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CONCEPTUAL DIRECTIONS FOR ORGANIZING A BANK AUDIT ON THE BASIS OF INTERNATIONAL AUDITING STANDARDS

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Abstract

The thesis examines the conceptual directions of organizing a bank audit based on international auditing standards (IAS). The conceptual model of a bank audit is characterized as a combination of risk sensitivity, regulatory compliance, and information value.

Keywords: International auditing standards, bank auditing, conceptual areas, risk-based auditing, prudential supervision, audit quality, information value, regulatory compliance, ISA 250, ISA 540.

The conceptual directions of organizing a bank audit based on international auditing standards arise from the complexity of the modern banking system, increased regulatory requirements, increased information requirements of financial reporting users, and the multifaceted nature of risks in banking activities. Dosmurodov emphasizes that auditing, as an independent science, an independent scientific field, has its own object, subject, theoretical, methodological, and regulatory and legal basis. Therefore, when international auditing standards are applied to bank auditing, their conceptual directions are manifested in three main blocks: theoretical harmonization of bank auditing with international standards, strengthening audit quality and quality management, and coordination of risk sensitivity, regulatory compliance, and information value.



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The theoretical basis for harmonizing bank auditing with ISA consists of eight structural elements. The first basis is the trust-building function of auditing. Eltweri (2015) argues that professionally audited financial statements provide a certain level of assurance of truth and objectivity, and that auditing reduces conflicts arising from the separation of ownership and control. This approach suggests that harmonizing bank auditing with international standards is primarily based on a general theory of trust.

The second basis is the need for standardization of audit methodology and comparability. Shurygin (2005) emphasizes that international financial reporting standards and international auditing standards are becoming increasingly important for Russia and that audit methodology needs to be improved in line with international standards. Lipakov (2011) argues that audit strategy and tactics should be formulated taking into account the specifics of the entity's activities. These two approaches together show that standardization provides a common methodology, while adaptation takes into account industry specifics.

The third basis is the risk-sensitive nature of the objects of the bank audit. The fact that in the materials of the Central Bank (2024; 2025) capital adequacy, liquidity, financial stability, problem loans and the consolidated balance sheet are presented in separate sections indicates that the bank's reporting itself is built around risk-sensitive information blocks. The ISA 315 and ISA 330 standards support this approach: the auditor should identify areas with a high risk of material misstatement based on a deep understanding of the entity's activities and focus the audit strategy on these risk areas.

The fourth foundation is the concept of audit evidence. Guilavogui (2021) found in an empirical study conducted in the US banking and securities industry that there is a statistically significant relationship between sufficient and acceptable audit evidence and the quality of the audit opinion, and that there is a positive



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relationship between the quality of evidence and internal control systems and the quality of the audit report. The ISA 500, 505, 520, 530 standards create a theoretical basis for examining large-scale transactions in a risk-based and representative manner, rather than exhaustively.

The fifth principle is the relationship between audit quality and professional judgment. Mamatov (2005) emphasizes that the close relationship between the level of materiality and the form of the auditor's opinion requires special attention. ISA 540 requires the auditor to apply professional skepticism to management's estimates, assess the reasonableness of models, and thoroughly analyze the risks of material misstatement in accounting estimates, loan loss provisions, fair value, and other complex calculations.

The sixth principle is the connection of the audit profession with the institutional environment. Eltweri justified the need for a new regulatory system with the participation of state supervision and the use of internationally recognized standards for the development of the audit profession. This idea shows that the harmonization of bank audit with international standards is not only a methodological, but also an institutional phenomenon. The seventh principle is the inextricable link between bank audit and prudential supervision. The fact that the Central Bank maintains separate blocks of indicators of capital adequacy, liquidity, problem loans, and asset quality in banking statistics and methodological notes means that the harmonization of bank audit with international standards cannot be complete without taking into account the prudential environment.

The eighth principle is the concept of the information value of the auditor's report. While ISA 700 sets out the general principles for forming an auditor's opinion, ISA 701 provides for the identification of audit matters that are of most importance to users. ISA 720 states that the auditor's report should be consistent



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with other information accompanying the financial statements, rather than being limited to them.

