



IMPROVING THE METHODOLOGY FOR AUDITING ASSET IMPAIRMENT

Sayfullayev Mekhroj Sayfullayevich

Tashkent State University of Economics
doctoral student

Article history:	Abstract:
Received: 20 th April 2025	This article provides suggestions and recommendations for improving the methodology for auditing asset impairment in our country's accounting and auditing system, based on international practice.
Accepted: 14 th May 2025	

Keywords: control test questions, audit evidence, value in use, net realizable value, cash-generating unit

INTRODUCTION

As globalization processes in the world economy intensify, the impact of factors that cause its instability is also increasing in various forms and degrees. Situations such as global financial and economic crises and the coronavirus pandemic have created unprecedented uncertainty in the world economy, which, as a result, is intensifying the processes of a sharp reduction in the scale of economic activity, in particular, the depreciation of the assets of economic entities.

Currently, in the context of increasing international and national competition in the world, research is being conducted on urgent problems related to asset impairment accounting and auditing. The priority areas of scientific research in this area include assessing the level of asset impairment in the activities of business entities and improving the methodological aspects of asset impairment accounting, identifying audit risk associated with the intensity and impairment of long-term assets, reflecting the impairment of long-term assets in financial statements, and identifying the management of income from asset impairment in the context of IFRS.

LITERATURE REVIEW.

In particular, the economists of our country, UI Inoyatov, SD Yusupova, FR Salimbekova, defined moral obsolescence as follows, "moral obsolescence squeezes old objects that provide high labor productivity, which were previously in use in terms of their structure, from production until they are physically completely obsolete." [1]

The National Standard of Property Appraisal of the Republic of Uzbekistan (No. 15 MBMS) of the National Standard of Property Appraisal of the Republic of Uzbekistan (No. 15 MBMS) in chapter 6 of the standard "Evaluation of the value of machinery and equipment" states the following about mental wear and tear, ie "Mental wear and tear is the improvement of the

properties and characteristics of similar devices (It is defined as "obsolescence caused by a change in technical parameters or constructive solutions, the emergence of new capabilities, greater environmental friendliness, energy saving, etc.) or a decrease in the cost of production of the series".[2]

Well-known scientists HG Nabihev, DH Nabihev in their works on moral obsolescence have been discussed as follows: "main funds gradually decay as a result of long-term use in the production process. Depreciation forms the material basis of depreciation of fixed assets. Decay is divided into physical and spiritual types. Basic funds. moral obsolescence occurs as a result of the appearance of more productive elements of fixed assets and the creation of cheaper fixed assets".[3]

The well-known scientist N. Abdusalomova in her scientific work touched on the processes related to the wear and tear of the main tools as follows: "There are two types of depreciation of fixed assets: 1. Physical wear and tear; 2. Spiritual obsolescence. There are two types of moral obsolescence. The first is a decrease in the value of such fixed assets as a result of the cheaper reproduction of such fixed assets, and the second is a decrease in their value due to the introduction of new and more advanced fixed assets and their technical backwardness[4].

RESEARCH METHODOLOGY.

To audit asset impairment, the auditor should pay attention to the following:

First, auditors should conduct an impairment test of the assets of the company. As mentioned above, impairment testing is the process of reviewing the value of assets shown on the company's balance sheet (known as the "book value") to determine whether these values correspond to their recoverable amount, or whether they should be reduced to their recoverable amount, based on the condition of the asset.

Financial statements should provide useful and meaningful information to investors and other users of



those financial statements so that they can make confident investment and other decisions.

Non-financial assets are often considered important assets of an enterprise. The value associated with these assets can affect not only the financial position of the enterprise, but also its reporting results.

Financial statements must comply with accounting standards. International Financial Accounting Standards No. 36 "Impairment of Assets" (IFRS No. 36) and No. 13 "Fair Value Measurement" (IFRS No. 13) examine the processes associated with the impairment of non-financial assets, for example:

- Goodwill
- identifiable intangible assets and
- fixed assets.

When there is an indication that an asset may be impaired, an entity should determine whether the carrying amount of the asset exceeds its recoverable amount. This determination should also be made for intangible assets that are not amortized.

Although there may be restrictions or prohibitions on the revaluation of certain types of non-financial assets, IFRS 36 requires that if the carrying amount of a non-financial asset is less than its recoverable amount, its carrying amount is reduced to its recoverable amount, i.e. the asset is recognized as impaired.

Cash-generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Cash-generating units should not be larger than any operating segment of the entity. In some cases, the recoverable amount may be estimated for individual assets.

Skill, competence, and diligence are required by every auditor in understanding an entity's financial statements.

Audit reviewers should question the necessity and adequacy of asset impairment and the adequacy of related disclosures.

In this case, the auditor will need to apply "audit skepticism." The auditor will also need to critically assess whether management and employees have sufficient skills to address impairment issues.

