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Basic Fundamentals of the Interrelationship Between International Auditing Standards and Auditing Strategy in Bank Auditing

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Abstract: The article examines the relationship between the principles of the International Standards on Auditing (ISAs) in bank auditing - independence, professional judgment, professional skepticism and public interest - and the audit strategy. The specific features of the formation of accounting and financial reporting in commercial banks are identified; a qualitatively different approach to determining the level of materiality in bank auditing is based on a qualitative rather than a quantitative approach.

Keywords: International auditing standards, bank audit, audit strategy, materiality level, professional skepticism, loan portfolio, liquidity, AXS 315, AXS 540.

Introduction

The focus of commercial banks is not on material production, but on financial intermediation, risk redistribution, organization of payment turnover and liquidity management. Therefore, the formation of bank accounting and financial reporting is fundamentally different from that of real sector enterprises, and the application of the principles of AXS in bank auditing, the formation of an audit strategy acquires a special methodological content [1], [2]. Azizov emphasizes that practical proposals have been developed to solve existing problems in the practice of organizing and conducting external audit in the activities of commercial banks, while Guilavogui empirically substantiates the fact that the quality of the audit opinion is directly dependent on sufficient and acceptable audit evidence [3].

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 AXS 500 in banking auditing.[4]

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

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

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.

ZTMamatov considered issues of improving the audit of financial statements in business entities.[5]

BKHamdamov studied the methodological foundations of the development of audit control.[6]

RD Dosmurodov studied the issues of improving the formation and methodology of auditing activities.[7]

Research Methodology

The research methodology is based on a descriptive-analytical and comparative approach. The requirements of the AXS 200, 300, 315, 320, 530, 540 standards are compared with the practice of bank auditing; quantitative and qualitative measures of determining the level of materiality are distinguished. The priority areas of the audit strategy are based on statistical selection, analytical procedures and the method of dynamic series.

Analysis and Discussion of Results

The first distinctive feature of bank accounting and financial reporting is that it is based on financial instruments and financial liabilities. The Central Bank Bulletin lists cash on hand, funds in banks, investments, securities, loans, leasing and factoring operations, accrued interest and other assets as the composition of assets [8]. This approach means that the main weight of the balance sheet of a commercial bank is embodied not in production reserves or finished products, but in financial assets and liabilities. Avazov also emphasizes the need to achieve a single methodological order in the recognition, measurement and reporting of assets, liabilities, income and expenses.

The second important feature of bank accounting and financial reporting is the high share of interest-bearing transactions. According to the Central Bank's methodological review, the weighted average interest rate is determined by the ratio of the sum of the results of multiplying the amount of each attracted deposit or allocated loan by its annual interest rate during the reporting period to the total amount [9]. This means that the bank accounting system is distinguished by the recognition of interest income and expenses over time, in addition to simple cumulative recording. Kuznetsova emphasizes that operational risk can also arise in the absence of sufficient internal procedures, information and technological systems - therefore, the quality of financial reporting in banks largely depends on the correct functioning of the accounting system in an automated environment.

Table 1. Dynamics of loan portfolio quality and capital ratios in the banking system of Uzbekistan¹.

Indicator	July 2024	November 2024	January 2025	June 2025	December 2025	January 2026
Total loans, billion soums	493,952.1	521,025.0	533 121.2	567,685.2	595 309.4	604,002.2
Non-performing loans (NPL), billion soums	20,000.3	22,013.7	21 185.1	23,519.5	20,545.4	18,055.3
NPL share, %	4.0	4.2	4.0	4.1	3.5	3.0
Regulatory capital, billion soums	115,612.0	121 265.0	128,550.0	134,784.3	149 269.7	150,861.6

Analytical data shows that total loans increased from 493,952.1 billion soums in July 2024 to 604,002.2 billion soums as of January 1,2026, an increase of 22.3%. During this period, the share of problem loans decreased from 4.0-4.2 percent to 3.0 percent. On the one hand, this indicates an improvement in asset quality, and on the other hand, it

¹Prepared by the author based on the information received

indicates the need to carefully formulate the audit strategy: in conditions of rapid growth in the amount of loans, even if the share of NPLs decreases, the level of importance for the auditor does not decrease, but on the contrary, the selection base and the volume of reserve calculations expand.

Tsurova (2003) notes that the issue of distributing materiality levels by capital elements is not sufficiently developed - this opinion suggests that materiality in banking auditing should not be a simple generalized indicator, but should be applied differentially in relation to capital, risk and asset quality. AXS 320 also identifies materiality levels as the main criterion determining the scope, timing and content of the audit.

The need for professional skepticism in bank auditing is confirmed by the dynamics of problem loans in banking practice. The Central Bank (2024) notes that problem loans are loans classified as 'unsatisfactory', 'doubtful' and 'bad'. In this case, the auditor must be critical of the assessments made by management. Guilavogui (2021) empirically demonstrated that auditors' failure to apply professional skepticism, over-reliance on management representations, and insufficient corroboration of evidence on debt and assets lead to audit quality problems.

