

Mechanisms of Transformation of Accounting and Auditing Activities of Commercial Banks into the International Banking System

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Abstract: In the academic thesis, the mechanisms of transformation of the accounting and auditing activities of commercial banks in the Republic of Uzbekistan to the international banking system, as well as the accounting and auditing activities, the existing problems that arise in the implementation of this prospective plan, and the internationalization of the accounting and auditing activities of commercial banks in Uzbekistan The main reasons for the transformation of the banking system are explained.

Keywords: commercial banks, accounting and auditing, international banking system, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), International Auditing Practices Committee (IAPC).

Introduction

This article details the findings of an evaluation of the standards and procedures for accounting, financial reporting, and auditing in the enterprise and financial sectors of the Republic of Uzbekistan. The report evaluates the caliber of Uzbek financial information and offers policy recommendations using, among other benchmarks, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and International Standards on Auditing (ISA). It also draws on international experience and best practices in the areas of accounting and audit regulation.¹

The International Federation of Accountants (IFAC)'s International Auditing Practices Committee (IAPC) publishes International Standards on Auditing (ISAs) on widely recognized auditing standards, associated services, and the structure and substance of auditor reports. The goal of these standards is to increase the level of global standardization in auditing procedures and associated services.² By elaborating on and interpreting these principles in the context of the audit of international commercial banks, this statement

¹ This report was prepared based on the findings of a diagnostic review carried out in the Republic of Uzbekistan by a team from the World Bank in December 2008. The team was led by Jan Tyl (ECAAT) and comprised Andrei Busuioc (ECCAT) and Eskender Trushin (ECSPE). The review involved the participation of various stakeholders in corporate financial reporting in the country.

² www.worldbank.org/ifa/rosc_aa.html.

aims to give auditors further direction. However, it is not meant to be a comprehensive list of the steps and techniques that will be taken during such an audit.

The following definitions apply to financial institutions for the purposes of this statement:

- A bank is a category of financial institution that is acknowledged as a bank by the regulatory authorities in the nations in which it operates and typically has the sole right to use the term "bank" as part of its name.
- A commercial bank is a bank whose main function is the receipt of deposits and the making of loans. A commercial bank will frequently also provide other financial services, such as the buying and selling of precious metals, foreign currencies, and a variety of financial instruments; the issuing and acceptance of bills of exchange; and the issuing of guarantees.
- A commercial bank that operates outside of the nation in which it was founded or whose operations cross international borders is considered an international commercial bank.

Although this statement is primarily aimed to the audits of foreign commercial banks, it also has application to audits of domestic commercial banks. The word "bank" will henceforth refer to an international commercial bank throughout this statement.

Literature review

Research on the role of the system of modernization and simplification of banking services in the development of financial services in the country, the conditions and opportunities for the introduction of information technology in the banking system has been widely introduced in our country. Some theoretical and practical aspects of improving the digital platform of commercial banks U.O.Azizov, T.M.Koraliev[1], Sh.Z.Abdullaeva[2], B.O.Tursunov, S.Raimberdiyev [3], K.A.Mirzobekov[4] in scientific researchon the development of digital banking servicesscientific proposals and practical recommendations have been developed.

Research methodology

Research methods such as analysis and synthesis, induction and deduction, statistics and comparison were used in conducting the research.

Analysis and discussion of results

Banks have the following characteristics, which generally distinguish them from most other commercial enterprises:

- they have custody of large volumes of monetary items, including cash and negotiable instruments, whose physical security has to be assured. This applies both to the storage and the transfer of monetary items and makes banks vulnerable to misappropriation and fraud. They therefore need to establish formal operating procedures, well-defined limits for individual discretion, and rigorous systems of internal control;
- they engage in a large volume and variety of transactions, both in terms of number and value. This necessarily requires complex internal control, in particular the entity's information system and related business processes relevant to financial reporting, and widespread use of electronic data processing;
- they often do business through a vast, geographically scattered network of branches and divisions. They frequently assume significant obligations without any transfer of funds, which necessitates a greater decentralization of authority and dispersion of reporting on finances and internal control functions, with the resulting challenges of maintaining uniform operating procedures and information

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systems. These items, which are typically referred to as "off-balance-sheet" items, may not involve accounting entries, making it challenging to identify them if they are not recorded;

- they are subject to governmental regulation, and as a result, the regulatory requirements frequently affect generally accepted accounting principles and auditing practices in the sector.

