributed among the relevant articles of the audited balance sheet,

- Inductive when originally determined materially significant balance sheet items checked, and then by summing the values obtained is essentially determined by the overall materiality of the financial statements.

Consider the examples of their use:

A) The deductive approach. Deductive approach is preferred from a theoretical point of view. When using it, you can avoid a situation where

the number of vote's individually significant accounts exceeds the permissible value for the statements.

Overall accuracy of financial statements can be installed in several ways:

- 1) as the relative value of the benchmark,
- 2) as a result of complex calculation.

In the first case, the benchmark most often act profit before or after tax or balance sheet. For non-profit organizations base quantity can be the total income or consumption, as well as key indicators of reports of cash flows.

Comprehensive settlement provides for a set of indicators involved in the calculation methodology and operations with them. An example is given in the standard method of determining a single indicator of the level of materiality.

Single indicator materiality level should be expressed in the currency in which is accounting and preparing financial statements. Draw up a table on the basis of the estimated conditional data (Table 5):

**Table 5**

**Indicators determining the level of materiality.**

Indicator	Value, th.Tg.	Materiality level %	Level of significance, th.Tg.
1	2	3	4
Balance profit of the company	434	5	22
Gross sales volume	2765	2	55
Balance sheet total	1056	2	22
Shareholders' equity	378	10	38
The total costs of the enterprise	2331	2	47

It is proposed to calculate this figure based on the established materiality levels of basic indicators of financial statements:

- 1) 5% of the balance sheet profit organization,
- 2) 2% of the gross sales volume,
- 3) 2% of the balance sheet total,
- 4) 10% equity,
- 5) 2% of the total costs of the organization.

Find the average value of the column 4 of Table 5:  $(22 + 55 + 21 + 38 + 47) / 5 = 37$

The auditor may discard value strongly deviates more and (or) the smaller side of the mean. A detailed procedure for evaluating deviations and conditions discarding values should be determined intra auditing standards.

In our example, the minimum value deviates from the average by 43,2%:  $(21-37) / 37 \times 100\% = -43,2\%$

The maximum value is different from the average by 48,6%:  $(55-37) / 37 \times 100\% = 48,6\%$

If the allowable level of deviation is set at 50%, extremes will not be discarded. For the convenience

of further work rounding the average value and the error should not exceed 20%. In our example, the rounded value of 40 (rounding error 8,1%). Calculated in this way a single materiality level of 40 000 tenge.

If the allowable level of deviation is 30%, will be discarded and the maximum and minimum values. The new average is:  $(22 + 38 + 47) / 3 = 36$

Then a single level of materiality will be rounded value of the new medium. When establishing the acceptable level of deviations of 45% only the maximum value will be discarded. Then the average is:  $(22 + 21 + 38 + 47) / 4 = 32$

Single level of importance in this case will make 30 000 tenge (rounding error of 6,3%).

The audit organization can change the system benchmarks, as well as the value of their materiality levels, while maintaining the general requirements for the method of calculation.

If you change the levels of essential indicators should be taken into account at least two factors:



1) the level of risk. The higher the risk, the more strict limits of materiality should be set.

2) the scope of the organization. With the growth of the volume of activities to choose more strict limits of materiality.

In practice, the process of allocating a single level of importance between the account turnover causes considerable difficulties, since some enterprises total turnover for the period is several times higher than the balance sheet currency (mostly typical commercial). The use of a standard single level of importance in this case will be the minimum value to the significant turnover that unnecessarily increase labor costs, and therefore the cost of the audit.

Of this situation can be offered two options:

1) to introduce as a benchmark in determining the level of importance of a single total turnover in the accounting statements for the period,

2) to use the multiplying factor for a uniform level of significance calculated by the standard procedure. At the same time raising factor takes into account the excess of total revolutions of currency balance.

The disadvantage of deductive approach is the standard level of importance as a percentage of balance sheet items that cannot take into account the risks of the internal control system, the importance of which in different areas of accounting may fluctuate. Also, do not take into account the direction of testing (at quarterly inspections in one quarter may be more attention paid to the debtor, in another quarter - materials), the probability of errors in the accounts and other factors. In some cases, the effect of these factors leveled correction factors, which greatly complicates the system of calculation of the indicators used in the audit.

