

## KEY ISSUES IN THE AUDIT OF FINANCIAL STATEMENTS IN UZBEKISTAN

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### Abstract

This article is devoted to the features of conducting an audit of financial statements prepared in accordance with international standards in Uzbekistan, in which the relevance of studying this topic, the level of study, the features of organizing an audit of financial statements prepared in accordance with international standards, the opportunities achieved in the implementation of IFRS and AAS in practice, issues to be studied in the process of auditing transactions made after the date of preparation of financial statements, the differences in the audit of financial statements prepared using parallel accounting (conversion) and transformation methods, and practical recommendations for improving this process are formulated.

**Keywords:** Financial statement audit, international auditing standards, international financial reporting standards, financial reporting standards, fraud, misrepresentation of financial statements, errors and omissions in financial statements, reliability of financial statements, users of financial statements, parallel accounting (conversion) method, transformation method.

### Introduction

In accordance with Resolution No. PQ-4611 of the President of the Republic of Uzbekistan dated February 24, 2020, "On Additional Measures for the Transition to International Financial Reporting Standards," starting from January 1, 2021, joint-stock companies, commercial banks, insurance organizations, and legal entities classified as large taxpayers operating in the Republic of Uzbekistan are required to organize accounting in accordance with International Financial Reporting Standards (hereinafter referred to as IFRS) and, beginning with the results of 2021, to prepare their financial statements based on IFRS.

However, despite the numerous reforms being implemented in this field, there remain important aspects that require attention with regard to the preparation of financial statements under IFRS and the conduct of their audit.

The audit system in this area faces a number of unresolved issues. In particular, it is necessary to determine the procedures for auditing financial statements prepared in accordance with IFRS and to establish the qualification requirements that auditors must meet in order to conduct such audits. Furthermore, under Article 29 of the new edition of the Law of the Republic of Uzbekistan "On Auditing Activity," adopted in 2021, auditors are obligated, upon the request of an economic entity, to provide information on the requirements of International Standards



on Auditing (hereinafter referred to as ISA) related to the conduct of an audit, as well as information on the legal provisions forming the basis of the auditor's reservations. In addition, pursuant to Article 33 of the same Law, related services provided by audit organizations include the organization, restoration, and maintenance of accounting records, as well as the preparation of financial statements, including financial statements prepared in accordance with IFRS.

It should be noted that as early as 2017, the President established the regulatory and legal framework for the practical implementation of International Financial Reporting Standards and International Standards on Auditing in Uzbekistan.

### Literature Review

It is well known that the primary objective of an auditor is to assess the reliability of the financial statement indicators of the audit client, as well as to provide advice to the client on ensuring the reliability of financial reporting indicators or to render related services in accordance with international standards. It is known from the economic literature that many economists have conducted scientific research on ensuring the reliability of financial reporting indicators. In particular, according to the views of economists Ya.V. Sokolov and S.M. Bychkova, "the reliability of financial statements is associated with the concept of 'true and fair view,' that is, 'reliable and honest view,' and these concepts are linked to the reliability of the auditor's opinion. Furthermore, the researchers note that if the information reflected in financial statements is not quantitatively sufficient and does not qualitatively meet the reasonable expectations of existing and potential users, the report does not meet the requirements of reliability and fairness" [1].

According to Russian economists T.Yu. Druzhilovskaya, T.N. Korshunova, and A.A. Khodyrev, "the reliability of financial statements should be understood as the truthfulness of the information presented therein, which reflects the financial position and results of the organization and enables users of the reports to make correct economic decisions regarding the organization" [2].

Economist Ahmed Al-Dmour, in his research, examined that "the reliability of reporting on financial information is directly related to accounting and internal control information systems" [3].

According to scholars Nattawut Tontiset and Sirilak Kaiwinit, "the main purpose of financial reporting is to provide useful information for making economic decisions. The reliability of financial reporting is determined by providing financial statements that are useful for making economic decisions" [4].

Yusuf Shahwan emphasizes that "the reliability of financial reporting is related to reliably prepared reports used in making economic decisions" [5].

According to economist N.Sh. Khajimuratov, "the reliability of financial statements is influenced by inconsistencies in regulatory legal documents, the lack of quantitative and analytical indicators, incomplete documentation of transactions, concealment of information, and the low qualification of accountants" [6].

Doctor of Economic Sciences, Professor A.Z. Avlokulov states that financial statements prepared in accordance with international standards are necessary for effective management of an organization. The main purpose of the transition to international standards is to enter



international markets and attract investments. In addition, international standards make a significant contribution to the qualitative development of the national economy. In this process, a favorable investment environment, transparency of company activities, accountability of management to shareholders, and the implementation of modern corporate governance practices make an important contribution to the development of joint-stock companies [7].

