

AUDIT OF LIABILITIES IN CORPORATE ENTITIES: INTERNATIONAL PRACTICES, RISKS AND IMPROVEMENT DIRECTIONS

Ochilov Farxodjon Shavkatjon ugli

Tashkent State University of Economics

Associate Professor of the Department of Audit, DSc

E-mail: ochilovfarhod094gmail.com

Odilov Sunnatbek Otabek ugli

Tashkent State University of Economics

Master's student in Audit

E-mail: odilov004gmail.com

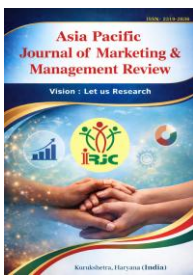
Abstract. The audit of liabilities is considered one of the most significant areas of modern auditing practice because liabilities directly affect the financial stability, solvency, and investment attractiveness of enterprises. In recent years, the rapid development of international financial markets, the expansion of credit operations, and the growth of corporate obligations have increased the importance of reliable liability accounting and auditing systems. This article examines theoretical and practical issues related to the audit of liabilities in corporate entities based on International Standards on Auditing (ISA) and International Financial Reporting Standards (IFRS). The study highlights the international and national relevance of liability auditing using statistical indicators and analytical data. The literature review summarizes the scientific views of three foreign and three local scholars regarding the essence and methodology of liability auditing. The analysis and results section evaluates current audit procedures, internal control mechanisms, audit risks, and analytical approaches in liability auditing. In addition, practical recommendations are provided for improving audit efficiency through digital technologies, risk-oriented audit models, and analytical procedures. The study concludes that improving liability auditing contributes significantly to ensuring transparency of financial reporting, preventing financial fraud, enhancing investor confidence, and strengthening corporate governance systems. The findings may serve as a scientific and methodological basis for auditors, researchers, higher educational institutions, and corporate management structures.

Keywords: liabilities audit, audit risk, financial reporting, corporate governance, internal control, IFRS, ISA, audit evidence, accounting liabilities.

Introduction. In the modern global economy, liabilities constitute a substantial component of corporate financial statements and play a decisive role in determining the financial sustainability of enterprises. According to the International Monetary Fund, global corporate debt exceeded USD 91 trillion in 2024, which represents more than 92% of world GDP. The growth of financial obligations has increased the necessity for transparent accounting systems and effective auditing procedures. Furthermore, the World Bank reports that nearly 35% of financial reporting manipulations in developing economies are directly associated with the understatement or misclassification of liabilities.

International auditing practice demonstrates that errors in liability recognition and valuation significantly affect the reliability of financial statements. In recent years, several international corporate scandals involving hidden obligations and inaccurate debt disclosures have highlighted the

5	ISSN 2319-2836 (online), Published by ASIA PACIFIC JOURNAL OF MARKETING & MANAGEMENT REVIEW., under Volume: 15 Issue: 04 in April-2026 https://www.gejournal.net/index.php/APJMMR
	Copyright (c) 2026 Author (s). This is an open-access article distributed under the terms of Creative Commons Attribution License (CC BY). To view a copy of this license, visit https://creativecommons.org/licenses/by/4.0/



importance of external audit quality. According to the International Federation of Accountants, approximately 41% of modified audit opinions issued in 2023 were associated with liabilities, provisions, and contingent obligations.

At the national level, the relevance of liability auditing is also increasing. In Uzbekistan, the rapid development of private entrepreneurship, expansion of banking operations, and growth of foreign investments have intensified the need for transparent financial reporting. According to the statistics of the Ministry of Economy and Finance of the Republic of Uzbekistan, corporate borrowing and credit obligations in Uzbekistan increased by 27% during 2022–2024. Moreover, the number of enterprises subject to mandatory external audit has been steadily increasing due to the implementation of international financial reporting standards.

The audit of liabilities is essential not only for ensuring compliance with accounting regulations but also for evaluating financial risks, protecting stakeholders’ interests, and strengthening corporate governance mechanisms. Effective auditing procedures help detect hidden liabilities, prevent fraudulent reporting practices, and improve the reliability of management decisions. Therefore, scientific research devoted to improving liability audit methodology remains highly relevant under current economic conditions.

Literature Review. Foreign scholars have extensively studied the theoretical and methodological foundations of liability auditing. Alvin A. Arens emphasizes that liability auditing should focus on completeness, existence, valuation, and disclosure assertions because liabilities directly influence the credibility of financial reporting. According to Arens, audit evidence related to liabilities must be obtained through analytical procedures, confirmations, and examination of contractual obligations.

Randal J. Elder argues that the audit of liabilities requires a risk-oriented approach because management often tends to understate obligations to improve liquidity indicators. Elder highlights the importance of substantive testing and internal control evaluation in detecting material misstatements associated with liabilities.

Roger D. Martin states that modern liability auditing should integrate digital analytical technologies and continuous auditing systems. According to Martin, the use of artificial intelligence and data analytics improves the identification of unusual debt transactions and enhances audit quality.

Among local scholars, F. Ochilov notes that liabilities auditing in transition economies should focus on compliance with international standards and transparency of accounting information. She emphasizes that improving liability accounting directly contributes to attracting foreign investment.

U. Shirinov considers liabilities auditing as a mechanism for strengthening financial discipline and preventing manipulation of financial indicators. According to Xasanov, external auditors must pay special attention to contingent liabilities and off-balance-sheet obligations.

O. Barakayev highlights that the development of corporate governance systems in Uzbekistan requires strengthening internal audit and external audit coordination in the assessment of liabilities and financial risks.

