

IMPROVING THE IMPLEMENTATION OF INTERNATIONAL AUDITING STANDARDS IN BANK AUDITING INTO NATIONAL PRACTICE

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Abstract

The thesis examines the issues of improving the implementation of international auditing standards (IAS) in banking auditing into national practice. A fourteen-element model set of methodological rules for banking auditing (terminological base, audit stages, priority risk areas, credit portfolio audit, ECL and reserves, financial instruments, customer funds and liquidity, prudential indicators, working papers, communication, KAM, reporting, digital evidence, quality control) has been developed.

Keywords: Bank audit, implementation of AXS into national practice, model methodological rules, internal standards, institutional mechanism, quality control, digital audit.

The issue of improving the implementation of international auditing standards in bank auditing into national practice is of crucial importance in improving the quality of bank auditing, strengthening the reliability of audit conclusions and forming a methodological base that serves the prudential stability of the banking system. Although international auditing standards are being applied in individual segments in Uzbek banking practice, it is still too early to speak about their full transformation into a single national practical model for bank auditing. In current practice, elements of the international approach to the loan portfolio, ECL on loans, reserves, fair value, prudential standards and risk management are observed, but these elements are not applied in all banks to the same depth, on the basis of the same documents and in the same methodological sequence.

The development of a set of internal standards and model methodological rules for bank audits based on the IAS is one of the most important institutional conditions for the systematic, uniform and high-quality organization of bank audits in national practice. International auditing standards define the general principles, objectives and procedures of auditing activities, but in such a highly specialized area as banking auditing, internal standards, model working algorithms and uniform methodological rules are necessary for their implementation in practice. Otherwise, the requirements of the same IAS will be interpreted differently by different auditors or different audit organizations, which will lead to significant differences in audit quality, determination of KAM, verification of ECL, fair value assessment and documentation among banks.

In Asakabank, ECL and loan loss provisions were consistently recorded as KAM during 2020-2024, the audit approach was linked to significant increases in credit risk, default events, loan

stage classification, probability of default (PD) and loss given default (LGD), provisions and recalculation. In the National Bank, ECL on loans to customers remained KAM for several years, fair value measurements, maturity analysis, capital adequacy and risk management blocks were separately disclosed. In Xalq Bank, loan provisions, prudential standards and risk management were identified as a central audit area. In Ipak Yuli Bank, loan and lease provisions, investment, loss assessment of other assets and transactions with affiliated entities were important segments of audit attention. This means that a set of internal standards for bank auditing should be developed specifically in the areas of loan portfolio, reserves, financial instruments, risk management, and audit reporting.

Table 1 A set of model methodological rules for bank audits based on international auditing standards¹

No.	Name of the style rule	Content	Expected practical result
1	Unified Terminological Base	Define ECL, default, provision, KAM and other terms with uniform definitions	A single professional language is formed in reports and documents
2	Audit Stages Rule	Organizing the audit in strict sequential stages	Audit procedures are performed in the same sequence
3	Sorting priority risk areas	Grouping by loans, reserves, investments, deposits, capital and prudential indicators	Audit resources are focused on the most important segments
4	Credit portfolio audit	Loan segmentation, default status, collateral, repayment discipline	A uniform audit approach to credit risk will be implemented
5	Check ECL and reserves	PD, LGD, EAD, macroeconomic assumptions, recalculation, sensitivity analysis	The quality of the audit of accounting estimates will increase
6	Audit of financial instruments	Investments, securities, repo transactions, interbank funds, fair value	Consistency in recognition, measurement and disclosure
7	Client funds and liquidity	Deposits, demand deposits, interest-bearing liabilities, liquidity ratios	Audit of liquidity and resource base will be strengthened
8	Prudential Indicators Rule	Capital adequacy, liquidity, problem loans, regulatory indicators	Integration of reporting and prudential indicators
9-14	Working papers, communication, KAM, reporting, digital evidence, quality control	Risk matrix, audit cards, three-step communication, KAM criteria, digital evidence and quality control	Document quality, reporting consistency, digital adaptability, and auditor opinion reliability increase

¹Developed by the author

The first task of the internal standard set is to translate international auditing standards into a practical language suitable for bank auditing. The texts of international standards are of a general and principled nature, in which the concept of the 'audited entity' is at the center. In the case of a bank audit, a special approach is required due to the operational and prudential characteristics of a credit institution. In the set of internal standards, international requirements should be reinterpreted by segments of bank auditing: separately for the loan portfolio and ECL, separately for financial instruments and fair value, separately for deposits and liquidity, separately for prudential indicators and capital, and separate rules should be developed for communication with internal audit and risk management.

