



PROCEDURE FOR ORGANIZING AUDITS IN COMMERCIAL BANKS ON THE BASIS OF INTERNATIONAL AUDITING STANDARDS

Independent researcher at Tashkent State University of Economics

Khayrullayev O'tkir Ismailovich

Article history:	Abstract:
<p>Received: 20th October 2025</p> <p>Accepted: 11th November 2025</p>	<p><i>The article examines the procedure for organizing an audit in commercial banks based on international auditing standards (IAS). Using the example of the audit practice of large commercial banks of Uzbekistan (Asakabank, Milliy Bank, Xalq Bank, Ipak Yuli Bank), the procedure for the joint application of IAS 315, IAS 330, IAS 500, IAS 540, IAS 700 and IAS 701 standards in bank audits is revealed.</i></p>
<p>Keywords: Commercial bank, international auditing standards, audit organization procedure, loan portfolio, expected credit losses, key audit matters, ISA 315, ISA 540, ISA 701, ECL</p>	

INTRODUCTION

Assessment of the current state of bank auditing from the perspective of international auditing standards is of particular importance in determining the reliability of financial statements, the quality of the loan portfolio, the adequacy of reserves, capital stability and the information value of the audit opinion in the modern banking system. The relevance of this issue is very high in the banking system of Uzbekistan. According to the Central Bank, as of July 2024, total loans amounted to 493,952.1 billion soums, while the Central Bank Bulletin notes that as of January 1, 2026, this figure reached 604,002.2 billion soums. During this period, the share of problem loans decreased from 4.0-4.3 percent to 3.0 percent.

As the volume of assets of the banking system expands, the importance of the audit of the quality of the loan portfolio and reserves is increasing. Although interest rates are relatively decreasing, the issue of expected credit losses (ECL) and reserves is taking center stage in audit audits due to the increase in the absolute volume of the loan portfolio. The purpose of the study is to reveal the procedure for organizing an audit in commercial banks based on the ISA using the example of the practice of banks in Uzbekistan, to develop a model for the joint application of ISA standards, and to substantiate priority segments in audit practice.

LITERATURE REVIEW.

Guilavogui empirically investigated the sufficiency and acceptability of audit evidence in the US banking and securities industry, a study that directly addressed the

practical application of the ISA 500 in banking auditing.[1]

Hussain et al. have demonstrated the role of ISA 540 in revealing management bias in auditing accounting estimates.[2]

Sivertsen and Hansen have provided an in-depth analysis of the impact of this standard on auditor risk assessments.[3]

Castro studied the macroeconomic determinants of credit risk in the banking system, and this approach served as the basis for evaluating macroeconomic assumptions in loan portfolio audits.[3]

Z.T.Mamatov considered issues of improving the audit of financial statements in business entities.[4]

B.K.Hamdorov studied the methodological foundations of the development of audit control.[5]

R.D.Dosmurodov studied the issues of improving the formation and methodology of auditing activities.[6]

RESEARCH METHODOLOGY.

The research methodology is based on a descriptive-analytical and comparative approach. Methodological conclusions are formed based on the method of analytical series, comparative interbank analysis and methodological generalization.

ANALYSIS AND DISCUSSION OF RESULTS.

Analysis of the dynamics of the loan portfolio and problem loans across the Uzbek banking system is important in determining the priority areas for organizing an audit. The table below, compiled based on data from the Central Bank, reflects this dynamics.

Table 1
Analysis of loan portfolio and problem loans in the banking system of Uzbekistan¹

Indicator	July 2024	November 2024	December 2024	June 2025	December 2025	January 2026

¹Prepared by the author based on the information received



Total loans and microloans, billion soums	493,952.1	521,025.0	525,886.5	567,685.2	595 309.4	604,002.2
Problem loans, billion soums	20,000.3	22,013.7	22,446.6	23,519.5	20,545.4	18,055.3
Share of problem loans, %	4.0	4.2	4.3	4.1	3.5	3.0

The dynamics at the banking system level explain the focus of attention in audit practice. The fact that the absolute volume of loans increased by 22.3% and the share of problem loans remained at a significant level (18,055.3 billion soums) despite the decrease in the share of non-performing loans suggests that the decrease in the share indicators in the audit strategy does not mean a decrease in risk. This view is also supported by Castro: he shows that the macroeconomic determinants of credit risks require constant monitoring even during periods of economic growth.

A review of the practical application of ISA standards in bank auditing on the example of large commercial banks in Uzbekistan provides an empirical illustration of the audit approach. Expected credit losses (ECL) and loan loss reserves on loans were systematically recorded as a key audit matter in Asakabank during 2020-2024. During this period, the bank's total assets increased from 45,314,354 million soums to 57,013,692 million soums, and loans to customers increased from 35,806,386 million soums to 40,538,562 million soums. In the National Bank, the audit reports for 2021-2023 also separately indicate expected credit losses (ECL) on loans to customers as a key audit matter, as of June 30, 2025, total assets amounted to 145,433,781 million soums, and loans and leases amounted to 104,338,981 million soums. In Xalq Bank, the issue of reserves and ECL on loans in 2023-2024 was highlighted in the auditor's notes, and in Ipak Yuli Bank, the reserve for losses on loan and lease operations in 2024 amounted to 231,775,007 thousand soums.

