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THE ESSENCE, TASKS, AND INTERNATIONAL APPROACHES OF INTERNAL AUDIT IN LEASING TRANSACTIONS

Sadritdinov Bakhodir Bakhtiyarovich
Independent Researcher, Tashkent Institute of Irrigation and Agricultural Mechanization Engineers, National Research University
bakhodirsadritdinov@gmail.com

Abstract. This article examines the essence, tasks, and international methodological approaches of internal audit in leasing transactions. Leasing is widely used as a source of financing for productive assets, vehicles, machinery, and technology. However, it also involves significant accounting, contractual, operational, tax, and reporting risks. The transition to IFRS 16 has increased the importance of reliable lease identification, measurement, and disclosure, as most lease arrangements are recognized through right-of-use assets and lease liabilities. The study argues that the internal audit of leasing should not be limited to the formal verification of contracts and payment schedules. Instead, it should be organized as a risk-oriented, control-based, and digital evidence-driven assurance mechanism. The article systematizes the main audit areas in leasing transactions, proposes a risk-based internal audit model, and develops a Leasing Internal Audit Index for assessing the reliability of lease controls.

Keywords: leasing transactions, internal audit, IFRS 16, right-of-use asset, lease liability, risk-based audit, internal control, digital evidence, COSO, IIA Standards.

Аннотация. В данной статье рассматриваются сущность, задачи и международные методологические подходы внутреннего аудита лизинговых операций. Лизинг широко используется как источник финансирования производственных активов, транспортных средств, оборудования и технологий, однако одновременно связан с существенными бухгалтерскими, договорными, операционными, налоговыми и отчетными рисками. Переход на стандарт МСФО (IFRS) 16 повысил значимость достоверной идентификации, оценки и раскрытия информации по договорам аренды, поскольку большинство лизинговых соглашений отражается посредством активов в форме права пользования и обязательств по аренде. В исследовании обосновывается, что внутренний аудит лизинговых операций не должен ограничиваться формальной проверкой договоров и графиков платежей. Он должен быть организован как риск-ориентированный, основанный на системе внутреннего контроля и цифровых доказательствах механизм независимой оценки и подтверждения надежности процессов. В статье систематизированы основные направления аудита лизинговых операций, предложена риск-ориентированная модель внутреннего аудита и разработан Индекс внутреннего аудита лизинга для оценки надежности системы контроля лизинговых операций.

Ключевые слова: лизинговые операции, внутренний аудит, МСФО (IFRS) 16, актив в форме права пользования, обязательство по аренде, риск-ориентированный аудит, внутренний контроль, цифровые доказательства, COSO, Стандарты IIA.

INTRODUCTION

Leasing has become an important instrument for financing fixed assets and supporting investment activity in enterprises. It enables an entity to use an asset without making an immediate full purchase and, therefore, affects capital structure, liquidity, asset renewal, and operational flexibility. At the same time, leasing transactions create complex audit issues, as they combine accounting estimates, legal obligations, payment discipline, asset control, and management judgment within a single business process.

The relevance of this topic has increased following the implementation of IFRS 16, which introduced a single lessee accounting model and generally requires a lessee to recognize assets and liabilities for leases with a term of more than twelve months, unless the underlying asset is of low value[1]. Consequently, lease transactions influence the statement of financial position, debt indicators, EBITDA-related analysis, solvency ratios, and disclosures in financial statements.

1 IFRS Foundation. IFRS 16 Leases. - London: IFRS Foundation, 2024. - URL: https://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/

The economic significance of leasing is also confirmed by international market data. The 2026 Global Leasing Report states that global new leasing business reached USD 1,538.8 billion in 2024 and demonstrated 63 percent growth over the previous decade[2]. In Europe, Leaseurope reported that total new leasing volumes reached nearly EUR 454 billion in 2024, while outstanding leased assets amounted to EUR 1,008 billion[3]. These figures show that leasing is not a narrow accounting issue, but rather a large-scale financing mechanism that requires strong internal control and reliable audit evidence.