Special audit considerations arise in the audits of banks because of:

- the particular nature of the business risks associated with the transactions undertaken by banks;
- the scale of banking operations and the resultant significant exposures that can arise within short periods of time;
- the extensive dependence on computerized systems to process transactions;
- the effect of the regulations in the various jurisdictions in which they operate;
- the continuing development of new products and banking practices, which may not be matched by the concurrent development of accounting principles and auditing practices.

In many nations, banks engage in activities that are not exclusively banking-related and may not be limited to banks. These include leasing services, brokerage for equities, and insurance. This statement is not meant to serve as advice while conducting an audit of such actions.

This statement is structured as a description of the various steps in an audit of a bank, with a focus on the issues that are unique to or particularly significant in such an audit. The Appendices, which provide illustrations of typical control processes expected to exist in three of a bank's key business segments-lending, foreign currency trading, and trust activities-are also included for illustrative purposes; financial ratios that are frequently used in analyzing the health and performance of a bank's finances; and in-depth methods for assessing loan loss provisions.

Table №1 Information about commercial banks in Uzbekistan in terms of their business activities

Name of bank	Rates	Minimum sum	Term (in months)	Issuance form
Madad invest bank	24%	1 mln	13	online/offline
Anorbank	19–27%	0.1 mln	13	online/offline
Davrbank	24%	0.5 mln	13	online
TBC bank	23%	0.1 mln	24	online
Ravnaq-bank	23%	0.5 mln	36	online
Mikrokreditbank	23%	0.1 mln	24	online
Universalbank	22-23%	0.5 mln	13-22	online/offline
Agrobank	22-23%	0.5 mln	13	online/offline
Aloqabank	22%	1 mln	12	offline
Ziraat bank	22%	3 mln	24	offline
Tenge bank	22%	0.1 mln	13	online/ offline
Infin bank	22%	1 mln	15	online/offline
Turonbank	22%	1 mln	18	online/offline
Uzpromstroybank	22%	0.5 mln	13	online/offline
Ipoteka bank	17-22%	0.1-0.5 mln	12-24	online/offline
Kapital bank	21%	1 mln	25	online/offline
Narodniy bank	20-21%	0.1-1 mln	18	online/offline
BU (National bank of Uzbekistan)	20-21%	0.1 mln	18	online/offline

Qishloq qurilish bank	20-21%	1 mln	6	online
Hamkorbank	21-22%	2 mln	13	online
Asakabank	19-21%	0.5 mln	24	offline
Trastbank	20%	0.5 mln	13	online
Asia Alliance bank	19%	1 mln	24	online/offline
Poytaxt bank	17%	1-5 mln	36	online/offline
Ipak yo'li bank	16-17%	1 mln	12	online
Oriant Finance bank	15-16%	10 mln	10	online

Above of the table, 26 of the 32 banks depositing in the currency of the country is indicated. Maximum interest rate is 24%.

There are 26 banks in the nation where you may open a money deposit, and in 25 of them, you can register using a mobile application.

Davrbank and Madad Invest Bank both offer high rates on soum deposits (24%), which are available online. The latter, in addition, only has two branches, both of which are in the Fergana area.

The typical rate fluctuates between 22-23%. Deposits with growing interest up to 27% are available at "Anorbank," "Ipoteka Bank," and "Qishloq Qurilish Bank."

A deposit must be opened with at least 500,000 to 1,000,000 soums. Tenge Bank requires a hefty initial payment of 10 million soums to create an online deposit, while Orient Finance Bank just requires 1,000 soums.

In between six months and three years, deposits are maintained.

Several strategies are used to adapt the accounting and auditing operations of commercial banks in Uzbekistan to the global financial system, including:³

1. Adoption of International Financial Reporting Standards (IFRS): The adoption of IFRS in Uzbekistan has been gradually implemented since 2010, and it requires commercial banks to meet the reporting requirements of IFRS, which is the global standard for financial reporting.
2. Implementation of International Standards on Auditing (ISA): The implementation of ISA requires commercial banks to follow a set of auditing standards that are recognized globally, which ensures that auditing practices comply with international standards.
3. RBS (risk-based supervision) is now available: Commercial banks must identify, measure, monitor, and control their risks in line with worldwide best practices and standards as a result of the introduction of RBS, which focuses on the management of risks connected to banking operations.
4. Corporate Governance Improvements: To meet international standards, which call for banks to have efficient board oversight, risk management, internal audit, and compliance operations, commercial banks must strengthen their corporate governance.
5. Developing the skills of accounting and auditing professionals: Developing the skills of accounting and auditing professionals is crucial to assisting the conversion of commercial banks' accounting and auditing procedures to the global banking system. Programs for professional development and training are essential to ensuring that workers are equipped to apply global standards.