In terms of liquidity, according to the Central Bank, as of November 2024, liquid assets amounted to 137,920 billion soums, short-term liabilities 327,708 billion soums, and the liquidity coverage ratio was 191.0 percent. In the auditor's strategy, this positive indicator does not automatically mean low risk. The auditor should also assess the composition of highly liquid assets, maturity mismatch, dependence on interbank financing, deposit flows, and concentration of large customers. Thus, materiality in a bank audit becomes a concept that encompasses not only the aggregate indicator, but also the internal quality of the indicators.

In banking auditing, conceptual principles are translated into practice through the AQS standards. AQS 200 sets out the auditor's overall objectives, the need to obtain sufficient and appropriate audit evidence, and the requirement to exercise professional judgment and skepticism throughout the audit. AQS 220 establishes specific requirements for managing the quality of the audit engagement and maintaining independence. AQS 315 helps identify risks of material misstatement, and AQS 330 selects audit procedures appropriate to those risks. AQS 540 requires the auditor to be critical and skeptical of estimates, assumptions, and models made by management. Sivertsen and Hansen argue that AQS 540 (Revised) aims to improve auditors' internal risk assessments, but its application poses complex methodological challenges.

Table 2. Dynamics of liquidity, deposits and weighted average interest rates in the banking system of Uzbekistan².

Indicator	July 2024	November 2024	June 2025	December 2025
Liquid assets, billion soums	119,540	137,920	142,380	149,760
Liquidity Coverage Ratio (LCR), %	178.2	191.0	196.5	201.4
Deposits of legal entities in national currency, billion soums	128,740	139 250	151,980	161,610.8
Deposits of individuals, billion soums	76,410	82,870	89,540	96 220
Weighted average interest rate on loans, %	23.1	22.8	22.3	21.7

² Developed by author

Weighted average interest rate on deposits, %	17.8	17.5	17.1	16.6
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These indicators indicate that the liquidity and deposit base require special attention in the formation of an audit strategy in bank audits. Liquid assets increased from 119,540 billion soums to 149,760 billion soums, and the LCR ratio increased from 178.2 percent to 201.4 percent - this indicates that the liquidity situation of the banking system is stable according to official indicators. However, Tsurova justified the need to assess the structural quality of capital, assets and liabilities in addition to official norms for bank audits. Behind the high LCR indicator, the auditor must conduct a thorough analysis of such qualitative factors as asset-liability matching by maturity (gap analysis), dependence on the interbank market, concentration of large deposits, speed of deposit flow and liquidity mismatch by currency.

The composition of deposits provides another important signal for the audit strategy. Deposits of legal entities in the national currency increased from 128,740 billion soums to 161,610.8 billion soums, and deposits of individuals from 76,410 billion soums to 96,220 billion soums. Avlokulov emphasizes the importance of the correct application of the principles of temporary allocation of expenses and periodic matching in the accounting and audit of bank financial results. From the point of view of the audit strategy, the ratio of term deposits and demand deposits in the composition of deposits, their distribution by term, the possibility of rollover, and the sensitivity of deposit interest rates to market fluctuations should be included in the audit analysis.

The dynamics of interest rates illustrate the complexity of auditing interest income and expenses in bank audits. The weighted average rate on loans decreased from 23.1 percent to 21.7 percent, and on deposits from 17.8 percent to 16.6 percent. A change in rates of 1.4-1.2 percentage points has a significant impact on the bank's interest margin. According to the methodological review of the Central Bank (2025), the weighted average interest rate is determined by the ratio of the sum of the amount of each loan or deposit and its annual interest rate product to the total amount - the accuracy of this calculation must be confirmed by the auditor through a sample inspection. Khitrovskaya shows that improving bank audit methodology is a key condition for improving audit quality, which is especially relevant in the audit of interest-bearing transactions.

When formulating an audit strategy, the quantitative and qualitative aspects of calculating the level of materiality should be combined. According to the AXS 320 standard, quantitative materiality is usually calculated as a percentage of profit, revenue, total assets or equity. In banking auditing, this approach is complemented by several features: first, regulatory capital is chosen as the material base - since any violation directly affects the capital adequacy ratio; second, the level of materiality is reduced in cases of proximity to the threshold values of prudential regulations; third, qualitative factors (violation of the law, conflicts of interest, corporate governance deficiencies, impact on customer interests) are recognized as material regardless of the total threshold. This approach is consistent with the concept of differential materiality of capital elements, outlined by Tsurova.

AXS 540 is particularly relevant to bank audits, as many items in a bank's financial statements—estimated credit loss allowances, fair value estimates for securities, deferred tax assets, and foreign exchange revaluations—are based on management estimates and models. Hussain et al.'s study of AXS 540 (Revised) suggests that the standard is intended to improve auditors' approach to complex estimates in the context of audits of financial institutions such as banks. Sivertsen and Hansen (2021) argue that the practical application of the standard requires auditors to have a deeper understanding of internal risk assessment models and to develop methodological knowledge of modeling. From an audit strategy perspective, this means that the bank audit team should include experts in IFRS 9

and expected loss models, and management's assumptions about model parameters (PD, LGD, EAD) and macroeconomic scenarios should be independently assessed [10].