Table 2
Analysis of loan portfolio and key audit issues in large commercial banks²

Bank	Period	Total assets, million soums	Loans, million soums	Key Audit Matter (KAM)
Asakabank	2020.	45 314 354	35 806 386	ECL and loan loss provisions on loans
Asakabank	2024.	57 013 692	40 538 562	ECL and loan loss provisions on loans
National Bank	2021.	88 232 213	72 089 675	ECL on loans to customers
National Bank	2025.	145 433 781	104 338 981	ECL, fair value, capital adequacy on loans to customers
People's Bank	2024.	44 578 934	28 308 422	Loan provisions and ECL (in auditor's comments)
Silk Road Bank	2024.	23 150 160	13,996,340	Loan and lease reserves, interest income, valuation-sensitive items

The results of the analysis show that when assessing the current state of bank auditing from the perspective of international auditing standards, three main conclusions are formed. First, bank auditors in practice pay the greatest attention to the loan portfolio and reserves for expected losses. Second, as the size of bank assets and the scale of lending increase, audit risks are also becoming more complex. Third, international auditing standards are gaining real practical importance in bank auditing, especially in the

framework of ISA 315 (identifying and assessing the risk of material misstatement), ISA 330 (auditor's actions in response to assessed risks), ISA 500 (audit evidence), ISA 540 (calculated estimates) and ISA 700 (formulating an opinion on financial statements).

In the case of Asakabank, although the auditing organizations changed, the content of the audit opinion did not change: in 2020-2024 the conclusion remained positive and unmodified. However, the focus of the audit was on ECL and loan loss provisions on loans,

²Prepared by the author based on the information received



which were repeatedly emphasized in all years. In Asakabank

In 2024, loans amounted to 40,538,562 million soums, customer funds amounted to 13,661,132 million soums, and total equity amounted to 6,757,889 million soums - these indicators require the bank to audit credit risk in conjunction with capital and liabilities. Guilavogui indicated that the sufficiency and acceptability of audit evidence are a necessary condition for the reliability of the auditor's conclusion, which methodologically confirms the practical situation in Asakabank.

In the case of the National Bank, the scope of the audit is even broader. In 2021-2023, the audit opinions issued by Ernst & Young and Deloitte were positive and unmodified, with expected credit losses on loans to customers as a key audit matter. 2025 As of June 30, total assets amounted to 145,433,781 million soums, loans amounted to 104,338,981 million soums, and customer funds amounted to 54,072,274 million soums. It is natural for a bank of this scale to have credit loss assessment, fair value, and interim review processes as central to its audit strategy.

The 2024 financial statements of Ipak Yuli Bank also reveal other aspects of the audit practice. The bank's total assets amounted to 23,150,160,375 thousand soums, the net volume of credit and leasing operations was 13,996,340,405 thousand soums, the reserve for losses on credit and leasing was 231,775,007 thousand soums, interest income was 4,162,020,230 thousand soums, and interest expenses were 2,517,706,864 thousand soums. From an audit perspective, not only loans and reserves are important here, but also the ratio of interest income to expenses, asset quality, profit from foreign exchange operations, and large insurance transactions with affiliated entities.

This ISA 550 (related parties), ISA 540 and ISA 315 requirements are shown to be applied together in practice.

Data on Xalq Bank show that there are some specific aspects of auditing in banks with strong public sector elements. In 2024, the bank's total assets were 44,578,934 million soums, the net volume of credit and leasing operations was 28,308,421,628 thousand soums, and the loan loss provision was 1,311,315,591 thousand soums. The presence of additional inspections of prudential regulations, internal audit and risk management in 2022, and the separation of loan reserves and ECL issues in the auditor's notes in 2023-2024 indicate a combined approach to regulatory compliance and credit risk.

The practical application of international standards in bank auditing is reflected in a number of areas. The first and most priority area is the audit of the loan portfolio and expected loss reserves. This area stands out as a key audit matter for almost all large banks. In Asakabank, a significant increase in credit risk in terms of ECL and reserves, default cases, classification of loans by stages, loss given default and probability of default, ECL methodology, recalculation of provisions and forecast cash flows are indicated as the main areas of audit examination for 2020-2024.

The second area is the audit of financial instruments, investments and fair value. Data from Ipak Yuli Bank, National Bank and People's Bank show that in conditions with a high share of investments and securities, auditors pay special attention to the reliability of the existence, right, impairment and fair value. The third area is the audit of the liability base and customer funds: deposits, other borrowed funds and subordinated liabilities are one of the important foundations of the bank's financial stability. The fourth area is the audit of internal control, risk management and corporate governance environment: risk management, maturity analysis, capital adequacy, transactions with affiliated persons and changes in the management structure are in the focus of auditors. The fifth area is the formation of the audit opinion and key audit matters: the requirements of ISA 700 and ISA 701 are gaining real practical importance in bank audits.