For this reason, internal audit should be viewed as one of the key instruments for ensuring the transparency and efficiency of leasing operations. The methodological idea applied in this article is close to the risk-oriented and digital evidence-based audit logic developed in the environmental audit article used as a source: audit should move from formal checking toward evidence-based assessment of material risks and controls[4].

LITERATURE REVIEW

International professional guidance defines internal audit as an independent and objective assurance and advisory activity that supports governance, risk management, and control processes. The Global Internal Audit Standards emphasize the role of internal audit in strengthening governance, ensuring the reliability of reporting, supporting compliance, safeguarding assets, and creating organizational value[5].

In leasing transactions, this definition has practical significance. Internal auditors do not only verify the existence of lease contracts. They also evaluate whether the leasing decision was properly approved, whether the contract contains a lease or an embedded lease, whether the right-of-use asset and lease liability were measured correctly, whether the leased asset exists and is used efficiently, and whether the disclosures are sufficient for users of financial statements.

The theoretical framework of internal audit in leasing may be built on three pillars. The first pillar is financial reporting reliability. IFRS 16 and similar accounting standards require management to apply judgment in determining the lease term, discount rate, lease payments, modification effects, and impairment indicators. The second pillar is internal control. COSO describes internal control through five interconnected components: control environment, risk assessment, control activities, information and communication, and monitoring[6]. The third pillar is digital evidence. Modern leasing processes generate electronic contracts, ERP records, payment schedules, electronic approvals, bank statements, and asset registers; therefore, audit conclusions should be supported by traceable digital data rather than isolated paper documents.

The international approach is also influenced by U.S. ASC 842, under which lessees are required to recognize assets and liabilities for leases with terms of more than twelve months[7]. Although IFRS 16 and ASC 842 differ in some classification and presentation details, both standards share the same general direction: lease obligations must be identified, measured, and presented transparently. This creates a common audit requirement for completeness, measurement accuracy, and disclosure quality.

RESEARCH METHODOLOGY

The article applies systematic, comparative, and abstract-logical methods. The research is based on international financial reporting requirements, internal audit standards, internal control principles, analytical generalization, and model-building. Leasing is analyzed as a process that begins with the economic decision to use an asset and continues through contract approval, accounting recognition, payment execution, asset operation, modification, disclosure, and monitoring.

The methodological approach includes the identification of lease-related risks, systematization of internal audit tasks, classification of audit procedures by risk level, development of a digital evidence-based audit model, and formulation of a Leasing Internal Audit Index. This structure allows the internal audit of leasing to be treated not as a separate document review, but as a continuous assurance cycle connected with management decisions, financial reporting, and corporate governance.

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2 Solifi. Global Leasing Report 2026. - Solifi and World Leasing Yearbook, 2026. - URL: https://www.solifi.com/ebooks/global-leasing-report-2026/

3 Leaseurope. European Leasing Market Overview in 2024. - Brussels: Leaseurope, 2025. - URL: https://www.leaseurope.org/european-leasing-market-overview-2024

4 Abdullayev Kh. Improving the methodology of environmental auditing at enterprises based on a risk-oriented approach and digital evidence. - Tashkent, 2026.

5 The Institute of Internal Auditors. Global Internal Audit Standards. - Lake Mary: The IIA, 2024. - URL: https://www.theiia.org/en/standards/

6 Committee of Sponsoring Organizations of the Treadway Commission. Internal Control - Integrated Framework. - New York: COSO, 2013.

7 Financial Accounting Standards Board. Accounting Standards Update No. 2016-02, Leases (Topic 842). - Norwalk: FASB, 2016. - URL: https://www.fasb.org/projects/current-projects/leases

ANALYSIS AND RESULTS

The essence of internal audit in leasing transactions is to provide independent assurance that lease operations are lawful, economically justified, properly authorized, accurately measured, and effectively controlled. Leasing is a hybrid business process that has financial, legal, operational, tax, and accounting dimensions. Therefore, a narrow audit approach that only checks whether monthly lease payments have been made is insufficient.