The second task is to create a single terminological and methodological basis for bank audits. In practice, terms such as ECL, significant increase in credit risk, allocation of loans to stages 1, 2 and 3, default status, loss reserve, fair value hierarchy, maturity analysis, capital adequacy and related party transactions can be interpreted differently. This reduces the comparability of reports. The set of internal standards should contain a single vocabulary of terms recommended for bank audits: 'materiality' should be interpreted not only in terms of summaries, but also in terms of prudential and qualitative aspects; the concept of 'high-risk area' should be clearly defined in relation to loans, reserves, investments and liquidity; and KAM should be expressed on the basis of criteria linked to recurring segments specific to bank audits. Eltweri, Faccia and Foster (2022) argued that in the institutional perspective of the adoption of AXS, it is precisely terminological uniformity that is the first condition for harmonization with international standards.

The third task is to establish rules for implementing the audit process in the same stages. Internal standards for bank audits should divide the audit process into at least seven stages: acceptance of the assignment, initial risk diagnosis, audit planning, drawing up a special audit program for important sections, conducting substantive and control tests, summarizing identified errors, and preparing an audit report. The fourth task is to form a system of standard working documents for bank audits: a special audit program, a priority matrix, a KAM register, a list of identified errors, a credit portfolio audit card, an ECL recalculation table, an audit card for financial instruments, an analysis sheet of prudential indicators, and a final audit decision sheet should be included in the internal standards.

The fifth task is to standardize communication and decision-making rules. In a bank audit, the exchange of information between the internal audit service, the risk management department, the audit committee and the external auditor directly affects the quality of the audit results. Internal standards should establish a communication procedure with at least three stages: an initial discussion of risk areas at the beginning of the audit, a discussion of interim findings during the audit, and a final discussion of the KAM, corrections and conclusion at the end of the audit. The sixth task is to introduce methodological rules for preparing an audit report. The seventh task is to develop methodological rules for using a digital environment and analytical

tools in a bank audit. Since banking operations rely largely on electronic platforms, automated registers and model calculations, the set of internal standards should contain separate rules for data extraction, data reconciliation, testing of exception cases, checking model logs and storing electronic evidence.

Table 2 Practical and institutional mechanism for implementing a bank audit procedure based on the AXS²

No.	Mechanism element	Main participants and task	Expected result
1	Institutional division of powers	Supervisory board, audit committee, internal audit, risk management, external auditor: clear definition of roles	Role confusion is reduced, responsibilities are clear
2	Formation of a single audit information package	Gather all important information - credit register, ECL model, reserves, internal controls - into one package before the audit begins	A single complete initial information base for the auditor
3	Initial risk agreement mechanism	The audit committee, internal audit, risk department, and external auditor jointly create a risk map.	Priority audit areas are clearly defined
4	Coordination of intermediate findings	The external auditor, internal audit, and management discuss the issues identified during the audit.	The need for correction and potential KAM are identified
5	Internal audit and risk management integration	Integrating internal audit findings and risk register into the audit (AXS 610)	Repeated inspections are reduced, efficiency is increased
6	Potential KAM registry and institutional review	The audit team leader, quality control and audit committee conduct a multi-stage review of the QAM and the audit opinion	The choice of KAM is taken to the level of institutional decision.
7	Quality control and feedback	The quality control department regularly evaluates the effectiveness of the current procedure.	Continuous improvement of the system is ensured

The organizational and methodological stages of the introduction of the banking audit procedure based on international standards represent the methodological framework necessary to move the banking audit from the level of simple formal adaptation to a coherent, manageable

²Developed by the author

and result-oriented system. International auditing standards are not ready-made regulations that are fully implemented into banking practice at once, but a complex methodological system that must be harmonized with the national regulatory environment, audit market infrastructure, banks' internal control systems, risk management practices and professional training of auditors. It is advisable to carry out the introduction process in stages, that is, in the sequence of diagnostics, adaptation, testing, training, institutional integration and monitoring.

As a result of the research conducted, the following conclusions were drawn:

Based on the AXS, a fourteen-element system of the model methodological rules for bank audits (unified terminology base, audit stages, priority risk areas, credit portfolio audit, ECL and reserves, financial instruments, client funds and liquidity, prudential indicators, working documents, communication, KAM, reporting, digital evidence, quality control) was developed. This set combines the functions of 'internal regulations + methodological manual + working standard' for bank audits.

A seven-element practical-institutional mechanism for implementing the banking audit procedure based on the AXS (division of powers, a single information package, initial risks, intermediate findings, internal audit integration, institutional review of KAM, quality control) was recommended. This mechanism removes the application of international auditing standards to banking practice from the individual approach of an individual auditor and brings it to the level of institutional practice.

The set of internal standards for bank auditing must fulfill the following seven tasks: translating international standards into practical banking language; creating a unified terminological and methodological base; organizing the audit process in the same stages; forming a system of standard working documents; standardizing the three-stage communication procedure; introducing methodological rules for preparing an audit report; developing rules for using the digital environment and analytical tools.

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