B) Inductive approach. With inductive approach practicing auditors determines the scheduling of the essential error reporting as the total value of the essential set to significant balance sheet items. In determining the latter takes into account the following factors:

- the total value of audit risk (the higher the risk, the stricter set of the essential, therefore, increasing the sample size and reduces the risk of error in an audit);

- the absolute value of the article (with an increase in the proportion of articles in the balance sheet, the standard of materiality limit of 5% reduced)

- check the required depth of the article (on accounts that require more detailed inspection standard boundaries is significantly reduced);

- planned labor time reviewing the article (the lower limit of the planned materiality, the greater the volume of checks);

- reporting lines. Statements for external users require more stringent criteria than the inner. Also reporting to a wider range of users requires more stringent criteria than for a narrow circle (special reports);

- uncertainty. Problems associated with the uncertainty of future events usually lead to the use of more stringent criteria of materiality.

Some of these factors act in the opposite direction (eg, the level of audit risk and the amount of work); so when determining the boundaries of the planned errors article mainly used the experience and intuition of the auditor.

The total of the essential error reporting, calculated in this way, as a rule, should not exceed 5-10% of the balance sheet currency.

Calculate the preliminary boundaries of significant errors can and to statement of income. However, most auditors believes that when checking the balance sheet items found most of the errors of the profit and loss account (through the account «retained earnings»), so the materiality criteria used it to balance. In practice, you can define the boundaries of importance to both forms of reporting.

Thus, materiality - is the principle of the audit, according to which the auditor's report should set out all the relevant circumstances discovered during the audit and any other relevant circumstances were not detected by an audit organization in an audit.

According to ISA 320, «Audit Materiality»: «Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of omission or misstatement» [9]. The materiality rather defines the threshold or reference point and not the primary qualitative characteristic of information which must have to be useful.

Also, materiality is very important to consider when planning the audit. To assess the materiality of the auditor should be aware of the potential users of information and possible solutions that can be taken on its basis in order to determine the ratio of irregularities and report these decisions. The auditor's judgment about the degree of importance is quite subjective and requires him considerable professionalism, experience, knowledge of the specifics of the customers, especially the economic and social environment. In the beginning, the auditor must decide (on the basis of internal standards), what the total amount of errors can be considered significant or material. There are several factors that affect the pre-established level of importance:

- the size of the enterprise;

- the net profit before tax;

- current assets;

- total assets;
- the amount of current liabilities;
- the amount of capital.

Some of these factors act in the opposite direction (e.g., the level of audit risk and the amount of work); so when determining the boundaries of the planned errors article mainly used the experience and intuition of the auditor.

The total of the essential error reporting, calculated in this way, as a rule, should not exceed 5-10% of the balance sheet currency.

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Thus, materiality is the principle of the audit, according to which the auditor's report should set out all the relevant circumstances discovered during the audit and any other relevant circumstances were not detected by an audit organization in an audit.

Level of significance is based on these indicators.

Audit institutions are required to calculate the level of significance, using a certain proportion of any benchmarks: the numerical values of accounts, balance sheet items or indicators of financial statements. This may be used as a baseline of the current year, and averages the current and prior years, as well as any settlement procedures that can be formalized. Allowed as a single indicator of the level of significance for this particular test, and a set of different values of the level of materiality, each of which must be designed to assess a particular group of accounts, balance sheet items, performance reporting.

In conclusion, it should be noted that the concept of materiality as a practical necessity in auditing and accounting. Judgments about materiality affect the planning of the audit and evaluation of its results; they are crucial in determining whether the financial statements are presented. In the judgment rendered as a result of the audit, and includes the recognition that financial statements cannot be "just" or "exhaustively" to present the financial position, results of operations and cash flows. This accuracy is unattainable due to lack of opportunities in accounting measurements and constraints imposed on the process and technology audit.

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