From the accounting perspective, internal audit verifies whether all lease contracts have been identified and whether lease assets and liabilities have been recognized in accordance with the applicable reporting framework. Errors in the lease term, discount rate, or payment schedule may materially distort liabilities, depreciation, interest expenses, and financial ratios. From the legal perspective, internal audit evaluates contract clauses, approval procedures, renewal options, termination rights, purchase options, and penalty conditions. From the operational perspective, internal audit checks the physical existence, use, maintenance, insurance, and safekeeping of leased assets.

Internal audit is especially important when responsibility for leasing is divided among several departments. Procurement may initiate the contract, the legal department may maintain the agreement, the finance department may approve payments, accounting may calculate the lease liability, and an operational unit may use the asset. If these information flows are not properly connected, the enterprise may face incomplete lease registers, unauthorized modifications, duplicate payments, weak asset control, or inaccurate financial reporting. Internal audit connects these stages and evaluates the effectiveness of the entire control chain.

The main tasks of internal audit in leasing transactions can be grouped into several practical areas. The first task is completeness testing. The auditor should ensure that all contracts containing lease components are identified, including embedded leases in service, outsourcing, logistics, or equipment-use agreements. The second task is verification of authorization. Leasing decisions should be approved in accordance with internal policy, budget limits, and investment justification.

The third task is the assessment of accounting recognition and measurement. Internal audit recalculates the lease liability, reviews the discount rate, tests the right-of-use asset, checks depreciation and interest expenses, and evaluates whether lease modifications have been properly reflected. The fourth task is monitoring payment discipline. Lease schedules should be reconciled with bank statements, accounting entries, and contract terms to prevent late-payment penalties, duplicate payments, or unauthorized advances.

The fifth task is control over leased assets. The auditor should compare the accounting register with physical assets, verify responsible persons, check insurance coverage, and assess whether the assets are used for their intended business purpose. The sixth task is tax and compliance review. Depending on national legislation and the nature of the asset, lease transactions may affect VAT, customs payments, income tax deductibility, withholding tax, and other fiscal obligations. The seventh task is disclosure review. Financial statement notes should explain lease liabilities, maturity analysis, expenses, cash flows, and significant management judgments in a clear and complete manner (Table 1).

Table 1

Key audit areas and procedures in leasing transactions

Audit area	Main risk	Internal audit procedure	**Expected evidence**
Lease population	Embedded or informal leases are omitted	Review legal, procurement and service contracts	Contract register, ERP data, legal files
Authorization	Lease decision is not economically justified	Check approval matrix and budget limits	Approval forms, business case, board/minutes
Lease liability	Liability is misstated	Recalculate present value of lease payments	Payment schedule, discount rate, accounting entries
Right-of-use asset	Asset is incorrectly measured or uncontrolled	Compare asset register with physical inspection	Asset card, inventory report, photos
Payments	Duplicate, late or unauthorized payments	Reconcile contract schedule with bank data	Bank statements, invoices, ERP postings
Modification	Contract changes are not recorded	Review amendments and reassessments	Amendment agreement, recalculation file
Disclosure	Financial statement notes are incomplete	Compare disclosures with standard requirements	Disclosure checklist, financial statements

Source: developed by the author based on IFRS 16, internal audit standards and internal control principles.

International approaches to the internal audit of leasing transactions are shaped by several groups of standards and frameworks. IFRS 16 creates the financial reporting basis by requiring the recognition of right-of-use assets and lease liabilities for most leases. It also requires careful assessment of the lease term, lease payments, variable payments, extension options, termination options, and reassessment events. Therefore, internal audit should evaluate not only accounting entries, but also the assumptions underlying them.

The IIA approach requires internal audit to be independent, systematic, and risk-based. In leasing, this means that audit procedures should be selected according to materiality and risk rather than applied uniformly to all contracts. A low-value short-term lease normally requires less audit attention, while a long-term foreign currency lease with modification options and high-value assets should be treated as a high-risk audit object.