³Republic of Uzbekistan, Country Financial Accountability Assessment, World Bank Report No. 31345, Operations Policy and Services Unit, Europe and Central Asia Region

In the following informations, there are ranking of most active banks in Uzbekistan for the year of 2023 in terms of overall rating, rating change, financial intermediation rating, financial popularity rating, capital adequacy, asset quality, management efficiency and earning potential ratings. As it is clear that the number of several banks is increasing, they are in the very field of competition.

From the information given in the table below, it is clear that among all 17 commercial banks in Uzbekistan, Kapital Bank is the leader in terms of rating change by 0, 1 from financial intermediation rating, rating of capital adequacy about 16 which can be seen high enough to spot the first place and has got good scores from other ratings respectively, while Turon bank ranked in the last 17th place in rating change -1, 12 from financial intermediation, in financial popularity rating 14 and etc.

Kapital bank, Asia Alliance bank, Hamkor bank, Ipak yo'li bank, Trast bank, Orient Finance bank, Ipoteka bank, Aloqa bank, Invest Finance bank, and Mikrokredit banks are among the top 10 in Uzbekistan in this rating and are strong and famous banks that provide high-quality service to many customers and meet their requirements in their own way.

If we look at each rating's first and last places, we can clarify other features as because not just one bank can take the top place from all ratings and other bank can not be stuck in the last place on the list.

In financial intermediation rating, in the first place there are 2 banks: Kapital bank and Invest finance bank, while Uzmilloy bank has got the last place on the list of this rating, although it is ranked in the first place from management efficiency rating.

In financial popularity rating, there is Kapital bank which holds the supreme level for their services and financial means and the last ranked bank is Orient Finance respectively.

If we look at capital adequacy rating, Aloqa bank is in the 17th place and in the first it is Trast bank.

Last rating type is earning potential, where Asaka bank has taken the last place, when it was Hamkor bank which is superior bank respectively.

Table №2 Ranking of most active banks in Uzbekistan updated in 2023⁴

№	Bank	Overall rating	Rating change	Financial intermediation rating	Financial popularity	Capital adequacy	Asset quality	Management efficiency	Earning potential
1	Kapital bank	1	0	1	1	16	1	10	9
2	Asia Alliance bank	2	1	3	10	12	2	5	7
3	Hamkor bank	3	-1	9	4	10	5	8	1
4	Ipak yo'li bank	4	1	14	2	8	8	7	2
5	Trast bank	5	-1	8	12	1	14	9	3
6	Orient Finance bank	6	1	7	17	3	6	4	4
7	Ipoteka bank	7	2	15	6	6	11	2	6
8	Aloqa bank	8	0	4	7	17	4	14	13
9	Invest Finance bank	9	-3	1	13	15	3	16	11

⁴www.stat.uz- legal sayt of Statistics agency under The President of The Republic of Uzbekistan.

10	Mikrokredit bank	10	0	6	5	2	7	13	12
11	Xalq bank	11	1	5	9	5	17	11	8
12	Uzmilliy bank	12	2	17	15	4	15	1	5
13	Qishloq qurilish bank	13	0	10	8	13	12	12	14
14	Agrobank	14	-3	13	3	7	13	15	16
15	Uzsanoatqurilish	15	0	16	16	14	10	3	10
16	Asaka bank	16	1	11	11	11	16	6	17
17	Turon bank	17	-1	12	14	9	9	17	15

The process of transformation of the accounting and auditing activities of commercial banks into the international banking system is carried out through a number of mechanisms, which include the following components:

