

Moroz E., student
Scientific supervisors - Kaliuha Y., PhD, Professor,
Tarnavskaya T., PhD, Associate Professor
National University of Life and Environmental Sciences of Ukraine

RISK AND MATERIALITY IN AUDIT: INTERNATIONAL EXPERIENCE AND DOMESTIC PRACTICE

Modern conditions of managing are followed by the various manifestations of instability caused by external factors, generating at the same time internal organizational changes. Under these conditions we observe the increasing demand for reliable accounting-analytical information that would be acceptable to different user groups, both domestic and foreign.

The existence of some problems of use of international standards of audit and need of application of the best international experience in domestic audit practice by scientists was repeatedly accentuated. Application of ISA in modern home practice is related to the many problems, one of that – translation of basic terminology, that not always is used at legislative level. So, for example, while in the law «About audit activity», is determined an audit conclusion, in international standards (ISA 700 «Forming an opinion and reporting on financial records») it is suggested to use a term «public accountant report». A report of auditor in home practice is usually wider on a volume compared to the auditor conclusion, and appointed exceptionally to guidance, as can contain the detailed list of mistakes, defects, divergences after the checked chapters of financially-economic activity of client. Such collision is caused by plural interpretation of the English term «report». A main requirement on the international standards of audit is a receipt of sufficient confidence, that the financial reporting does not contain substantial deviation on the whole. Such confidence is got on the basis of the got sufficient and rich in content audit evidences and reduction of audit risk to the acceptable low level in the process of audit. Generally, the audit risk is treated as risk which is undertaken by the auditor, expressing positive confidence in reliability of the financial reporting while it contains substantial mistakes, defects and deviations. His essence comes to determination of what risks are inherent also possible for a branch, business, processes and transactions, an internal control system and accounting system of the managing subject. The auditors understand the impossibility of complete risk removal. And that is why in the world practice is set an acceptable level - 5%. Modeling and assessment of audit risk are needed, especially to choose the optimal number of audit procedures at all stages of the audit. In foreign practice is emphasized the concept of relative risk regarding the conditions and facts under which the effectiveness of the system of accounting and reliability of accounting information increases (or decreases). This approach allows the application of appropriate audit procedures in those areas in which financial report is most likely to be warped (so-called «risk areas of the client's business»), and increases the probability of detecting mistakes and reducing the amount of time to check other less risky areas. With this purpose, assets and liabilities items of the balance sheet are distinguished, which may be the risk zones, i.e. which have the higher probability of the existence of mistakes or fraud cases than other items. Therefore, such items should be assiduously checked. This is stated in ISA 200 «General goals of independent auditor and realization of audit accordingly to the International audit standards», that indicates that inherent risk is higher for some assertions and related classes of transactions, account balances and disclosure of information than for others.

Foreign audit practice focuses the special attention on the necessity of quantifying elements of risk (inherent risk, control risk, undetection risk), though acceptable audit risk is subjectively set level of risk. In our opinion it is better to use a qualitative assessment of risk elements with using of terms «high», «medium», «low» and apply in advance specially prepared tests for assessment of the risk elements.

The question of risk assessment is closely connected with the assessment of materiality of mistakes in financial report of a client. The assessment of materiality is a subject of professional judgment of the auditor. Obviously, that's why the auditing standards do not contain specific methods for the assessment of materiality of mistake in financial report of a client. In international practice, the procedure for determining of the permissible level of deviations is practically not regulated. For example, in Australia, it is defined by standards that the distortion up to 5% can be considered as insignificant, more than 10% – significant, from 5% to 10% the auditor should decide whether significant or not significant is a character of the revealed distortions [4]. In the audit practice of the United States it is supposed that the mistake, which leads to distortion of the balance sheet item in the range of 5-10%, is not significant.]. Large auditing firms use own recommendations for the internal using in relation to the criteria of importance after the corresponding elements (items) of the financial reporting. So dominant is the importance level of 5%. taking into consideration the fact that the acceptable audit risk according to the international standards is 5% can be affirmed the possibility and expediency of application in audit practice the criteria of importance, defined by the domestic legislation for distinguishing of items in financial reports of business subjects.

Summarizing it should be noted that the development and confirmation of standardized approaches to the assessment of audit risk and the limits of materiality of mistakes in financial reports of the enterprise-client will identify all significant risks in his the economic and management activities and provide the interested users with full and reliable information about activities in the form of independent auditor's report about the results of the verification. The only professional approach on the audit in the whole world will permit to improve significantly the quality of audit, and the study and application of best practices of international auditing practices and its adaptation to domestic conditions contribute to the intensification of the auditor activities.