Analysis and Results. Liability auditing represents a systematic process aimed at obtaining sufficient and appropriate audit evidence regarding the existence, completeness, valuation, and disclosure of obligations in financial statements. The primary objectives of liability auditing include:
 verification of legal and financial obligations;
 assessment of debt classification accuracy;

6	ISSN 2319-2836 (online), Published by ASIA PACIFIC JOURNAL OF MARKETING & MANAGEMENT REVIEW., under Volume: 15 Issue: 04 in April-2026 https://www.gejournal.net/index.php/APJMRR
	Copyright (c) 2026 Author (s). This is an open-access article distributed under the terms of Creative Commons Attribution License (CC BY). To view a copy of this license, visit https://creativecommons.org/licenses/by/4.0/

examination of contingent liabilities;
evaluation of compliance with IFRS and ISA requirements;
identification of fraud and hidden obligations.

The system of liability auditing plays a significant role in ensuring the reliability and transparency of financial reporting. Auditors are required to evaluate whether liabilities are properly recognized, measured, classified, and disclosed in accordance with international accounting and auditing standards. The following illustration presents the main audit objectives for liabilities and explains their role in improving the quality of financial reporting and strengthening stakeholder confidence.



Figure 1. Main audit objectives for liabilities¹

The presented audit objectives demonstrate that liability auditing is a comprehensive process aimed at ensuring the completeness, existence, valuation, classification, and disclosure of obligations. Proper implementation of these audit objectives contributes to reducing material misstatements, enhancing audit quality, and supporting effective financial decision-making within corporate entities.

Modern auditing standards require auditors to apply a risk-oriented audit methodology. In liability auditing, the following risks are particularly significant:

1. Understatement of liabilities;

¹ Made by author

2. Misclassification of debts;
3. Non-disclosure of contingent obligations;
4. Incorrect valuation of provisions;
5. Fraudulent financial reporting.

Analytical procedures are considered one of the most effective tools in liability auditing because they help auditors identify unusual trends, financial risks, and potential misstatements. Financial ratios and indicators provide important evidence regarding liquidity, solvency, and debt management efficiency. The following figure illustrates the key analytical indicators commonly used during liability auditing processes.









KEY ANALYTICAL INDICATORS USED IN LIABILITY AUDITING			
No.	INDICATOR	FORMULA	AUDIT PURPOSE
1	 CURRENT RATIO	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	 Evaluate liquidity.
2	 DEBT RATIO	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	 Assess financial stability.
3	 DEBT-TO-EQUITY RATIO	$\frac{\text{Total Liabilities}}{\text{Equity}}$	 Measure financial leverage.
4	 INTEREST COVERAGE RATIO	$\frac{\text{EBIT}}{\text{Interest Expense}}$	 Evaluate debt servicing ability.

Figure 2. Key analytical indicators used in liability auditing²

The analytical indicators presented above enable auditors to evaluate the financial stability and debt management capacity of enterprises more effectively. The application of ratio analysis in liability auditing improves risk assessment procedures, strengthens audit evidence, and contributes to the reliability of audit conclusions regarding financial obligations.

Liability auditing is associated with various financial and operational risks that may significantly influence the reliability of financial statements. Auditors must identify and assess these risks to prevent material misstatements and fraudulent reporting practices. The following illustration presents the major risks encountered in liability auditing and their potential impact on financial reporting quality.

² Made by author



Figure 2. Key analytical indicators used in liability auditing³

The identified liability audit risks indicate that improper recognition, classification, estimation, and disclosure of obligations may negatively affect the transparency of financial reporting. Effective audit procedures, risk-oriented methodologies, and strong internal control systems are essential for minimizing these risks and improving the overall quality of auditing practices.

Conclusion. First, the study demonstrates that liability auditing has become one of the most critical components of modern auditing practice due to the rapid growth of corporate debt, expansion of financial obligations, and increasing complexity of business transactions. International and national statistical indicators confirm that improper recognition and disclosure of liabilities significantly affect the reliability of financial statements and investor confidence. Therefore, strengthening audit procedures related to liabilities is essential for ensuring financial transparency and economic stability.

Second, the research confirms that the application of risk-oriented auditing approaches and analytical procedures substantially improves the effectiveness of liability auditing. Proper evaluation of internal control systems, use of substantive testing, and analysis of contingent liabilities enable auditors to detect material misstatements and fraudulent reporting practices more effectively. In this

³ Made by author



regard, compliance with International Standards on Auditing and International Financial Reporting Standards remains a key factor in improving audit quality.

Third, the study concludes that the integration of digital technologies into liability auditing creates significant opportunities for improving audit efficiency and reliability. Artificial intelligence, continuous auditing systems, and data analytics technologies enhance the detection of hidden obligations and unusual financial transactions. Consequently, the modernization of auditing methodologies through innovative technologies contributes to strengthening corporate governance systems, protecting stakeholders' interests, and increasing the investment attractiveness of enterprises.

REFERENCES

1. Arens, A. A., Elder, R. J., & Beasley, M. S. Auditing and Assurance Services: An Integrated Approach. Pearson Education, 2022.
2. Elder, R. J., Beasley, M. S., Hogan, C. E., & Arens, A. A. Auditing and Assurance Services. Pearson, 2021.
3. Martin, R. D. "Technology and the Future of Auditing." Journal of Accountancy, Vol. 229, No. 4, 2023.
4. Баракаев, О.О. (2021). Замонавий корпоратив бошқарув тизимида аудит: назария, методология ва амалиёт. Тошкент. 288 б.
5. Ochilov F.Sh. Aksiyadorlik jamiyatlarida majburiyatlar hisobi va auditi metodologiyasini takomillashtirish. // Monografiya. -T.: «Lesson-Press». 2024 yil. 210 b.
6. Молиявий мажбуриятлар аудитини такомиллаштириш. УА Ширинов, НА Нарзуллаев. Экономика и социум, 810-813, 2022. 11, 2022 ;