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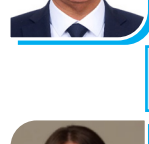
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THE ROLE OF FOREIGN EXPERIENCE IN ANALYSING THE THEORETICAL FOUNDATIONS OF THE AUDIT OF FINANCIAL LIABILITIES



Palvanov Xusniddin Bekimmatovich

Assistant of the Department of
“Specialized, Social-Humanitarian and Exact Sciences”
Turtkul Faculty of Tashkent State University of Economics
ORCID: 0009-0009-9611-1891
Email: palvanovxusniddin@gmail.com

Abstract: This article examines the theoretical and methodological foundations of the audit of financial liabilities and the role of foreign experience in advancing them. Unlike the audit of assets, which is dominated by the risk of overstatement and the existence assertion, the audit of liabilities is governed by the risk of understatement or omission; the completeness assertion is therefore central and calls for procedures aimed at the search for unrecorded liabilities. Drawing on the International Standards on Auditing (ISA 315, 330, 500, 501, 505), the International Financial Reporting Standards (IAS 32, IFRS 9, IAS 37) and the approaches of the Anglo-American and CIS audit schools, the study offers recommendations for adapting risk-based methodology, external-confirmation practice and the audit of estimated liabilities to national conditions.

Key words: financial liabilities, audit, completeness assertion, unrecorded liabilities, external confirmation, International Standards on Auditing, provisions, risk-based audit, foreign experience.

Аннотация: В статье рассматриваются теоретические и методологические основы аудита финансовых обязательств, а также роль зарубежного опыта в их совершенствовании. В отличие от аудита активов, где преобладают риск завышения и утверждение о существовании, аудит обязательств характеризуется риском занижения или неполного отражения, в связи с чем ключевое значение приобретает утверждение о полноте и необходимость применения процедур, направленных на поиск неучтённых обязательств. Опираясь на Международные стандарты аудита (ISA 315, 330, 500, 501, 505), Международные стандарты финансовой отчётности (IAS 32, IFRS 9, IAS 37), а также подходы англо-американской и СНГ школ аудита, исследование предлагает рекомендации по адаптации риск-ориентированной методологии, практики внешнего подтверждения и аудита оценочных обязательств к национальным условиям.

Ключевые слова: финансовые обязательства, аудит, утверждение о полноте, неучтённые обязательства, внешнее подтверждение, Международные стандарты аудита, резервы, риск-ориентированный аудит, зарубежный опыт.

INTRODUCTION

In a market economy, the reliability of financial statements is confirmed through independent external audit. Among the objects that determine this reliability, the financial liabilities of an entity occupy a prominent place. They comprise trade payables, bank loans and borrowings, issued bonds, tax obligations, and provisions and contingent liabilities. Liabilities represent third-party claims on the entity's resources, and their incorrect or incomplete recognition can materially distort the reported financial position and results.

The theoretical complexity of auditing liabilities follows from an asymmetry of risk. Whereas the principal risk in auditing assets is overstatement, the principal risk for liabilities is understatement: an entity is inclined to undervalue or omit obligations in order to present a more favourable position. Consequently, the dominant assertion in liability audits is completeness, which obliges the auditor to verify that all existing obligations are fully recorded and to apply dedicated procedures known as the search for unrecorded liabilities.

Uzbekistan has recently undertaken far-reaching audit reforms. Under the revised Law on Auditing Activity, adopted on 25 February 2021, audits are now performed on the basis of the International Standards on Auditing [1], while the national accounting system is being progressively aligned with the International Financial Reporting Standards [2]. This transition has heightened the need to develop the theory and methodology of liability audits in accordance with international practice.

At present, the domestic literature lacks a coherent methodological framework for auditing liabilities, particularly regarding provisions and contingent liabilities, fair-value measurement of financial liabilities, and the search for unrecorded liabilities. The gap between national practice and the requirements of international standards makes the study and rational adoption of foreign experience a pressing task. The relevance is not only academic but also economic: as corporate borrowing, the bond market and international financial relations expand, investors and creditors require reliable information on liabilities, since their misstatement can lead to erroneous economic decisions concerning an entity's solvency and stability.

The aim of the article is to analyse the theoretical foundations of the audit of financial liabilities and to determine the role and potential of foreign experience in their development. The objectives are to clarify the concept and classification of financial liabilities; to systematise the theoretical foundations of their audit (assertions, risk, audit evidence); to compare the approaches of the leading foreign schools; and to substantiate directions for adapting foreign experience to national conditions.