COSO-based control logic is useful for designing lease controls. The control environment requires clear responsibility for leasing decisions. Risk assessment identifies accounting, legal, tax, fraud, operational, and liquidity risks. Control activities include segregation of duties, approval limits, reconciliations, physical verification, and automated calculations. Information and communication require a complete lease register and timely reporting to management. Monitoring requires regular follow-up on expired contracts, modifications, payment delays, and the implementation of audit recommendations.

ISA 610 is relevant because it defines the external auditor's responsibilities when using the work of internal auditors. A competent and objective internal audit function with well-documented lease audit procedures may increase the usefulness of internal audit work for the external financial statement audit. This strengthens the need for internal auditors to document procedures, evidence, findings, and conclusions clearly.

Digitalization has become another important international direction. Lease management systems, ERP modules, and dashboards can automatically update payment schedules, calculate liabilities, track modifications, and generate audit trails. However, digital systems do not eliminate audit risk. Internal auditors should test access rights, change logs, automated calculations, and data completeness. Digital evidence is reliable only when the underlying IT controls are effective (Figure 1).

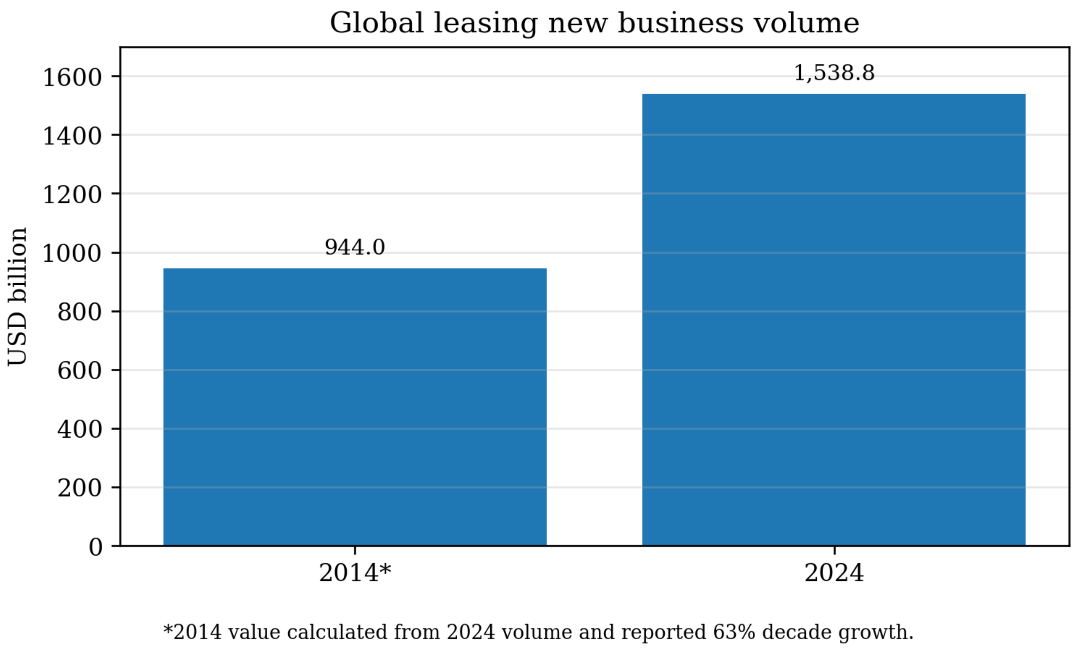

Figure 1. Global leasing new business volume, USD billion[8]

A risk-based internal audit model for leasing transactions should include six consecutive stages: identification of the lease population, assessment of risk and materiality, development of the audit program, collection and verification of evidence, evaluation and scoring, and reporting with follow-up monitoring. This sequence enables the auditor to prioritize high-risk contracts and avoid allocating the same level of resources to both low-risk and high-risk leases.

