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Article

The Importance and Necessity of Using Analytical Procedures in the Internal Audit of Commercial Banks

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Abstract: In the modern economic environment, commercial banks need to monitor and control their activities thoroughly in order to operate effectively and maintain their competitiveness. Auditing is one of the processes that enables a bank's condition to be assessed and potential problems to be identified. This article examines the key aspects of organising internal audit in commercial banks and discusses its importance.

Keywords: internal audit, commercial banks, banking system, internal control system, financial statements, audit services, Central Bank supervision, auditing standards, assessment of banking activities, audit effectiveness.

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1. Introduction

Internal audit in the banking sector is one of the most important components of the control system, contributing to the stability of financial institutions. It is conducted in strict accordance with the regulations and requirements established by the Central Bank of the Republic of Uzbekistan and is aimed at ensuring the effective and transparent management of banking activities.

The internal audit system in commercial banks is an important management tool that helps ensure the transparency, security and efficiency of banking operations. The primary objective of internal audit is to assess whether a bank's activities comply with applicable legislation, internal policies and risk management standards. Analytical procedures are among the most important tools used in this process.

Internal audit makes it possible to assess a bank's activities comprehensively, identify potential problems and shortcomings, and develop measures to address them. Internal auditing in Uzbekistan's banking sector is developing actively, with various non-governmental and non-profit organisations taking part in this process. These include the Chamber of Auditors of Uzbekistan and the Association of Professional Accountants and Auditors. Cooperation with these organisations helps promote the implementation of auditing practices in accordance with international standards. In this process, the legal responsibilities of bodies regulating audit, as well as the duties and functions of public-sector and independent auditors, are defined. This provides a basis for developing a system of regulatory documents governing auditing in Uzbekistan.

In the banking system, employees of the internal audit service perform internal control functions within the institution. In carrying out their work, they pay particular attention to the following areas:

- the reliability of financial information and its timely submission;
- strict compliance with established rules when conducting banking transactions and preparing reports;
- the condition of assets and the methods used to safeguard them;
- the rational and efficient use of resources;
- the completeness and accuracy of the implementation of approved programmes, and their consistency with the stated goals and objectives.

A bank's organisational structure includes a separate unit responsible for overseeing the activities of all other structural divisions and the central administration. This unit is known as the internal audit department.

In accordance with the Regulation on Requirements for the Internal Audit of Commercial Banks, approved by the Central Bank of the Republic of Uzbekistan on 7 May 2021, commercial banks are required to establish an internal audit service and ensure that it operates effectively. Employees of this service are responsible for performing their duties to an appropriate professional standard.

These standards establish the importance of internal audit and define auditors' responsibilities. They provide a basis for managing the audit process, determine its methodology and help improve its effectiveness.

Standards are a set of requirements that must be observed. They establish requirements concerning auditors' independence and objectivity, professional competence, the quality of work performed and the effective management of internal audit.

The role of a bank's internal audit service is to ensure that applicable procedures and rules are observed. Within the scope of their responsibilities, the service's specialists examine the operation of the internal control system and review the preparation of financial statements. Internal audit helps improve the efficiency of a bank's operations and provides recommendations for optimising management and development processes. This enables the bank to strengthen its position in the market.

Analytical procedures are processes through which an auditor draws conclusions by analysing relationships, changes and trends in financial and operational data.

2. The Importance of Analytical Procedures in Internal Audit

2.1 Risk identification

Through analytical procedures, an auditor can identify potentially high-risk areas at an early stage, such as suspicious growth in a loan portfolio.

2.2 Improving audit effectiveness

As a result of analytical review, the auditor can focus on the areas that are most significant and carry the highest risks, thereby saving time and resources.

2.3 Ensuring accuracy and objectivity

Assessments based on numerical data reduce the influence of the human factor.

2.4 Evaluating the internal control system

Analytical procedures help reveal the strengths and weaknesses of a bank's internal control mechanisms.

2.5 Fraud detection

They make it possible to identify unusual transactions and artificial changes in profits or expenses at an early stage.

Internal audit is important for examining processes related to a bank's financial transactions, risks and financial settlements. It helps improve the efficiency of the bank's activities and supports the completeness and accuracy of financial calculations. Internal audit is also important for identifying, assessing and managing the bank's financial risks. In addition, it helps ensure that the bank's financial transactions are carried out correctly

and efficiently. To perform this work, internal auditors use appropriate skills and methodologies to analyse, examine and assess the bank's financial calculations, transactions and risks. Internal audit contributes to improving the efficiency of the bank's financial activities and provides a basis for considering recommendations aimed at enhancing the ways in which the bank manages its financial risks.

3. Conclusion

In conclusion, the development of the audit system in Uzbekistan is taking place in the context of the transition to a market economy. These conditions require business entities to be managed at a professional level. This, in turn, has created a need for independent oversight of the financial condition of every organisation.

In particular, the development of the securities market, the expansion of share ownership, the concentration of capital and the introduction of corporate governance systems require transparency in the results of financial examinations. Financial statements are of interest to all parties involved in relationships with an organisation, including managers, employees, customers, owners, creditors, investors, and government and public authorities.

In our view, information verified by independent auditors inspires confidence among other organisations and banks, thereby helping to develop cooperation. Thus, auditing emerged in our country in response to the needs and requirements of various groups of stakeholders. In particular, a number of measures should be implemented to improve the quality of work and ensure compliance with legislation in order to support the effective operation of banks.

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