

ENSURING TRANSPARENCY AND AUDIT QUALITY IN PREPARING FINANCIAL REPORTS IN THE BANKING SYSTEM IN ACCORDANCE WITH INTERNATIONAL STANDARDS (IFRS)

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Abstract

This article analyzes the importance of preparing financial statements in the banking system in accordance with International Financial Reporting Standards (IFRS), its role in ensuring transparency and accountability of banking operations, and its impact on improving audit quality. Additionally, the article discusses the users of financial statements prepared in accordance with IFRS, ensuring transparency in their preparation, current challenges in the implementation of IFRS, and solutions.

Keywords: banking system, International Financial Reporting Standards, financial reporting, audit, transparency, accountability, openness, standardization.

Introduction

General and comprehensive information about a bank's activities and economic performance is primarily reflected in its financial statements. Therefore, the primary goal of bank financial statements is to provide reliable, complete, and timely economic information about the bank's operating activities. Bank statements must be understandable to investors, creditors, and other interested parties. These statements provide them with a clear understanding of the composition and types of funds raised by the bank, their placement, the amount and timing of expected profits, reserves created to cover potential losses on loans and other assets, the composition of the bank's capital, and other important indicators. From this perspective, the information contained in a bank's financial statements is of great importance to all stakeholders. In particular, for shareholders, this information is an important source of information, providing answers to questions about how the bank's resources are mobilized, how they are used, and what financial results are expected from its operations. At the same time, this information has practical value for the bank's management, its employees, and its clients, effectively supporting their decision making processes.

Analysis of relevant literature

As a result of the analysis of the relevant literature, specific aspects of the financial reporting of banks were examined in various studies. The issue of financial reporting and its transparency in commercial banks was also reflected in a number of studies conducted by economists and is described in different ways. For example, economist O. Ageeva emphasizes that the implementation of International Financial Reporting Standards helps to increase the transparency of accounting and create a unified information environment [1]. M. Vakshrushina, in turn, demonstrates that the accuracy and transparency of financial reporting are decisive factors in improving the investment climate [2]. O. Rozhnova emphasizes openness and clarity as necessary prerequisites for improving the quality of reporting. [3]. A. Karimov, A. Ibragimov, N. Rizaev and N. Imamova presented recommendations for the harmonization of national accounting practices with international standards. [4]. S. Maksutova illuminates the conceptual foundations of the creation of a financial

ccounting system and emphasizes the importance of standardization to ensure the reliability of reporting information [5].

Research methodology

A study of scientific works related to the organization and systematization of financial reporting in commercial banks, a comparative analysis of its definitions and concepts, research and economic comparison and analysis of data, logical thinking, scientific abstraction, grouping of information and the widespread use of methods of analysis and synthesis.

Analysis and results

Bank reports are a set of quantitative indicators reflecting the bank's financial and property position for a specific reporting period, systematically grouped by economic content and presented in interconnected formats. These reports collect key information about the bank's economic performance and stability.

The primary purpose of financial statements is to provide interested users with information about the bank's financial position, its operating results, and changes in this position. However, financial statements do not always provide all the information necessary for economic decision-making, as they primarily reflect the results of the previous reporting period.

International Financial Reporting Standards (IFRS) aim to create such a system based on a unified set of criteria that ensure accuracy, reliability, and transparency of reported information. In the banking sector, the implementation of these standards serves to reflect banks' assets and liabilities at their true value, ensure

a realistic assessment of existing risks, create a reliable source of information for creditors and investors, and strengthen overall financial stability.

One of the key principles of the IFRS system is transparency. This implies providing complete, reliable, and comparable information to stakeholders who use financial statements - investors, creditors, government regulators, and other organizations. In other words, the degree of transparency of a report is determined by the extent to which all material information about a bank's financial activities is presented fairly, completely, and clearly.