The auditor should question the approach to impairment testing, particularly when there is a risk that

assets may be significantly impaired. There are some questions that can help to do this in this case.

An impairment test is usually based on estimating the value of assets by discounting estimated future cash flows using appropriate discount rates. Although the calculations that support the impairment or valuation of significant assets can be complex, the auditor should consider the cash flows and assumptions used in the calculations prepared for tangible assets by management or experts, taking into account their knowledge of the business, assets, and environment.

Given the subjective nature of the elements of impairment calculations, disclosures about uncertainties and underlying assumptions are generally important to users of financial statements.

Auditors consider and analyze the extent to which an entity relies on management's work on impairment, taking into account and considering the existence of a number of assumptions in the asset impairment process.

Considerations include:

- whether the assets are important or not
- level of experience of management and employees
- proper use of external experts and
- how the activities of the enterprise and the environment in which it operates may affect the recovery of the value of assets through operating activities or the sale of these assets.

One of the most important aspects of the process of auditing situations related to asset impairment is the need to pay attention to audit procedures for obtaining audit evidence.

To examine the process of asset impairment, it is first necessary for the management and officials of the enterprise to have sufficient knowledge and understanding. The table below lists the aspects that should be taken into account by the management of the enterprise when examining the process of asset impairment in order to determine the risk of unexpected impairment of assets in enterprises, and it would be advisable if the auditor and senior management representatives widely used in the examination of the process of asset impairment during the examination processes (Table 1).

Table 1

Issues to consider to determine the risk of unexpected asset depreciation¹

Issue to be considered	Questions to consider
-------------------------------	------------------------------

¹Developed by the author



<i>Assets requiring annual testing</i>	Does the entity have identifiable intangible assets with indefinite useful lives, intangible assets not yet available for use, or goodwill that requires annual impairment testing? What if the market value of a business is less than the net assets shown on the business's statement of financial position? Have the figures declined since the end of the financial year or are they expected to decline in the future? Are there any significant changes to the business or its environment, now or in the future? Examples, if relevant, could include the following: <ul style="list-style-type: none">• a decline in the market or price of products or services• excess supply for products or services in markets• problems obtaining raw materials or services• increase in production or service costs• changes in exchange rates affecting costs or sales• new competitors• new products or services from competitors• technological change• changes in laws or regulations• changing economic conditions• changes in interest rates (which may affect the discount rates used to calculate the value of the asset)• physical damage to assets• plans to dispose of assets earlier than expected• plans to cease or restructure operations, and• other changes in the activities of the enterprise. Are there other indicators that the value of non-financial assets may decline?
<i>Possible indicators of impairment</i>	Are accountants aware of the environment in which the enterprise operates? Have accountants assessed the indicators of impairment and the need for impairment testing? Did the accountants provide information to the company's management about the assessment of impairment indicators or assets that are impaired or may be impaired in the near future? Are the analyses and conclusions drawn by accountants regarding asset impairment consistent with reality?
<i>Accounting department's assessment of impairment indicators</i>	Testing internal control to determine whether the entity has sufficient and appropriate processes for assessing any impairment of assets and to what extent the entity has organized the asset impairment process includes the following procedures (Table 2).

In this case, if the auditor assesses that the probability of asset impairment is high, the auditor should further investigate the asset impairment process.

In the next step, the auditor will need to assess the internal control system related to the asset impairment process.

Testing internal control to determine whether the entity has sufficient and appropriate processes for assessing any impairment of assets and to what extent the entity has organized the asset impairment process includes the following procedures (Table 2).



Table 2

Identification of the asset impairment process through internal control testing and a sample questionnaire for it²

No.	Questions	Answers	
		Yes	No
1	Does the entity have an environment that supports high-quality financial reporting and a realistic assessment of the business, its assets, and the environment in which it operates?		
2	Is management sufficiently skeptical about the value of assets?		
3	Is there an appropriate plan for testing and assessing asset impairment?		
4	Have sufficient resources and time been allocated to investigate the impairment?		
5	Is the impairment test performed before the end of the reporting period and updated before the end of the financial statements?		
6	Does the entity have management and employees with sufficient qualifications, experience, expertise, and time to perform complex impairment tests?		
7	Have source data (e.g. historical cash flows) been properly sourced and verified for reliability?		
8	Are there strong internal controls over the process of obtaining source data and testing for impairments?		
9	Have the key assumptions been tested through appropriate comparisons against industry and competitor data or other relevant sources?		
10	Does management have sufficient expertise, experience, and time to instruct internal or external experts, and to oversee, monitor, and review work performed and reports?		
11	Does management have appropriate internal review processes in place, including independent review of work performed by personnel with sufficient authority, experience, expertise, and skepticism?		
12	Do the employees under review have a good understanding of the business, the environment in which it operates, and its future prospects?		
13	Are there appropriate incentives for management to focus on quality financial reporting?		
14	Does management consider the quality of financial reporting?		
15	Is there an appropriate balance between incentives and accountability for financial performance and quality financial reporting?		
16	Have external experts been engaged in cases where management and employees do not have sufficient expertise, experience, or time to assess the extent of impairment?		

