

**CONCEPTUAL BASIS OF IMPROVEMENT OF BANK AUDIT
IN COMMERCIAL BANKS.**

<https://doi.org/10.5281/zenodo.10019813>

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Abstract: *In this article, the prospective development of the banking system in our country and foreign commercial banks, the effective organization of the audit and analysis of problems directly related to this activity, their solution on a scientific basis, the procedure for the formation of the audit of the capital of commercial banks, the audit of the reduction of the authorized capital of the bank, commercial recommendations on the necessity and advantages of improving the internal audit activity for the management system in banks are given.*

Key words: *banking system, internal audit, audit of problems, effective management of assets, authorized capital, liquidity indicator, consolidation, subordination, capital adequacy, cost estimate, high-yield investment.*

New economic relations associated with the gradual transition of the economy of the Republic of Uzbekistan to market relations create the need to organize accounting and auditing and improve their methodology. One of the most important measures aimed at ensuring compliance of all elements of the accounting and auditing system with new economic relations is the organization of internal audit in banks, in particular, improvement of capital audit and its methodology.

In such conditions, it is of particular importance to effectively organize the audit and analysis of problems directly related to the prospective development of the banking system in our republic, and to solve them on a scientific basis. All of these objective processes require the improvement of internal audit methodology in the system of banking, especially commercial banks, researching a set of theoretical-methodical and organizational problems based on market relations and compatible with free economy.

The market economy imposes on the banking system the task of achieving economic stability through the in-depth analysis of the causes of problems in the changing economic infrastructure and the implementation of the measures specified in it. Commercial banks are required to regularly increase their capital, effectively manage their assets, and ensure income growth without reducing the liquidity indicator. In order to rationally manage the bank's activities, it is necessary to regularly improve the economic knowledge of the management staff.

According to the Law of the Republic of Uzbekistan "On Banks and Banking Activities"¹: "The authorized capital of the bank consists of funds paid by the founders and shareholders of the bank. The minimum amount of authorized capital of banks is determined by the Central Bank».

In the audit of capital formation of commercial banks, special attention was paid to the following:

The maximum share of each shareholder's participation in the authorized capital does not exceed the amount specified by law.

The participation of the bank in the authorized capital of other banks is not allowed

Cases of establishment of banks and subsidiary banks with participation of foreign capital, as well as other cases stipulated by legislation

It is not allowed to use loaned and pledged funds and other borrowed funds to form the authorized capital of the bank.

The minimum authorized capital must be paid by the founders of the bank before its registration.

Funds paid for the authorized capital are transferred to the savings account opened in the Central Bank of the Republic of Uzbekistan or other banks. These funds can be used as a deposit.

The minimum amount of authorized capital of banks should not be less than the norm established by the Central Bank.

Auditing of all amendments and additions to the charter of a commercial bank is a somewhat complicated process.

All amendments and additions to the charter of the commercial bank must be registered with the Central Bank of the Republic of Uzbekistan.

The decision on amendments and additions to the bank's charter is adopted by the general meeting of shareholders with the majority of three-fourths of the voting shareholders participating in the general meeting. Voting is carried out on the principle of "one share - one vote".

The audit of the reduction of the authorized capital of the bank examines the following cases:

¹ <https://lex.uz/docs/-4581969>

- as a result of the decrease of the authorized capital, the possibility of violation of the economic norms established by the Central Bank and the requirements for the minimum amount of the authorized capital of the bank, or the situation where the share of any shareholder's participation exceeds the limited amount of the authorized capital established by the law;

- the compliance of the submitted documents with the requirements of the legislation and regulatory documents of the Central Bank;

- that the reduction of the authorized capital may pose a clear threat to the interests of depositors and the financial condition of the bank.

The refusal of the Central Bank to reduce the authorized capital must be justified and sent to the bank in writing within one month after receiving the last necessary document.

According to the amendments to the Law "On Banks and Banking Activities", from September 1, 2023 to January 1, 2025, the minimum amount of authorized capital of banks will be gradually increased:

100 billion soums - until September 1, 2023;

200 billion soums - from September 1, 2023;

300 billion soums - from April 1, 2024;

500 billion soums - from January 1, 2025.²

So, as the main reasons for the small weight of these reserves in the capital structure of commercial banks, we must recognize that the value created due to revaluation is subject to property tax and the systematic revaluation procedure has not been developed in our republic.

The absence of subordinated debt obligations in commercial banks indicates the weakness of the position of commercial banks in the market of medium and long-term loans. Because subordinated debt obligations are a convenient and low-cost means of attracting medium and long-term resources to commercial banks.

Commercial banks are primarily short-term lending institutions. Therefore, short-term financing should occupy the main place in their resources. At the same time, there are high-yield investment projects financed by medium- and long-term lending, which force banks to find medium- and long-term resources. Subordinated³ debt obligations are used as a means of raising such resources.