Table 1 Theoretical foundations of harmonizing bank auditing with the requirements of international auditing standards¹

No.	Theoretical basis	Content	Compatible ISA	Importance in bank audit
1	General methodological universality of auditing	The audit objective, evidence, risk, materiality and general rules for drawing conclusions create a single methodological framework	ISA 200, ISA 300	Relates bank auditing to general auditing theory
2	Risk-oriented approach	The audit strategy is focused on segments with a higher risk of material misstatement.	ISA 315, ISA 330	Priority attention to loan portfolio and reserves
3	The concept of evidence	The audit opinion is based on sufficient and reasonable evidence.	ISA 500, 505, 520, 530	The importance of external confirmations and analytical procedures
4	Audit quality and professional judgment	Standards are not a ready-made solution, but a system that guides professional judgment.	ISA 540, ISA 220	A skeptical approach to valuations and reserves
5	Institutional environment	The auditing profession is concerned with regulation, licensing, and quality control	ISA 220, ISA 230	Audit firms strengthen quality systems
6	Relationship with prudential supervision	Audit must be consistent with capital, liquidity and NPL indicators	ISA 250, ISA 315	Ensures regulatory compliance
7	The information value of the audit report	The audit report is a signal and decision-making tool for users	ISA 700, 701, 720	Strengthens public trust
8	The dilemma of standardization and adaptation	Balance of universal rules and network features	ISA 200, ISA 300	Audit model adapted for the banking sector

¹Developed by the author



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The conceptual model of bank audit is built on three interrelated elements - risk sensitivity, regulatory compliance and information value. Risk sensitivity requires taking into account the simultaneous activity of credit risk, liquidity risk, interest rate risk, currency risk, operational risk and valuation risks, depending on the nature of the activities of banks. Sultanov substantiated the need to identify risks in the practice of regulating bank risks and group their impact by the sources of formation. According to the Central Bank, as of July 2024, total loans amounted to 493,952.1 billion soums, while the Central Bank Bulletin indicates that in 2026

As of January 1, it reached 604,002.2 billion soums. The share of problem loans decreased from 4.0-4.3 percent to 3.0 percent. Such indicators require a risk-sensitive audit.

Regulatory compliance is particularly important in bank audits, particularly in the examination of prudential indicators such as capital adequacy, liquidity, and non-performing loans. Eltweri (2015) argues that if audit practices deviate from international standards, the quality of the profession and market confidence will decrease, and therefore the need for a regulatory system based on state supervision and international standards is needed. ISA 250 obliges auditors to take into account the impact of laws and regulatory requirements affecting the organization's activities on financial reporting. Kuznetsova (2012) suggests that the inadequacy of internal procedures, information systems, and technological environment as a source of risk should be considered separately in operational risk audit-control.

The conceptual approach to organizing a bank audit also includes a phased planning of the audit process. ISA 300 defines general requirements for planning an audit engagement: development of an overall audit strategy and a detailed audit plan. In a bank audit, this stage is characterized by the following features:



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first, the work plan includes an IT audit, an independent review of IFRS 9 models, and an analysis of compliance with prudential standards in advance; second, experts are involved for the listed audits (ISA 620 'Use of the Auditor's Expertise'); third, the time distribution is applied at different dates during the year - interim procedures, tests of year-end balances, procedures after the audit of the period after the event (subsequent events). Shurigin (2005) emphasizes that the auditor's knowledge and experience in international standards directly affect the quality of the audit plan and the reliability of the audit opinion.

The process of obtaining and analyzing audit evidence plays a special role in improving the conceptual framework of bank auditing. ISA 500 defines the requirements for the sufficiency and appropriateness of audit evidence, ISA 505 defines external confirmations, ISA 520 defines analytical procedures, and ISA 530 defines audit sampling. The specific features of the application of these standards in bank auditing are as follows. First, the volume of operations carried out by banks (according to the Central Bank, total loans as of January 2026 were 604,002.2 billion soums) requires the widespread use of sampling methods. Statistical sampling, monetary unit sampling (MUS), and risk-based sampling methods are used together. Second, within the framework of ISA 505, external confirmations on interbank balances, loan balances, and deposits are taken as significant audit evidence. Third, the analytical procedures required by ISA 520 are performed in a bank audit through ratio and trend analysis (NPL ratio dynamics, interest margin, capital adequacy ratios).

One of the important aspects of the conceptual model of bank auditing is ensuring the quality of communication and reporting in the audit process. ISA 260 defines communication with management, ISA 265 defines communication about significant deficiencies in internal control. The application of these standards in bank auditing is strengthened in the following areas: first, regular communication



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with the audit committee - on issues of loan portfolio quality, adequacy of IFRS 9 models, state of IT controls, management's influence on audit evidence; second, documented notifications about identified weaknesses in the internal control system in the form of significant deficiencies and material weaknesses; third, information exchange between the prudential supervisory authority and the auditor - procedures for informing the regulator about actions that violate legal and regulatory requirements within the framework of ISA 250. Hamdamov's (2007) thesis, which emphasizes the importance of audit control in a market economy and the need for its adaptation to industry characteristics, confirms the institutional significance of these communication mechanisms.

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

It is proposed that the conceptual model of bank auditing be formulated as a combination of three interrelated elements - risk sensitivity, regulatory compliance, and information value. Audit effectiveness depends on the balanced combination of these three components.

The institutional environment of bank auditing - licensing, quality control, regulatory framework and professional training system - must be strengthened in accordance with international standards. In this regard, institutional relations between the state regulator, audit firms and professional associations should be further deepened.

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