²Developed by the author



17	Do external experts have sufficient qualifications, experience, and expertise?		
18	Have any external experts been given appropriate instructions regarding the scope of their work (e.g., the assets to be valued and the methods to be used) and to ensure that the calculations are consistent with the methodologies set out in the accounting standards?		
19	Did external experts adequately support and test the underlying assumptions?		
20	Have the issues raised in the evaluation reports been appropriately addressed and resolved by management?		
21	Has management ensured that cash flows, assumptions, and outcomes are reasonable and consistent?		
22	Is there appropriate documentation of the source data used, the impairment calculations, and whether their review was performed by internal staff or external experts?		
23	Are the basis for future cash flows and key assumptions, and the testing of those assumptions, appropriately documented?		
24	Are the documents of an appropriate standard for independent audit?		

If, as a result of a short review, assets or cash-generating units are identified in the object for which there is a difference between the carrying amount and the fair value, impairment losses on assets are determined.

The process of recording impairment losses on these assets in the initial accounting documents is examined. Finally, the process of reviewing whether these impairment losses are reflected in the financial statements is examined. In the figure below, we can see the sequence of auditing the process related to the impairment of assets (Figure 1).

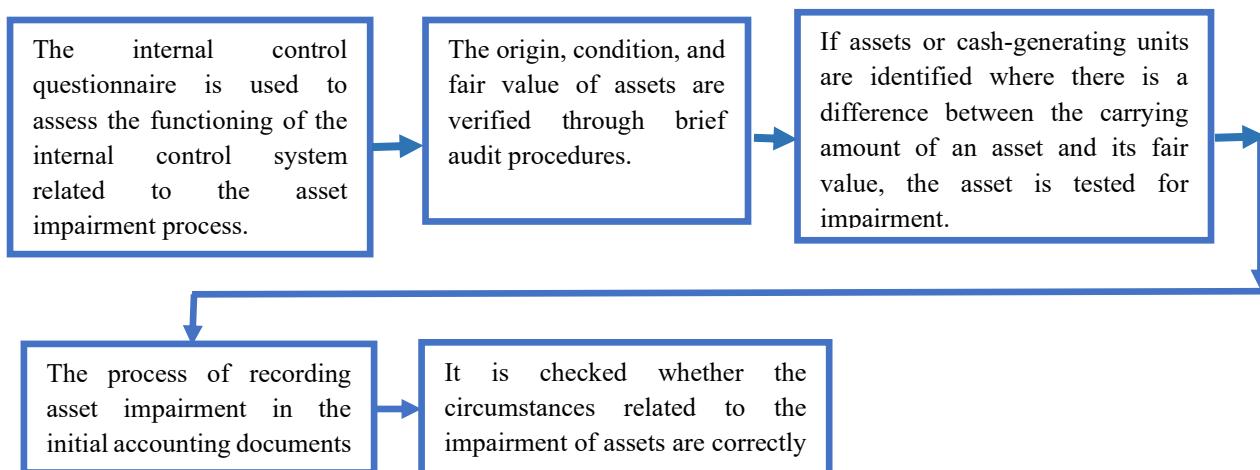


Figure 1. Sequence of auditing the process related to asset impairment³

³Developed by the author



When examining these processes, the auditor gathers audit evidence using audit procedures to obtain audit evidence as specified in the above-mentioned International Standards No. 500, "Audit Evidence."

CONCLUSION AND SUGGESTIONS

Based on the above, it can be concluded that when auditing processes related to asset impairment, it is advisable to first determine the extent to which the internal control system related to the asset impairment process is functioning, then verify the origin, condition and fair value of the assets in the audited entity through brief audit procedures, and if, as a result of the brief audit, assets or cash flow generating units with a difference between their book value and fair value are identified in the entity, determine the losses incurred from the impairment of assets, verify the process of recording losses incurred from the impairment of assets in the initial accounting documents, and finally verify the process of reflecting these losses in the financial statements.

REFERENCES:

1. BHXS No. 36 (International Accounting Standard No. 3 6 of assets devaluation (translation). www.mf.uz – Ministry of Finance of the Republic of Uzbekistan
2. International Standards on Auditing No. 500 on "Audit Evidence"
3. Arens A., Lobbeck Dj. Audit. Per. English pod ed. Ya. V. Sokolova. - M.: Finance and statistics, 2013. -560 p.
4. Dusmuratov RD Fundamentals of Audit. –T.: Publishing House "National Encyclopedia of the Republic of Uzbekistan", 2003. -612 p.;
5. RO Kholbekov "Accounting Theory" Cholpon Publishing House 2011
6. KBurazov, MEPolatov "Accounting" Innovative Development Publishing House 2020
7. www.lex.uz