### **Analysis and Results**

One of the main objects of modern auditing in Uzbekistan is the audit of the reliability of financial statements prepared in accordance with IFRS. In accordance with the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 “On the Strategy of Actions for the Further Development of the Republic of Uzbekistan” and the Resolution of the President dated February 24, 2020 No. PQ-4611 “On Additional Measures for the Transition to International Financial Reporting Standards,” the preparation of financial statements in accordance with international standards has become a requirement of the time. Issues related to the preparation of financial statements under IFRS have been comprehensively studied by economists such as V.F. Paliy, S.N. Tashnazarov, A.N. To‘raev, X. Abidov, and S.Ya. Hamidova. Furthermore, in accordance with Resolution No. PQ-4611 of the President of the Republic of Uzbekistan dated February 24, 2020, starting from January 1, 2021, joint-stock companies, commercial banks, insurance organizations, and legal entities classified as large taxpayers are required to maintain accounting records in accordance with IFRS, that is, to prepare financial statements based on IFRS rules. This, in turn, requires auditors to examine whether financial statements of the above-mentioned entities have been properly prepared in accordance with IFRS requirements and increases the demand for related services such as the preparation of financial statements under IFRS by audit organizations.

In our opinion, in modern accounting and auditing practice, failure to study the issues arising from the implementation and non-implementation of IFRS and ISA, methodological issues of financial statement transformation, the formation of financial statements under IFRS, and the conduct of their audit in accordance with international auditing standards may negatively affect the accounting system’s ability to fully and timely fulfill its obligations to users of financial statements. We believe that ensuring the preparation of financial statements and their audit in accordance with IFRS and ISA requirements creates the following opportunities for business entities and audit organizations (Table 1).



**Table 1. Opportunities Achieved Through the Implementation of IFRS and ISA in Practice<sup>1</sup>**

No	Opportunities achieved through the use of MHXS and AXS
1	Possibility to further increase the transparency of business performance results
2	Enable users of financial reports to analyze information by dividing indicators according to reporting periods and different enterprises
3	Increase the confidence of investors, shareholders and creditors in the company's financial activities, expanding opportunities for investment and credit allocation
4	Expansion of cooperation opportunities with foreign investors and strengthening investment inflows due to the use of information that meets international standards
5	Becoming a participant in international relations, various exchanges and international capital markets due to the formation of financial information in accordance with international standards
6	Providing founders and management with reliable, objective and systematic financial information for effective decision-making
7	Providing necessary information for financial planning of the enterprise and forecasting its future development
8	Improving enterprise management, product (service) quality, export potential and increasing market competitiveness
9	Reducing corruption, abuse, misappropriation of property and funds, concealment of income (profit) and bankruptcy cases
10	Increasing motivation and interest in activities through the use of reliable information and management decision-making
11	Formation of an effective control system based on reliable and guaranteed information, improving employees' attitude toward the enterprise
12	Increasing employees' interest and positive attitude toward improving professional skills

As can be seen from the data in Table 1 above, the use of international standards in the accounting and auditing system requires auditors to fully master the methodology of organizing and conducting audit examinations based on international standards. Nowadays, it is considered a requirement of the time for auditors to provide two main types of services: performing financial statement transformation and preparing financial statements based on IFRS.

Moreover, the adoption of Presidential Resolution No. PQ-4611 created the need for auditors to simultaneously provide two types of services, namely audit examination services and the adaptation (transformation) of financial statements prepared in accordance with national legislation to IFRS requirements. This requires auditors to fully master the requirements of international standards regarding the preparation of financial statements based on IFRS and the audit process.

It is known that audit organizations not only engage in the audit of financial statements but, in accordance with Article 31 of the current law, may provide "audit services and related services". The regulation of these audit services is carried out in accordance with the

<sup>1</sup> Prepared by the author.

International Standards on Auditing (ISA) 800 “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” and ISA 805 “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”.

It is clear that users of financial statement information require financial reports or information on special issues related to the enterprise’s activities. Audit organizations are authorized institutions that provide reliable and guaranteed information on such special matters.

In audit practice, one of the controversial but important issues is the evaluation of events occurring after the date of preparation of financial statements. This evaluation process is carried out in accordance with ISA 560 “Subsequent Events”. In our opinion, during the audit of transactions performed after the date of preparation of financial statements, the issues presented in Figure 1 are studied (Figure 1).