The fact that there are no transfers to consolidated⁴ subsidiaries in the total capital of commercial banks is evident in the activity of our country's banks. Therefore, our banks do not have sufficient practice of establishing credit institutions

² <https://www.gazeta.uz/oz/2023/06/02/banks/>

³ <http://arm.sies.uz/wp-content/uploads/2020/11/42.y.Bank-faoliyati-tahlili-oquv-qollanma-T.M.Qoraliyev-T.-2016y..pdf>

⁴ <file:///C:/Users/user/Downloads/CAJEI0533.pdf>

such as leasing, trust, factoring, and forfeiting companies. However, in international banking practice, it has been proven that the activities of credit institutions established under commercial banks are economically efficient.

Subsidiary enterprises established under banks will not have an independent balance sheet, they will operate on the basis of a fixed cost estimate, and their profit will be added to the bank's profit. The most important thing is that their performance can be expressed in specific indicators. Also, commercial banks have resources as a financial institution, and the possibilities of effective use of these resources will increase. This allows to develop measures to increase the efficiency of their activities.

It was observed that the weight of reserves for compensation of losses that may come from loans in commercial banks in the total capital volume is small. The main reason for this is that when classifying loans issued by commercial banks, their level of risk is relatively low and the amount of overdue loans is small.

In the formation of the capital of commercial banks, achieving its composition at the expense of stable financing sources is one of the main factors of bank capital management.

Before the adoption of the Basel standards, there were a number of problems related to the part of the authorized capital of commercial banks in foreign currency. The following are the main problems in this regard:

1. It is known that the balance sheet of commercial banks is drawn up in the national currency. When capital is invested in a foreign currency, it is reflected in the national currency in the bank balance sheet at the exchange rate of the current period. In this case, the income of the bank should be sufficient to cover the amount of the difference caused by the devaluation of the national currency. Otherwise, the bank is obliged to maintain its net assets in foreign currency equal to the amount of capital in foreign currency.

2. If the foreign currency in the capital is deposited as a deposit in foreign banks, then there is an opportunity to fully preserve the value of the bank's capital. But a foreign bank pays interest on deposits at the market rate. In developing foreign countries, the interest rate of foreign currency deposits is usually very low. So, in this case, the effectiveness of the use of funds deposited in foreign currency will be low.

The minimum level of capital adequacy of commercial banks differs in certain respects from the level provided for in the Basel standards. In our opinion, the main reasons why the requirements for capital adequacy of commercial banks of Uzbekistan differ from the Basel standards in this way are as follows:

1. Existence of some problems in strengthening the capital base of commercial banks. For example, one of the main problems in this regard is the fact that the weight of the authorized capital in the total capital of commercial banks has a tendency to decrease.

2. Absence of deposit insurance system for corporate clients of commercial banks.

The absence of this system increases the need to use bank capital as a means of protecting deposits. In assessing the adequacy of the capital of commercial banks, the issue of taking bank assets to risk occupies a central place.

The methodology developed by the Central Bank of Uzbekistan has two aspects that differ from the Basel methodology.

a) In the methodology developed by the Central Bank, government securities are not differentiated according to the level of risk. In our opinion, government securities should be differentiated according to the level of risk. Because there is always a risk of a decrease in the return on long-term securities of the government;

b) In the current methodology of the Central Bank for risking the assets of commercial banks, the tracts that are recalculated in the Central Bank are not reflected.

This situation arose due to the non-existence of drafts in the banking practice of our country. There are no significant differences in other risk categories.

In the conditions of the market economy, it is important to approach the internal audit, which is a component of management, as a necessary element of control in the important role of the banking system in the country's economy. After all, internal audit helps to assess the financial condition of banks and the quality of services provided by them, to identify market needs, and thus to improve the work efficiency of banks, to create an effective competitive environment for them in the market. Most owners are interested in the availability of an internal audit service, as economic entities need the most optimal tools for obtaining income in the course of business activity and achieving the optimal trajectory of development.

The necessity and advantages of improving the internal audit activity for the management system in commercial banks were explained as follows:

- 1) Low cost compared to external audit;
- 2) Guarantee of continuous compliance with the legislation;
- 3) The possibility of regular use of the service of internal auditors;
- 4) Internal auditors' awareness of the situation in the bank, work and management style, policies adopted by the bank;
- 5) Involvement of highly qualified specialists of bank branches in inspections through auditors;
- 6) The fact that it is a system that supports the promotion of the introduction of advanced technologies and work methods.

According to the analysis, retrospective audit activity aimed at verifying the correct reflection of financial and economic operations in accordance with regulatory documents is not sufficient for making management decisions. Today, users of information hope to receive information from auditors that can be the basis for

making economic decisions and reflect the state of the commercial bank. Based on this, in the conditions of transition to market relations, according to the audit process, direction and method, it is necessary to combine tasks in two directions.

In conclusion, it can be said that in order to improve the operation of the internal audit system of commercial banks, we found it appropriate to work in the following directions:

1) Regular improvement of the qualifications of internal audit service employees of commercial banks based on the requirements of international standards;

2) The employees of the internal audit service should maintain the status of independence in relation to the departments they audit, and free themselves from the influence of the heads of bank departments on the content and scope of the audits;

3) To pay special attention to the issues of using methodological rules from other disciplines when conducting audits by auditors;

4) To ensure the objectivity of the employees of the internal audit service in the analysis of the audit process and to prepare reasonable conclusions on the audit.

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