8 Source: prepared by the author based on Solifi and World Leasing Yearbook data; 2014 is calculated from the reported 63 percent decade growth.

At the first stage, the auditor collects lease-related information from legal, procurement, accounting, treasury, and operational databases. The purpose is to establish a complete lease population. At the second stage, contracts are ranked according to their value, duration, currency, complexity, renewal options, modification history, asset significance, and accounting impact. At the third stage, audit procedures are selected based on the assigned risk score. At the fourth stage, evidence is collected from contracts, ERP records, bank statements, asset registers, electronic approvals, and physical inspections. At the fifth stage, the auditor evaluates compliance, accounting accuracy, and control effectiveness. At the final stage, the results are reported to management, and the implementation of recommendations is monitored.

The following formula may be used for a generalized assessment of the reliability of the internal audit of leasing transactions:

$$LIAI = \Sigma(w_i \times c_i)$$

Where LIAI means the Leasing Internal Audit Index, w_i is the weight of the i-th audit component, and c_i is the normalized compliance score of that component on a scale from 0 to 100. The index does not replace professional judgement. It provides a common analytical frame for comparing lease control quality and identifying weak areas (Table 2).

Table 2

Proposed Leasing Internal Audit Index

Component	Weight	Audit meaning	Example of evidence
Completeness of lease population	15%	All leases and embedded leases are identified	Contract list, legal register, ERP extract
Accuracy of IFRS 16 measurement	20%	Liability and right-of-use asset are measured correctly	Recalculation file, assumptions, discount rate
Payment and liability control	15%	Payments and balances are reconciled	Bank statement, payment schedule, ledger
Asset existence and use	15%	Leased assets are physically controlled	Inventory sheet, asset card, inspection report
Legal and tax compliance	15%	Contract and tax treatment comply with requirements	Legal opinion, tax calculation, approval files
Disclosure quality	10%	Financial statement notes are complete	Disclosure checklist, draft financial statements
Digital evidence and IT controls	10%	Audit trail and access controls are reliable	System logs, access list, change history

Source: developed by the author.

A result above 80 points may indicate a strong lease control system; a result from 60 to 80 points may indicate moderate reliability; a result below 60 points may show significant weaknesses requiring corrective measures. The index can be used in internal audit planning, management reporting and follow-up monitoring (Figure 2).