<b>Matters reviewed during audits of transactions conducted after the date of financial statement issuance</b>
<ul style="list-style-type: none"><li>• Review of bank credit transactions regarding <u>the likelihood of repayment and assess the company’s asset and cash liquidity positions.</u></li></ul>
<ul style="list-style-type: none"><li>• Examine decisions made by the company up to the audit date and by the financial statement issuance date <u>affecting reserves specified by claims.</u></li></ul>
<ul style="list-style-type: none"><li>• Evaluate the impact of economic sanctions and currency depreciation following the <u>issuance of financial statements.</u></li></ul>
<ul style="list-style-type: none"><li>• Investigate compliance with contractual terms in transactions from the audit date to <u>the issuance of the financial statement period and the auditor’s report issuance date.</u></li></ul>
<ul style="list-style-type: none"><li>• Investigate compliance with contractual terms in transactions from the audit date to the <u>issuance of the financial statement period and the auditor’s report issuance date.</u></li></ul>

**Figure 1. Issues studied in the audit of transactions carried out after the date of preparation of the financial statements<sup>2</sup>**

In financial statement auditing practice, terms such as fraud, misrepresentation of financial statements, and error are widely used. The key distinguishing feature between fraud and error in auditing is whether the distortion of financial statements is intentional (deliberate) or unintentional (non-deliberate). Accordingly, in financial statement auditing, fraud refers to legally defined intentional distortion of financial reports, while error refers to unintentional misstatements in financial statements. Therefore, detecting (exposing) fraud is considered more

<sup>2</sup> Prepared by the author.



important than detecting errors in the audit process.

In our opinion, when auditing financial statements prepared in accordance with IFRS using parallel accounting (conversion) or transformation methods, the auditor should pay serious attention to the following aspects (Table 2).

**Table 2. Differences in auditing financial statements prepared using parallel accounting (conversion) and transformation methods<sup>3</sup>**

№	Parallel accounting (conversion) method	Transformation method
1	Studying the compliance of conducted transactions with regulatory and legal requirements	Studying the compliance of monetary transactions with regulatory and legal requirements
2	Studying whether transactions, company assets, and resources are recorded, classified, and valued correctly in accordance with <b>National Accounting Standards (NAS)</b> requirements	Studying whether transactions, company assets, and resources are recorded, classified, and valued correctly in accordance with <b>IFRS</b> requirements
3	Studying whether transactions, company assets, and resources are properly reflected in accounting accounts and documents based on <b>NAS</b> requirements	Studying whether transactions, company assets, and resources are properly summarized in accounting accounts according to <b>IFRS</b> , and properly documented in trial balance and working papers
4	Studying whether financial statements are prepared and submitted in accordance with the forms and deadlines established in <b>NAS</b>	Studying whether financial statements are prepared and submitted in accordance with the forms and deadlines established in <b>IFRS</b>
5	Preparing and presenting the auditor's report in accordance with <b>International Standards on Auditing (ISA)</b> based on audit results	Preparing and presenting the auditor's report in accordance with <b>International Standards on Auditing (ISA)</b> based on audit results

### Conclusion and Suggestions

The current practice of accounting and auditing shows that the implementation of **IFRS and ISA standards** and the problems arising from their insufficient application require further study. In particular, methodological issues of financial statement transformation, formation of financial statements based on IFRS, and conducting audits in accordance with international auditing standards remain insufficiently researched. Failure to address these issues may negatively affect the full and timely fulfillment of the accounting system's obligations to users of financial statements.

Before assessing the reliability of the audited entity's financial statements, the auditor should examine whether the financial reporting process is carried out in accordance with accounting methods and principles, whether financial indicators are correctly reflected in financial statements at **historical cost, acquisition cost, selling price, discounted value, and carrying amount**, and whether the statements are prepared in compliance with current regulatory and accounting standards.

Reliable financial reporting is characterized by the absence of fraud and errors. Ensuring the legality of the entity's activities and the reliability of financial statement data is one of the auditor's primary responsibilities. Therefore, the auditor should analyze the nature and causes

<sup>3</sup> Муаллиф томонидан тайёрланган



of detected errors and fraud, assess their impact on financial reporting, and develop practical recommendations to prevent their recurrence.

In the audit process, it is necessary to ensure compliance with applicable laws and regulations and to evaluate whether financial statements are prepared in accordance with these requirements. The conceptual framework of accounting standards should serve as the basis for auditing financial reporting.

The analysis shows that issues related to detecting **events after the reporting date** and forming audit opinions on them are insufficiently covered in regulatory documents, textbooks, and research studies (except for the national standard on events after the reporting date). At the same time, auditors are responsible for assessing the reliability of information related to transactions occurring after the reporting period but before the signing of the audit report or after its issuance. Failure to properly study these issues may seriously affect the reliability of financial reporting.

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