

IMPROVING THE METHODOLOGICAL FRAMEWORK OF LIABILITY AUDITING

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Abstract. This study explores the modernization and enhancement of the methodological foundations of liability auditing within commercial banks. The research emphasizes the necessity of aligning national accounting and auditing practices with International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), with particular reference to IAS 37 regarding estimated liabilities. The paper analyzes current challenges in liability recognition, measurement, documentation, and disclosure, and proposes systematic improvements in analytical accounting, risk-based audit procedures, and internal control mechanisms. Additionally, the study highlights the legal and institutional framework supporting reliable liability reporting and outlines a set of practical recommendations aimed at increasing transparency, accuracy, and regulatory compliance in financial audit processes.

Key words: liabilities, liability auditing, methodological improvement, IFRS, IAS 37, estimated liabilities, provisions, commercial banks, financial reporting, external audit, internal audit, analytical accounting, legal framework, disclosure requirements, transparency, risk-based audit, solvency assessment, regulatory compliance.

INTRODUCTION. As a result of the reforms being carried out in the banking and financial system of Uzbekistan, the demand for transparency and accountability in the activities of commercial banks is increasing. The liabilities of banks (deposits, borrowed funds, tax and other settlements) determine their stability and liquidity. Therefore, the issue of improving the audit of liabilities holds significant practical importance.

In the modern context of developing the activities of commercial banks in our country, non-state control is required over them, particularly through auditing activities, which encompass the organization and maintenance of accounting, verification of tax calculations, legal assistance, and other service functions. The performance of these duties characterizes auditing activities or the audit examination itself. Auditing activity is an independent audit conducted to express an opinion regarding the reliability of financial statements.

One of the primary responsibilities of an auditor is to obtain sufficient evidence to express an opinion that the financial statements, on which the audit report is based, are prepared in accordance with generally accepted practices and principles, and that they do not contain material misstatements or inaccuracies. However, there is always a risk that certain deficiencies may not be identified: “Audit risk is the likelihood — subjectively determined by the auditor — that the financial statements may contain material misstatements after the auditor has confirmed their reliability, or conversely, the likelihood of acknowledging that material misstatements exist when, in fact, such misstatements are absent. Thus, the concept of materiality represents the primary basis for determining the allowable margin of error and the scope of the audit procedures, as well as identifying the form of the resulting audit opinion (unmodified or modified).”

RESEARCH METHODOLOGY. A number of scientific methods were employed in this study. In particular, comparative analysis was used to examine the experience of developed countries, statistical analysis facilitated the assessment of liability accounting and ESG practices in Uzbekistan, graphical visualization allowed the current state to be presented in tabular form, and the views of both local and foreign scholars were comparatively analyzed.

ANALYSIS AND RESULTS. An economic entity inevitably faces various risks in its activities. The auditor must use professional judgment to identify and evaluate the factors affecting the level of audit risk. A specific list of inherent risk factors that the auditor must necessarily analyze is provided in ISA 315 *“Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”*, including:

- the entity and its environment (industry conditions, regulatory conditions, other external factors);
- the nature of the entity’s operations (business, investment and financial activities, financial reporting, selection and application of accounting policies);
- business objectives, strategies, and related risks;
- assessment and analysis of the entity’s financial results;
- the entity’s internal control system (tools, objectives, limitations, and its component structure).

Audit risk serves as a quality indicator of the auditor’s work, and in turn, inherent risk, control risk, and detection risk are assessed not only based on the auditor’s subjective opinion but also on the information obtained during the audit process.

Depending on the number of organizations involved in settlements, it is necessary to choose between continuous or selective sampling methods. In many audits, auditors apply the sampling method; however, if accounting systems show possible violations, then the continuous method of checking creditor liabilities is advisable. This method is used mainly by auditors when the number of counterparties is small.

Therefore, in order to eliminate the issues mentioned above, the following recommendations are proposed for implementation in practice:

- full implementation of IAS 37 (*“Provisions, Contingent Liabilities, and Contingent Assets”*);
- prioritizing high-risk liability types (deposits, foreign borrowings, contingent liabilities);
- introducing real-time monitoring of deposits and borrowings through an electronic platform that enhances audit quality;
- conducting regular IFRS and ISA training for bank auditors and accountants;
- providing separate and detailed disclosure on deposit liabilities to individuals and legal entities, and on contingent liabilities.