REVIEW OF LITERATURE ON THE SUBJECT

The theoretical foundations of the audit of financial liabilities occupy an important place in the modern audit system because liabilities directly affect an entity's financial stability, solvency, and going-concern status. In international auditing practice, the audit of liabilities is characterized by a higher risk of understatement or omission compared with the audit of assets, where overstatement risks generally dominate. As a result, contemporary auditing theory emphasizes the importance of completeness assertions, risk-oriented procedures, and professional skepticism in verifying obligations and contingent liabilities. The growing integration of global financial markets and the expansion of complex financial instruments have further increased the relevance of international auditing standards and foreign audit experience in improving national audit methodologies.

A significant contribution to the development of modern liability-audit methodology has been made by the International Auditing and Assurance Standards Board through the establishment of International Standards on Auditing (ISA). In particular, ISA 540 (Revised) "Auditing Accounting Estimates and Related Disclosures" provides a methodological framework for examining accounting estimates associated with provisions, contingent liabilities, expected credit losses, and fair-value measurements. The standard emphasizes that auditors must evaluate management assumptions, estimation uncertainty, and the reasonableness of valuation models when auditing financial liabilities. Modern liabilities increasingly involve judgment-based measurements rather than purely documentary verification, making ISA 540 especially important in the audit of financial obligations connected with financial instruments and long-term contractual commitments.

Another important methodological source is ISA 570 (Revised) "Going Concern," which establishes the auditor's responsibilities regarding the assessment of an entity's ability to continue as a going concern. The standard highlights that excessive debt burdens, liquidity deficiencies, and refinancing risks may indicate material uncertainty about business continuity. Therefore, the audit of financial liabilities cannot be limited to formal verification procedures alone but must also include analytical assessment of debt sustainability, covenant compliance, and future cash-flow adequacy. International practice demonstrates that going-concern evaluation has become one of the most sensitive areas of financial statement auditing, particularly after global financial crises and periods of economic instability.

The presentation and classification of liabilities are largely regulated by International Accounting Standards Board through IAS 32 "Financial Instruments: Presentation." This standard establishes theoretical principles for distinguishing financial liabilities from equity instruments and defines rules for offsetting financial assets and liabilities. IAS 32 significantly contributed to improving transparency in financial reporting by clarifying the economic substance of contractual obligations. Researchers note that the implementation of IAS 32 enhanced comparability between international companies and strengthened the reliability of debt-related disclosures in financial statements. The standard also created a conceptual basis for the development of risk-based audit approaches toward financial instruments and complex liability structures.

Modern theoretical approaches to auditing are comprehensively reflected in the work of William F. Messier, Steven M. Glover, and Douglas F. Prawitt. In *Auditing & Assurance Services: A Systematic Approach* (2019), the authors present auditing as an integrated risk-assessment process that combines internal control evaluation, substantive testing, and analytical procedures. Their research emphasizes that liabilities require particularly careful verification because unrecorded obligations can materially distort financial statements and mislead users regarding an entity's solvency. The authors also underline the importance of external confirmations, subsequent-events testing, and analytical review procedures in detecting hidden liabilities and incomplete disclosures.

A substantial contribution to the interpretation and application of International Standards on Auditing was made by Rick Hayes, Philip Wallage, and Hans Gortemaker. Their work *Principles of Auditing* (2014) explains that modern auditing increasingly relies on professional judgment and risk-oriented methodology rather than mechanical compliance procedures. According to the authors, the audit of liabilities requires auditors to integrate substantive procedures with assessments of management integrity, governance quality, and internal-control effectiveness. They also stress that international audit practice has shifted toward a principles-based approach, enabling auditors to adapt procedures according to the complexity of financial transactions and the industry-specific characteristics of audited entities.

The theoretical and practical aspects of auditing in the post-Soviet audit school are extensively reflected in the works of Aleksei D. Sheremet and Vladimir P. Suyts. In their textbook *Audit* (2018), the authors emphasize the importance of documentary evidence, inventory procedures, and analytical verification in the audit of liabilities. They argue that the reliability of financial reporting depends significantly on the completeness and legality of recognized obligations. Their methodological approach combines traditional control procedures with modern risk-oriented auditing concepts, thereby creating a bridge between classical accounting control systems and contemporary international standards.

Important theoretical explanations regarding audit organization and liability verification are also presented in the works edited by Vladimir I. Podolsky. Podolsky's research highlights the role of internal control systems, auditor independence, and evidence sufficiency in ensuring audit quality. The textbook particularly emphasizes that liabilities often involve increased fraud risks because management may intentionally conceal obligations in order to improve financial ratios and investment attractiveness. Therefore, effective audit procedures must include both documentary examination and analytical review of financial relationships and cash-flow movements.

Despite the extensive development of international auditing standards and methodological literature, several theoretical and practical issues remain insufficiently explored. Many national audit systems still rely heavily on formal compliance verification and lack advanced risk-assessment methodologies for auditing financial liabilities and complex financial instruments. Furthermore, the adaptation of foreign auditing experience to emerging economies remains challenging due to differences in institutional environments, accounting systems, and regulatory practices. Consequently, there is a growing need to integrate international auditing standards, foreign methodological approaches, and national audit practices in order to strengthen the reliability, transparency, and analytical effectiveness of financial liability audits.