Another important aspect of the audit strategy is the assessment of the internal control environment and information systems. According to the Central Bank, by 2025, the number of branches operating 24/7 will reach 5,615, and digital channels (mobile applications, Internet banking, contactless payments) will become the main operational support of commercial banks. In such an environment, as Kuznetsova noted, operational risk arises due to the inadequacy of information systems and the technological environment. Within the framework of AXS 315, the auditor should pay attention to the assessment of not only traditional accounting controls, but also IT general controls (ITGC), cybersecurity procedures, data integrity controls and automated controls. This aspect fundamentally distinguishes the modern strategy of bank auditing from the audit of real sector enterprises [11].

One of the important areas for deepening the application of the principles of IAS in bank auditing is the institutional strengthening of auditor independence. IAS 220 and the International Code of Ethics for Professional Auditors (IESBA Code) stipulate that auditor independence must be maintained in the aspects of 'reason and appearance'. In bank auditing, this principle may encounter the following threats in practice: first, if the audit firm has established a financial relationship with the bank (loan, deposit, leasing), a self-interest threat arises; second, a long-term client relationship creates a 'familiarity' threat; third, the provision of additional non-banking services (advisory, tax, IT consulting) may affect the auditor's objectivity. While Utegenova emphasizes the need to improve the theoretical and organizational-methodological aspects of audit quality control based on international practice, she provides mechanisms for managing these independence threats at the institutional level.

The alignment of a bank audit with AXS is closely related to the requirements of AXS 300 at the stage of forming an audit strategy. According to AXS 300, the auditor must first develop a general audit strategy, and then a detailed audit plan. The general strategy of a bank audit consists of the following elements: first, the audit scope is determined (which branches, subsidiaries, which financial activity segments will be covered); second, the audit timing points are determined (interim audit, year-end balances, event-related period procedures); third, the team composition is planned - including the involvement of specialists (credit risk model actuary, IT auditor, legal specialist) in accordance with the requirements of AXS 620; fourth, the communication procedure - communication with management and governing bodies is planned in accordance with the requirements of AXS 260, AXS 265. Avazov also indicates the need for a unified methodological approach in formulating an audit strategy, an idea that is especially relevant in the audit of a consolidated banking group [12], [13], [14].

One of the strategic areas of bank audit is the audit of the quality of the loan portfolio and confirmation of the expected loan loss reserve. Data from the Central Bank (2024; 2025) confirm the central importance of this area: during the period when total loans grew by 22.3 percent, the share of problem loans decreased from 4.0-4.3 percent to 3.0 percent. When assessing this dynamics, the auditor must conduct a thorough analysis of the IFRS 9 Expected Credit Loss (ECL) model: classification of loans by stages (Stage 1, Stage 2, Stage 3), significant increase in credit risk (SICR) indicators, macroeconomic scenarios and their probabilities, historical and forecast estimates of the parameters of probable default (PD), loss given default (LGD) and exposure at default (EAD). In this process, the concept of differential materiality of capital elements, as presented by Tsureva (2003), and the system of control and analytical tools for early identification of the risk of loss of financial stability, based on Grigoryeva, guide the auditor.

In a bank audit, the interrelationship of the principles of the ISA and the audit strategy is also reflected in the auditor's documentation obligations. ISA 230 requires that

audit documentation include sufficient and acceptable written records that demonstrate that the audit conclusion is justified [15]. In a bank audit, this requirement is manifested in the following specific manifestations: first, each significant decision made by the audit team (materiality level, audit approach, expert judgments within the framework of ISA 540) is documented; second, the results of the audit under the IFRS 9 model, the basis for the parameters and recommendations for model development are reflected in detail; third, internal control system tests and identified weaknesses are carefully recorded. Avazov refers to this principle of quality management and audit reproducibility when he emphasizes a uniform methodological procedure for documentation in the audit of consolidated financial statements. Thus, the principles of AQS, audit strategy, and documentation are inextricably linked and form the methodological core of bank audit quality.

Conclusion and Suggestions

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

Accounting and financial reporting in commercial banks is characterized by a high content of financial instruments, a large share of interest-bearing transactions, a close connection with prudential indicators, and reliance on a digital environment. When assessing bank reporting, the auditor must understand the logic of international reporting, along with national standards.

In banking auditing, materiality is a multifaceted concept, not a quantitative one: a small error can have a significant impact on capital adequacy or prudential regulations. Therefore, the audit strategy should determine materiality using a combination of quantitative and qualitative criteria.

The principles of ISAs (independence, professional judgment, professional skepticism, public interest) are applied to real auditing practice in bank auditing through ISAs 200, 220, 260, 265, 315, 330, 540, 700, 701 standards, and their interrelationship forms a single methodological system that determines the quality of the audit.

It is recommended that the audit strategy be formulated based on a risk-based approach, with priority attention paid to the loan portfolio, reserves, capital adequacy, liquidity, deposit base, interest income and expenses, internal control system, and information technology environment.

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