The sixth area is interim reports, review assignments, and audit forms close to prudential supervision. In the report of the National Bank as of June 30, 2025, the audit organization Deloitte provided an interim review conclusion based on IAS 34. This conclusion is not in the form of a key audit matter, but separately separates the blocks of loans to customers, credit loss expenses, and fair value. This confirms the importance of the ISRE 2410 (Review of Interim Financial Information) standard in banking practice. Sivertsen and Hansen (2021) noted that ISA 540 (Revised) requires auditors to deepen their internal risk assessment, indicating that the importance of this approach increases precisely in the context of interim reviews and ongoing monitoring.

When looking at the Central Bank's general statistical bulletins and the data on the banks' side, it can be seen that the current directions of application of international standards coincide with the general risks in the banking system. Total loans in the banking system increased from 493,952.1 billion soums in July 2024 to 604,002.2 billion soums by the beginning of 2026, and the share of problem loans decreased from 4.0-4.3 percent to 3.0 percent. This fully explains the



constant separation of ECL and loan loss reserves as the main audit issue in large banks. Karimov (2008) showed that when considering areas for improving accounting and auditing in the corporate governance system, the audit object needs a combined coverage of external and internal audit approaches, which is consistent with the logic of the combined application of international standards in bank auditing.

The model for the practical application of international standards in bank auditing is multi-layered. ISA 200 and ISA 220 define the quality of the audit engagement and auditor independence, while ISA 260 and ISA 265 regulate communication with management and reporting on deficiencies in internal control. ISA 300 defines the development of an audit plan, ISA 315 defines risk assessments, and ISA 330 defines procedures for responding to assessed risks. ISA 500, ISA 505, ISA 520, and ISA 530 strengthen the requirements for audit evidence and analytical procedures. ISA 540 covers valuations, ISA 550 covers related parties, and ISA 610 uses the work of internal auditors. ISA 700, ISA 701, and ISA 720 define rules for the formation of an auditor's report and the evaluation of other information. These standards act as a single, complementary methodological system in bank auditing.

In the current state of bank auditing, the process of forming an audit opinion plays a special role. In accordance with the requirements of ISA 700, the auditor expresses an overall opinion on the truth and objectivity of the financial statements. In the case of Asakabank, Milliy Bank, Xalq Bank and Ipak Yuli Bank, the audit opinions remained positive and unmodified for 2020-2025. This situation indicates that the organization of accounting and financial reporting in banks generally complies with the requirements of international standards. However, the absence of a modified opinion does not mean that there is no risk for the auditor - on the contrary, the separate disclosure of key audit matters (Key Audit Matters) in accordance with ISA 701 becomes an important mechanism for increasing the information value of the audit report. The KAM mechanism ensures transparency of the audit process by highlighting the issues in the bank audit where the greatest professional judgment is applied by the auditor, which have the highest risk level and are of greatest importance to users. This approach is analyzed in the study by Eltweri, Faccia, and Foster (2022) as an institutional perspective on the adoption of ISA.

One of the important mechanisms ensuring the compliance of bank audit with international standards is the procedure for the auditor to use the work of internal auditors (ISA 610). In large commercial banks, the

internal audit service operates on an ongoing basis and regularly monitors bank operations. The external auditor may review the work of internal audit in accordance with ISA 610 and use it in his audit. This approach allows for rationalization of the audit scope and increased resource efficiency, but does not reduce the ultimate responsibility of the external auditor. While Mamatov (2005) noted that the auditor's professional judgment is the main guarantor of audit quality, he also implied the need to apply this same professional judgment to internal audit information. The presence of internal audit services in Asakabank, Milliy Bank, Xalq Bank and Ipak Yuli Bank serves as an important source of information for external auditors, but it cannot replace independent review procedures in high-risk areas such as ECL on loans.

CONCLUSION AND SUGGESTIONS.

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

The procedure for organizing audits in commercial banks based on the ISA has been systematized in six areas: credit portfolio and ECL audit, financial instruments and fair value audit, audit of customer funds and liabilities, internal control and risk management audit, formation of the audit opinion and key audit matters, and review of interim financial statements.

The fact that total loans in the Uzbek banking system grew by 22.3% during 2024-2026 and that their absolute amounts remained significant despite the decrease in the share of problem loans shows that in audit practice, a decrease in share indicators does not automatically mean a decrease in risk. This situation ensures the priority position of the ECL and reserves audit.

It is advisable to apply international standards in bank audits not uniformly, but in an enhanced manner in areas with a high risk of material misstatement. It is recommended that the ISA 315, ISA 330, ISA 500 and ISA 540 standards be used together as a single methodological chain in bank audits.

The key audit matters (KAM) mechanism, aimed at increasing the information value of the audit report, should be recognized as a practical tool for highlighting the most significant risk segments for users, even in cases where positive audit conclusions are issued without modification.

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