RESEARCH METHODOLOGY

The study is theoretical in nature and takes the form of a comparative-analytical review. It employs general and specialised methods of cognition: systematisation of concepts, comparison, logical analysis, content analysis of regulatory documents and academic literature, induction and deduction, abstraction and generalisation. The comparative method enabled approaches from different countries and schools to be juxtaposed, while systematisation allowed them to be integrated within a single theoretical framework.

The empirical base comprised: (a) the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) under IFAC, namely ISA 200, 240, 315, 330, 500, 501, 505, 540 and 570 [3–10]; (b) the standards governing the recognition, measurement and disclosure of financial liabilities, IAS 32, IFRS 9, IAS 37 and IFRS 13 [11–14]; (c) foreign textbooks and scholarship of the Anglo-American school (Arens, Elder, Beasley; Messier, Glover, Prawitt; Hayes, Wallage, Gortemaker) and the CIS school (Sheremet, Suyts; Podolsky) [15–19]; (d) the COSO Internal Control–Integrated Framework [20]; and (e) the auditing and accounting legislation of Uzbekistan [1; 2]. The study is limited to theoretical generalisation and comparison; it provides no empirical data analysis and is intended as a foundation for subsequent empirical research.

ANALYSIS AND RESULTS

Under IAS 32, a financial liability is a contractual obligation to deliver cash or another financial asset to another entity [11]; IFRS 9 measures such liabilities mainly at amortised cost or at fair value through profit or

loss [12]. For audit purposes, liabilities are usefully classified by maturity (current and non-current) and by degree of certainty: determinable liabilities (payables, loans), estimated liabilities or provisions under IAS 37 (warranties, litigation reserves), and contingent liabilities [13]. This classification underpins the selection of distinct procedures for each group.

The overall objective of an audit (ISA 200) is to obtain reasonable assurance about the fair presentation of the financial statements, achieved through the prism of management assertions. For account balances, ISA 315 identifies existence, rights and obligations, completeness, valuation and allocation, and presentation and disclosure [4]. In liability audits, completeness is paramount, since the greatest risk is the failure to record obligations; hence the auditor performs the search for unrecorded liabilities.

Audit reliability depends on the sufficiency and appropriateness of audit evidence (ISA 500). Evidence obtained directly from third parties is more reliable than entity-prepared documents [6]. On this basis, external confirmation (ISA 505) is central to liability audits: bank requests confirm loans, overdrafts, guarantees and contingent liabilities, while suppliers and creditors confirm outstanding balances [8]. ISA 501 further requires evidence on specific items, including legal confirmations of litigation and claims, which is decisive for contingent liabilities [7].

The methodological core of contemporary auditing is the risk-based approach. Under ISA 315 the auditor first understands the entity and its internal control and assesses the risks of material misstatement, then designs proportionate responses under ISA 330 [4; 5]; the COSO framework serves as the theoretical basis for evaluating internal control [20]. For liabilities, the elevated understatement risk leads the auditor to expand substantive procedures and to emphasise completeness testing.

Relating procedures to assertions is theoretically important. Completeness is tested through the search for unrecorded liabilities and analytical procedures, such as comparing recorded borrowings with interest expense to detect omitted loans. Existence and rights and obligations are addressed through external confirmation and inspection of source documents; valuation through recalculation of amortised-cost and fair-value figures; and presentation through verifying the current/non-current split and the adequacy of note disclosures. This logical link between procedures and assertions forms the methodological basis for designing an audit programme [6; 15; 16].

The theoretical foundations of liability audits are inseparable from accounting methodology. To assess whether a liability is correctly recognised, the auditor must know the recognition conditions under IFRS; for instance, a provision under IAS 37 is recognised only when a present obligation arises from a past event, an outflow is probable, and a reliable estimate can be made [13]. Liability audits therefore verify each stage of the recognition–measurement–presentation chain through the lens of accounting standards, an interdependence emphasised in foreign scholarship [11; 12; 17].

Certain liability types require tailored approaches. The audit of tax obligations relies on knowledge of tax law and on recalculating and reconciling assessed amounts with declarations. For bank loans and borrowings, the auditor verifies compliance with contractual terms, interest rates and repayment schedules, noting that covenant breaches may reclassify a liability as current. In the financial sector, the audit of liabilities such as deposits and interbank loans has industry-specific features regulated by the Central Bank [1]. Accounting for these specifics ensures methodological flexibility and indicates that foreign experience should be applied with sectoral differentiation.