- creation of high-quality reporting. Banks must ensure high-quality accounting and auditing reporting that meets international standards. This will help simplify the accounting and control of financial activities within the framework of international standards;
- introduction of new technologies. Commercial banks should use modern technologies to automate risk management processes, data quality control, and analysis of financial statements;
- compliance with international standards. Commercial banks must strictly comply with all international accounting and auditing standards, including International Financial Reporting Standards (IFRS);
- internal control mechanism development. In order to guarantee the accuracy and dependability of financial reporting, banks should strengthen their internal controls;
- passing the independent auditing companies' inspection. Commercial banks are required to submit their reports for audit to unbiased auditing companies to ensure that they comply with global standards and have accurate accounting;
- joining groups for global finance. In order to obtain access to international financial resources and establish themselves in the global market, commercial banks should join organizations like the International Monetary Fund (IMF) and the International Bank for Recovery and Development (IBVR).

Several interrelated aspects are involved in the method by which the accounting and auditing operations of commercial banks are integrated into the global financial system.

Commercial banks have expanded their activities across national boundaries as a result of globalization. To ensure accuracy and openness in financial reporting across all areas, universal standards in accounting and auditing are now required⁵:

- international Standards: A set of standards and principles for accounting and auditing processes have been created by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB), and they are recognized and used all over the world;

⁵ International Standards on Auditing are the standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

- harmonization: To align their accounting and auditing procedures with global standards, commercial banks have settled on IFRS (International Financial Reporting Standards) and ISA (International Standards on Auditing);
- increased laws: As a result of the financial crisis, there is a greater need for accountability and transparency, which has led to more stringent local and international reporting laws for commercial banks;
- technology: Commercial banks now find it simpler to adopt and put into practice worldwide accounting and auditing standards thanks to technological advancements. Digital paperwork, computerized audits, and electronic reporting systems have made the procedure easier.

In order to gradually integrate the accounting and auditing operations of commercial banks into the global financial system, it is necessary to embrace new technology, conform to laws, and align with international standards. It necessitates a large resource commitment, including infrastructure and training. A transparent and precise financial reporting system is beneficial, so the work is worthwhile.

In developing an overall plan for the audit, the auditor needs to give particular attention to:

- the determination of materiality;
- the assessment of the risk of material misstatement;
- the expected degree of reliance on internal control;
- the extent of CIS and EFT systems used by the bank;
- the work of internal audit;
- the complexity of the transactions undertaken by the bank and the documentation in respect thereof;
- the existence of significant areas of audit concern not readily apparent from the bank's financial statements;
- the existence of related-party transactions;
- the involvement of other auditors;
- management's representations;
- the work of supervisors

Table №3 Information on major indicators of commercial banks as of January 1, 2023⁶

№	Bank name	Assets		Loans		Capital		Deposits	
		sum	share in % of total	sum	share in % of total	sum	share in % of total	sum	share in % of total
	Total	556.746	100%	390.049	100%	79.565	100%	216.738	100%
	Banks with state ownership	435.136	78%	324.681	83%	61.919	78%	135.534	63%
1.	NBU	119.918	21,5%	89.410	22,9%	16.378	20,6%	38.157	17,6%
2.	Uzpromstroybank	64.264	11,5%	48.076	12,3%	7.828	9,8%	14.884	6,9%
3.	Agrobank	53.068	9,5%	43.846	11,2%	9.505	11,9%	12.550	5,8%

⁶ www.cbu.uz/en/statistics/bankstats/846224/

4.	Asaka bank	51.180	9,2%	36.742	9,4%	6.519	8,2%	14.431	6,7%
5.	Ipoteka-bank	44.187	7,9%	32.658	8,4%	5.917	7,4%	16.432	7,6%
6.	People's bank	31.672	5,7%	21.666	5,6%	5.319	6,7%	13.583	6,3%
7.	Qishloq Qurilish bank	24.822	4,5%	20.292	5,2%	2.944	3,7%	8.826	4,1%
8.	Microcreditbank	16.782	3,0%	13.319	3,4%	3.644	4,6%	5.409	2,5%
9.	Aloqa bank	16.084	2,9%	9.162	2,3%	1.795	2,3%	7.698	3,6%
10.	Turon bank	12.879	2,3%	9.431	2,4%	1.879	2,4%	3.493	1,6%
11.	Poytakht bank	230	0,0%	74	0,0%	144	0,2%	72	0,0%
12.	Uzagroexportbank	49	0,0%	6	0,0%	47	0,1%	0,7	0,0%

The table provides data on the most important commercial bank metrics as of January 1, 2023. Assets, loans, capital, and deposits are the four categories into which the data is divided.