Improving the audit of liabilities in commercial banks in Uzbekistan must first ensure the harmonization of national and international standards, transparent financial reporting, strengthening of internal controls and IT-audit, as well as the development of qualified personnel. These measures will increase the stability of the banking system and promote greater confidence among investors and the public.

The liability audit program in commercial banks represents the auditor’s work plan, specifying

the objectives, audit subjects, and procedures to be used during the audit. It is based on international auditing standards.

The main objective of the audit program is to verify that bank liabilities are correctly accounted for and fairly presented, to assess whether liabilities reflected in the financial statements comply with national accounting standards and International Financial Reporting Standards, and to ensure transparency regarding contingent and estimated liabilities.

When conducting the audit of liabilities in commercial banks, the following information sources are used:

- deposits of individuals and legal entities;
- interbank borrowings and subordinated liabilities;
- loans obtained from the Central Bank and foreign financial institutions;
- accrued but unpaid interest;
- tax and obligatory payment liabilities;
- contingent and estimated liabilities (guarantees, litigation, provisions).

Applying International Standards on Auditing (ISA) in the audit of liabilities — in particular, verifying the effectiveness of the internal control system in accordance with ISA 315 — is considered one of the auditor's primary responsibilities.

Table 1

Internal control system testing procedures (developed by the author)

Control Area	Audit Procedure	Objective	Expected Result
Separation of duties	Verify that authorization, record-keeping, and asset custody are assigned to different personnel	Reduce risk of fraud and error	No conflicting responsibilities identified
Authorization and approvals	Review documentation of approvals for transactions	Ensure compliance with authority limits	Transactions authorized by responsible personnel
Documentation and records	Examine availability and accuracy of supporting documents	Verify reliability of records	Complete and accurate documentation maintained
Access control	Assess access restrictions to financial data and assets	Prevent unauthorized access	Proper controls and user rights in place
Reconciliation procedures	Review bank reconciliations and transaction matching	Detect discrepancies and errors promptly	Reconciliations performed regularly and correctly
IT system controls	Inspect audit trails, system logs and user access profiles	Ensure integrity of financial data processing	System automatically logs changes and access
Monitoring and oversight	Evaluate internal review and supervisory checks	Confirm continuous internal control monitoring	Management actively reviews control performance

During the audit, it is necessary to verify whether loans obtained from the Central Bank or foreign financial institutions have been temporarily written off or deferred in accounting records, whether short-term borrowings have been misclassified as long-term liabilities, and whether exchange rates applied to foreign currency borrowings have not been updated, resulting in inaccurate amounts being reflected.

In the audit of liabilities in commercial banks, misstatements most frequently occur in relation to deposits, borrowings, contingent liabilities, and accrued interest. These misstatements may be intentional — aimed at artificially improving the bank's liquidity and stability indicators — or due to unintentional calculation errors. The auditor's responsibility is to identify these misstatements and ensure their accurate and proper reflection in the financial statements.

CONCLUSION. The improvement of liability auditing in commercial banks of Uzbekistan is essential for ensuring financial transparency, strengthening regulatory compliance, and increasing public trust in the banking sector. This study demonstrates that the application of International Accounting Standards (IAS) and International Standards on Auditing (ISA), particularly IAS 37 and ISA 315, provides a strong methodological foundation for accurate recognition, measurement, and disclosure of liabilities. Strengthening internal control systems, implementing real-time monitoring mechanisms, and enhancing the professional competencies of auditors and accountants significantly contribute to reducing the risk of material misstatement and fraud. Furthermore, the introduction of modern IT-based audit tools and alignment of national practices with global standards will improve financial reporting quality, support effective risk management, and enhance the overall stability and resilience of the banking system. Ultimately, advancing the methodological framework of liability auditing enables commercial banks to operate with stronger accountability, improved liquidity assessment, and greater confidence from investors, stakeholders, and society at large.

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6. APB 22: Disclosure of Accounting Policies APB 22 STATUS. APB 22, Footnote 1-See APB Statement No. 4, This Opinion amends Statement No. 4 insofar as it relates to disclosure of accounting policies. www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176156418903&acc