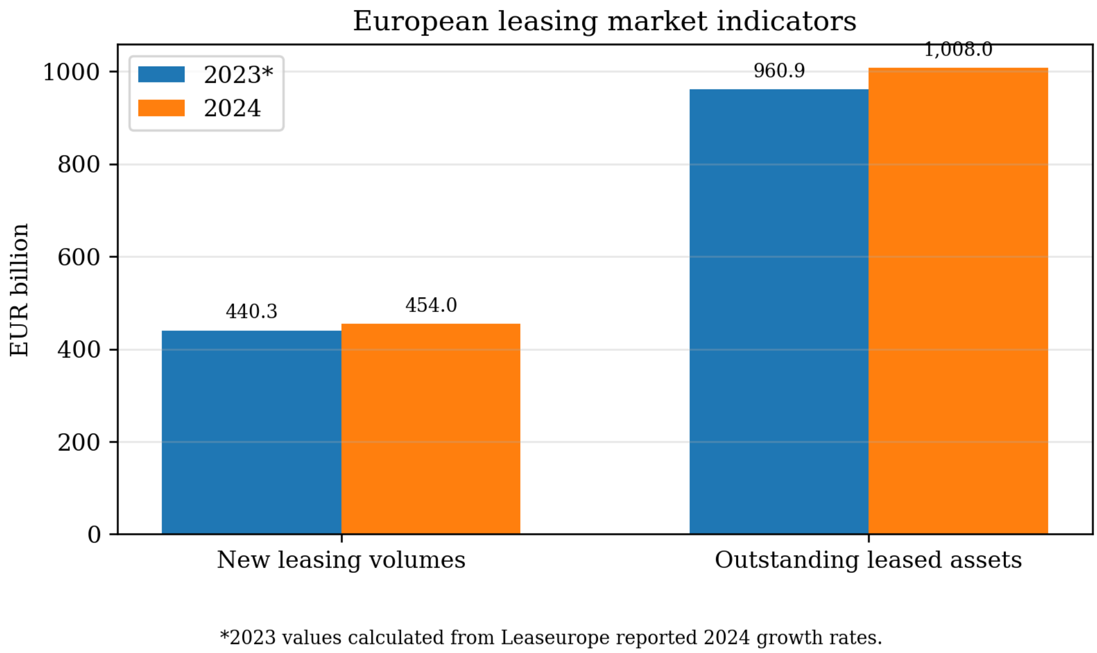

Figure 2. European leasing market indicators, EUR billion[9]

Digital evidence is a central element of modern lease audit methodology. A digital lease register should include the contract number, counterparty, asset description, commencement date, lease term, payment schedule, discount rate, currency, responsible department, modification history, accounting entries, and supporting documents. If these elements are stored in different systems without proper reconciliation, the risk of incomplete or inconsistent information increases.

Internal auditors should use analytical procedures to identify unusual transactions. Examples include sudden changes in monthly lease payments, contracts approaching expiration, leases without designated responsible persons, payments made outside the approved schedule, repeated modifications, foreign currency exposure, and discrepancies between physical asset inventories and accounting records. These procedures help detect errors, identify fraud risks, and reveal inefficient leasing decisions.

The use of digital dashboards can make audit activities more preventive and proactive. Instead of identifying problems only after year-end closing procedures, internal audit can monitor key risk indicators throughout the year. Such indicators may include overdue payments, contracts lacking electronic approvals, leases with missing discount rates, assets not located during inventory verification, and contracts requiring reassessment. However, digital dashboards should be supported by reliable source data and effective access-control mechanisms.

The analysis demonstrates that lease internal audit should evolve from formal contract verification into a broader assurance system. The most significant risk is not always the absence of a contract. More frequently, challenges arise from an incomplete lease population, inaccurate assumptions, insufficient coordination among departments, inadequate documentation of modifications, and limited control over leased assets. Therefore, the internal audit program should be based on materiality, complexity, and control risk.

Another important issue is the relationship between accounting compliance and economic efficiency. A lease may be recorded correctly from an accounting perspective but still be economically inefficient if the asset is underutilized, if penalty clauses are unfavorable, or if lease payments significantly exceed available market alternatives. Internal audit can create additional value by identifying such situations and recommending contract renegotiation, asset redistribution, improvements in approval procedures, or a more comprehensive lease-versus-buy analysis.

International standards do not require internal auditors to make management decisions. Nevertheless, they require auditors to provide objective assurance and practical recommendations. In leasing transactions, this means that internal audit should support management in strengthening controls, enhancing transparency,

9 Source: prepared by the author based on Leaseurope 2024 Annual Statistical Enquiry; 2023 values are derived from reported 2024 growth rates.

and reducing the risk of material financial misstatements. The proposed model and index can be adapted to enterprises of different sizes, sectors, and organizational structures.

CONCLUSION AND RECOMMENDATIONS

Internal audit in leasing transactions is a complex assurance activity that covers accounting, legal, operational, tax, financial, and digital control aspects.

IFRS 16 and ASC 842 have increased the importance of lease completeness, right-of-use asset measurement, lease liability calculation, and financial statement disclosures.

A risk-based audit model allows internal auditors to focus audit procedures on high-value, long-term, complex, and modified lease contracts.

The Leasing Internal Audit Index can be used to assess the quality of lease controls and identify areas requiring improvement.

Digital evidence, ERP integration, electronic approvals, lease registers, and dashboards improve audit traceability; however, they must be supported by effective IT controls.

Internal audit creates practical value when its conclusions are linked to management decisions, cost control, asset efficiency, compliance, and reporting reliability.

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