The Anglo-American school (Arens, Elder, Beasley; Messier, Glover, Prawitt) has developed a practice-oriented, assertion- and risk-based methodology, proposing classic completeness procedures: testing subsequent cash disbursements, examining invoices received after the reporting date, cut-off testing, and reconciling payables with vendor statements [15; 16]. The harmonisation approach (Hayes, Wallage, Gortemaker) treats the ISA as the single global benchmark and is directly relevant to Uzbekistan, whose audit is now ISA-based [17]. The CIS school (Sheremet, Suyts; Podolsky) has elaborated a methodology for auditing settlements that emphasises inventory of obligations and reconciliation acts [18; 19]. Although their terminology differs, the schools share one theoretical core: ensuring complete and reliable recognition of liabilities, prioritising external and documentary evidence, and basing work on risk assessment. The convergence of their aims demonstrates the feasibility of integrating foreign experience into national practice.

Estimated and contingent liabilities form a particularly complex object. Under IAS 37, provisions are recognised at the best estimate of the obligation, whereas contingent liabilities are only disclosed [13]. Because such items are judgemental, the auditor applies the audit of accounting estimates (ISA 540), obtains legal confirmations (ISA 501), and assesses going concern (ISA 570) [7; 9; 10]; here professional judgement and professional scepticism are decisive.

The comparative analysis indicates several directions for using foreign experience. First, national practice often emphasises verifying existing documents (the existence assertion) while devoting insufficient attention to completeness, that is, to the search for unrecorded liabilities. The Anglo-American procedures of testing

subsequent payments and cut-off can close this gap and, once embedded in national guidance, would markedly improve audit quality [15; 16].

Second, a culture of external confirmation must be developed. Although external evidence is theoretically the most reliable [6], requesting confirmations from banks and creditors is not yet applied consistently; introducing methods for planning confirmation requests, evaluating the reliability of responses and handling exceptions, as required by ISA 505, is advisable [8]. Third, the audit of estimated and contingent liabilities is the least developed area in national theory. Liabilities measured at fair value under IAS 37 and IFRS 9/IFRS 13 require professional judgement, valuation models and the use of experts; studying and incorporating the principles of ISA 540 and ISA 620 into the national methodology remains an urgent task [13; 14].

Fourth, data analytics is increasingly used abroad. Full-population testing—for example, automatically analysing all payable transactions—replaces traditional sampling and substantially strengthens completeness testing by matching all post-reporting-date payments against the liability register and detecting unusual items. Developing digital competencies and adopting suitable software is therefore a strategic objective for national audit firms. Fifth, the effective use of foreign experience presupposes consistent alignment of the national accounting standards with IFRS, since differences in the recognition and measurement of liabilities directly affect audit methodology; accounting and audit reforms should advance in parallel within a single conceptual framework.

Adapting foreign experience also faces objective constraints: a shortage of ISA-trained personnel, the need for official translation and consistent application of the standards, an unfinished shift from a compliance-oriented mindset to a risk-based one, and the incomplete convergence of national accounting standards with IFRS. Finally, professional scepticism, materiality and audit documentation deserve particular attention. The inherent tendency to understate liabilities requires heightened scepticism toward management-provided information; appropriate materiality determines which liabilities warrant detailed procedures; and full documentation of procedures, evidence and judgements safeguards audit quality.

On this basis, the following recommendations are proposed: (1) develop ISA-compliant national guidance for auditing financial liabilities (audit programmes and working-paper templates); (2) make the search for unrecorded liabilities and external confirmation mandatory elements of standard methodology; (3) raise auditors' competence in auditing estimated and contingent liabilities; (4) align the sector-specific audit of bank liabilities with Central Bank requirements; and (5) progressively introduce data-analytics tools into the audit process.

CONCLUSIONS AND SUGGESTIONS

The findings show that foreign experience is central to forming and improving the theoretical foundations of the audit of financial liabilities. Foreign schools and international standards provide a coherent conceptual framework—a system of assertions, a risk-based methodology and the primacy of the completeness assertion—together with tested procedures for searching for unrecorded liabilities, external confirmation and the audit of judgemental liabilities.

Using foreign experience, however, means adaptation rather than mechanical transfer, taking national legal and economic conditions into account. The most effective path is to combine the risk-based rigour of the Anglo-American school with the methodological consistency of the CIS school and Uzbekistan's new ISA-based legal framework. In sum, strengthening this field requires the systematic assimilation of foreign achievements, the consistent incorporation of international standards into national methodology, and the harmonisation of accounting and audit reform. Prioritising the completeness assertion, building a confirmation culture, developing methodology for estimated and contingent liabilities, and adopting digital analytics will enhance not only audit quality but also the international credibility of Uzbekistan's financial reporting and the attractiveness of its investment climate. Empirical testing of these propositions in the practice of national audit firms is identified as the direction for further research.

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