Ensuring the transparency of financial reporting by commercial banks and maintaining accounting records in accordance with international standards is great importance for increasing the reliability of reporting information and ensuring openness in the banking sector. An important legal basis in this area is the "Law on Joint-Stock Companies, Commercial Banks, Insurance Organizations and Large Taxpayers", which provides for the maintenance of transparent financial reporting and the functioning of the accounting system in accordance with international standards, which is of great importance for increasing the reliability of reporting information and ensuring openness in the banking sector. Legal entities classified as taxpayers are required to organize accounting in accordance with IFRS from January 1, 2021, and prepare financial statements for 2021 based on these standards." [2]. In accordance with this decision, all joint-stock companies are required to fully apply International Financial Reporting Standards in their accounting statements and when preparing financial and economic reports from January 1, 2021 .

Decree of the President of the Republic of Uzbekistan "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025" PF 5992. The Decree of the President of the Republic of Uzbekistan sets the task of a phased transition of banks to the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS). This task is a significant reform aimed at bringing the national banking system into line with the

requirements of the global financial environment and improving the quality of reporting information [1].

The application of international standards in financial reporting in banking ensures objective, comparable, and internationally compliant reporting of banking performance. This creates the foundation for strengthening foreign investor confidence, enhancing the stability of the banking system, and deepening the integration of the national economy into the global financial system.

Financial statements prepared in accordance with IFRS transparently and accurately reflect the financial performance and operations of commercial banks. These reports systematically group the bank's activities according to their economic substance and divide them into line items known as the elements of financial statements. This approach allows the bank to reflect its assets and liabilities at their fair value, enables a realistic assessment of existing risks, and creates a reliable source of information for creditors and investors. On the other hand, for organizations that manage funds of individuals and legal entities in the community, including deposits and capital, transparency of information in their reports is of paramount importance.

From this perspective, transparency of financial reporting serves the following main purposes: - increasing the confidence of investors and clients in investing capital in the bank's activities;

- transparency of reporting information serves as an important signal for foreign investors;
- reducing banking risks and preventing dangers based on open information;
- ensuring effective supervision of the bank's management and the activities of related parties;
- ensuring the stability of the banking system and strengthening confidence in the financial system.

According to International Financial Reporting Standards (IFRS), issues of transparency of financial reporting are mainly set out in the following standards:

- IFRS 7 – “Financial Instruments: Disclosures”;
- IFRS 9 – “Financial Instruments”;
- IFRS 13 – “Fair Value Measurement”.

Furthermore, within the framework of International Standards on Auditing, this issue is addressed in IFRS 1 "Presentation of Financial Statements" and IAS 24 "Related Party Disclosures." These standards serve to ensure the transparency, reliability, and comparability of financial information provided by banks. Global practice shows that the implementation of IFRS and its full compliance requires not only technical knowledge and information technology capabilities in the accounting system, but is also an essential component of corporate culture. The professional competence of preparers, the availability of information systems compliant with international standards, and an effective corporate governance system are crucial in ensuring the quality of financial statements.

Furthermore, auditor independence, the activities of audit committees, the role of bank boards of directors, and audit oversight and service quality assessment mechanisms are also important factors in ensuring the quality of financial reporting. Therefore, due to the "th" principle (the "once, once" principle), the transition to full IFRS compliance and disclosure is a long-term and complex process, requiring systemic reforms and a high level of expert knowledge.

Reports prepared by commercial banks in accordance with IFRS ensure the accuracy and comparability of information, facilitate internal and external audit processes, and reduce the likelihood of errors and fraud. Furthermore, these reports enhance the bank's accountability to the public and investors and strengthen trust in the financial system.

Transparent reporting, in turn, determines the effectiveness of audit processes in banks. If the information provided is incomplete and inaccurate, the audit results become unreliable and cannot fully fulfill their oversight function. Therefore, counting in accordance with IFRS requirements and the development of independent audit firms are key prerequisites for ensuring accountability and reliability in the banking system.