State-owned banks account for 78% of the total assets of all banks, which amount 556.746 billion soum. 390.049 billion soum worth of loans were made by all banks combined, with state-owned banks accounting for 83% of such loans. State-owned banks make up 78% of the total capital of all banks, which is 79.565 billion soum. Finally, the sum of all bank deposits is 216.738 billion soum, with state-owned banks accounting for 63% of the total.

Each state-owned bank's assets, loans, capital, and deposits are also listed in the table along with other details. Among state-owned banks, NBU has the biggest assets and loans, with 119.918 billion soum and 89.410 billion soum, respectively. The second-largest commercial bank in Uzbekistan, Uzpromstroybank, has assets and loans of 64.264 billion som and 48.076 billion som, which was ranked in the last place on the list respectively.

The other state-owned banks on the list are Agrobank, Asaka Bank, Ipoteka Bank, People's Bank, Qishloq Qurilish Bank, Microcredit Bank, Aloqa Bank, Turon Bank, Poytakht Bank, and Uzagroexport Bank.

Conclusions and suggestions

In recent years, the globalization of business and finance has led to an increase in the complexity of the international banking system. Commercial banks must modify their accounting and auditing procedures to match the requirements of the global market in order to remain competitive. There are still a number of obstacles to be overcome, including the lack of consistency in accounting and auditing standards across nations, the complexity of international transactions and compliance requirements, language barriers, cultural differences, the scarcity of qualified professionals, and the possibility of fraud. Several techniques have been offered to address these problems. Adoption of a uniform set of accounting and auditing standards by regulatory bodies across many nations is one viable answer. This can make it easier for investors and other stakeholders to comprehend and compare financial performance by ensuring that financial reporting is uniform and transparent across borders. The adoption of digital technologies can also increase transparency and automate transactions, lowering the possibility of mistakes and fraud. The provision of training programs and language courses is another strategy for enhancing the workforce's professional skills. By doing so, the skills gap can be filled and knowledge of global accounting and auditing standards can be increased. Collaboration between different nations and organizations can also aid in the development of a standardized approach to accounting and auditing procedures, which can further improve transparency and lessen the complexity of international transactions. Last but not least, putting in place strong internal control systems and risk management procedures can aid in preventing fraud and guaranteeing adherence to global rules. The application of cutting-edge data analytics technologies, thorough risk assessment protocols, and ongoing financial reporting process audits are a few examples of how to do this. In conclusion, the integration of commercial banks' accounting and auditing

functions into the global banking system necessitates the use of a multifaceted strategy. Commercial banks are better able to react to the shifting global scene and raise their level of competitiveness abroad by combining legislative reforms, the use of digital technology, staff development, collaboration, and risk management techniques.

The systems for integrating the accounting and auditing operations of Uzbek commercial banks into the global financial system have a variety of characteristics. They have to do with the characteristics of Uzbekistan's financial system and its integration into the global economy. Commercial banks in Uzbekistan place a high priority on performing auditing and accounting tasks at a level that complies with international norms. However, this necessitates alterations to the laws and rules governing financial activity. Uzbek banks must align their accounting and auditing procedures with international standards and make sure that the level of personnel qualification complies with international norms in order to effectively integrate into the global banking system. Organizing information flow between Uzbek banks and overseas partners is crucial, as is protecting banking and information technology systems from outside threats. Therefore, the mechanisms for integrating the accounting and auditing operations of Uzbek commercial banks into the global banking system call for legislative amendments, staff training, the advancement of information technologies, and the organization of information exchange between Uzbek banks and foreign partners.

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7. www.worldbank.org - official information of the World Bank;
8. The government should consider three options for such a financial statements registry: (i) within the supervisory bodies; (ii) within the National Statistics Committee, where all companies currently file their financial statements; or (iii) establishing a new autonomous agency that would deal with all corporate administration, from incorporation to wind-up.
9. International Financial Reporting Standards are issued by the International Accounting Standards Board, an independent accounting standard-setter based in London, United Kingdom. In April 2001, the IASB announced that it would adopt all of the International Accounting Standards issued by the International Accounting Standards Committee. For simplicity's sake, the term IFRS will mean both IFRS and IAS in this report.

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