Economic decisions made by users of bank financial statements also include an assessment of the bank's ability to grow its cash, its cash turnover rate, and its potential to achieve financial results. In this process, a commercial bank's ability to meet its obligations to employees and suppliers, pay interest on time, repay loans, and distribute profits fairly is also assessed as a criterion of economic stability.

The bank's financial statements also include the following information:

- making decisions regarding investments and loans;
- assessment of future cash flows of the bank;
- assessment of the bank's resources and liabilities in relation to the funds entrusted to it;

Evaluation of the effectiveness of the bank's management. The table below presents information about the users of bank reports (see Table 1). The data shows that shareholders are interested in the bank's management and board of directors, as well as in the bank's solvency (dividends). Investors, for their part, are interested in their own risk management and the resulting profits. Creditors and depositors, in turn, require information about the bank's financial stability, which demonstrates the safety and profitability of funds deposited with the bank.

Table 1

Users of bank reports and their interests

Information needed by users of bank statements and their interests*

No.	Users	Information necessary for the convenience of users
1	Shareholders	The financial position of the bank and its future dividend policy in relation to dividend rates
2	Investors	Economic efficiency and the level of risk associated with the placement of funds.
3	Creditors and depositors	The financial stability of the bank and its ability to pay interest on funds of creditors and depositors.
4	Foreign banks	Correspondent bank reliability
5	Central Bank	Information on effective bank management
6	State Tax Committee	Information on assets, income, expenses and taxes paid
7	Other government agencies	Income and expenses and other statistics
8	Workers and employees	Ability to pay wages.

*Developed by the author based on data

Foreign banks are primarily interested in receiving information confirming the reliability and stability of their partner banks. At the same time, information on banks' assets, income, and

expenses is crucial for the State Tax Committee to improve tax legislation. The Central Bank, in turn, requires this information to assess the effectiveness of bank management and draw conclusions about overall financial stability.

Currently, financial statements prepared by commercial banks serve as a means of determining the financial capacity of the bank, its level of security and readiness to co-op. In this regard, it is necessary that the financial statements of banks comply with international accounting standards and are audited by internationally recognized audit organizations.

Taking into account the general and industry-specific features of the forms and content of financial statements of commercial banks, the forms and standards of financial reporting IFRS No. 1 "Presentation of Financial Statements", IFRS No. 7 "Statement of Cash Flows", IFRS No. 8 "Profit or Loss and Accounting policies", IFRS No. 27 "Consolidated and Separate Financial Statements", IFRS No. 32 "Financial Instruments: Presentation", IFRS 7 "Financial Instruments: Disclosure" and IFRS 9 "Financial Instruments".

In international practice, the following criteria are considered key when assessing the transparency of banking reporting:

- completeness of information;
- clarity;
- reliability;
- timeliness;
- comparability.

Conclusions and recommendations

The study's findings indicate that commercial banks in the Republic of Uzbekistan face a number of systemic challenges in preparing and publishing financial statements. These can be summarized as follows:

1. The limited number of specialists in banks with sufficient knowledge of IFRS leads to an increase in the number of errors and uncertainties in reports.
2. Incomplete disclosure of related party transactions is contrary to the requirements of IAS 24, exacerbating the risk of conflicts of interest and corruption.
3. Delayed or partial disclosure of bank financial statements after the required deadlines means that the public and investors do not receive adequate information, which undermines confidence.

To solve these problems, the following proposals can be put forward:

1. Increase the number of specialists in commercial banks by organizing regular advanced training courses and training in IFRS and international auditing standards.
2. Strictly monitor compliance with IAS 24 requirements by the bank's management bodies and strengthen the role of internal audit and compliance services in this process.
3. Implement an automated electronic system for publishing bank reports, including the use of a "real-time reporting" mechanism, widely used in international practice.

The implementation of these measures will ensure transparent reporting in the banking system and contribute to the increased competitiveness of the national banking sector. Furthermore, an IFRS-based reporting system ensures the transparency and accuracy of banking operations, strengthens investor confidence, and has a positive impact on overall financial stability and economic growth.

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