World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 55, March, 2026
ISSN: 2749-3628,

IMPROVING THE AUDIT OF LIABILITIES IN JOINT-STOCK COMPANIES

Tashkent university of economics
Independent Researcher **Ergasheva Vasila Abdumajitovna**
v.ergasheva@gmail.com

Article history:

Received: 7th December 2025
Accepted: 6th February 2026

Abstract:

This study examines methodological issues and practical challenges in auditing liabilities in joint-stock companies and proposes an improved audit framework aligned with International Standards on Auditing (ISA) and International Financial Reporting Standards (IFRS). Liabilities represent a critical component of financial statements and directly influence solvency, leverage, and financial sustainability indicators. However, auditing liabilities involves heightened risk due to complex valuation methods, discounting procedures, effective interest rate calculations, and fair value assessments. The research identifies key audit risk areas and develops an enhanced risk-based audit approach, including refined substantive procedures and strengthened audit evidence collection mechanisms. The proposed model contributes to improving audit quality, reducing detection risk, and enhancing the reliability of financial reporting in joint-stock companies.

Keywords: audit of liabilities, joint-stock companies, audit risk, effective interest rate, discounting, fair value, ISA, financial reporting.

INTRODUCTION. Liabilities constitute a fundamental element of financial reporting in joint-stock companies, significantly affecting leverage ratios, liquidity indicators, and investor decision-making. In capital-intensive corporate environments, liabilities such as long-term borrowings, bonds, lease obligations, and trade payables often represent substantial proportions of total financing. Consequently, the audit of liabilities plays a decisive role in ensuring the credibility and transparency of financial statements.

Auditing liabilities presents particular challenges due to the application of complex accounting treatments under IFRS, including amortized cost measurement, discounting mechanisms, fair value adjustments, and effective interest rate (EIR) calculations. Furthermore, management estimates and assumptions frequently introduce subjectivity into measurement processes. These factors increase inherent and estimation risk, requiring auditors to apply enhanced professional skepticism and risk-based audit procedures.

The purpose of this study is to analyze the specific characteristics of liability audits in joint-stock companies and to develop methodological improvements aimed at strengthening audit effectiveness and reliability.

METHODS. This study applies a qualitative research design grounded in a normative and analytical approach. The methodological framework includes:

1. Comparative analysis of IFRS (especially IFRS 9 and IAS 37) and ISA (ISA 315, ISA 330, ISA 540);
2. Risk-based audit modeling;
3. Analytical review of liability valuation methods;
4. Synthesis of academic literature on audit quality and financial reporting risk;
5. Development of a structured audit improvement framework.

The object of research is the audit process of financial liabilities in joint-stock companies, particularly those operating in regulated and capital market environments.

RESULTS AND DISCUSSIONS. Auditing liabilities in joint-stock companies involves elevated inherent and estimation risk due to the complexity of financial instruments and structured financing arrangements. Long-term borrowings, bond issuances, lease obligations, and contingent liabilities require advanced valuation techniques, including amortized cost measurement, discounting, and effective interest rate (EIR) calculations under IFRS 9. Errors in determining discount rates or misapplication of the EIR method can materially distort interest expense recognition and liability balances. Furthermore, joint-stock companies often engage in complex capital market transactions, increasing the risk of incomplete or improperly classified liabilities.

Another critical risk area concerns completeness and disclosure. Off-balance sheet arrangements, covenant restrictions, and embedded derivatives may not be adequately disclosed, thereby misleading stakeholders.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 55, March, 2026
ISSN: 2749-3628,

Presentation risk is particularly significant when maturity structures are inaccurately reported or when short-term portions of long-term debt are misclassified. These risk factors require enhanced professional skepticism and robust audit planning procedures.

To systematize the primary risk areas associated with liability audits in joint-stock companies, the following classification table is presented.

Table 1

Key Risk Areas in Auditing Liabilities[1]

No.	Risk Area	Description	Risk Level
1	Completeness Risk	Unrecorded or off-balance sheet liabilities	High
2	Valuation Risk	Incorrect amortized cost or EIR calculation	High
3	Discount Rate Risk	Use of inappropriate discount assumptions	High
4	Fair Value Risk	Inaccurate market-based measurement	Medium–High
5	Presentation Risk	Improper classification or disclosure	Medium

The table demonstrates that valuation and completeness risks represent the most critical threat to audit reliability in joint-stock companies. These areas require intensified substantive testing and independent recalculations to minimize detection risk.

Effective auditing of liabilities requires the integration of both substantive and analytical procedures. Substantive procedures include recalculation of amortized cost schedules, verification of effective interest rate computations, confirmation of outstanding balances with financial institutions, and examination of contractual agreements. Given the technical complexity of liability measurement, recalculation procedures are particularly important in ensuring compliance with IFRS requirements.

Analytical procedures complement substantive testing by evaluating trends in leverage ratios, interest coverage ratios, and debt maturity structures. Comparative analysis across reporting periods helps identify unusual fluctuations in financing costs or liability growth patterns. Additionally, review of subsequent events provides insight into refinancing arrangements or covenant breaches occurring after the reporting date.

The following table summarizes the principal audit procedures applicable to liability audits in joint-stock companies.

Table 2

Audit Procedures for Liability Verification[2]

No.	Procedure	Objective	Evidence Type
1	Recalculation of EIR	Verify interest accuracy	Working papers
2	Loan agreement review	Confirm contractual terms	Contracts
3	Bank confirmations	Validate balances	External confirmations
4	Ratio analysis	Detect abnormal trends	Financial statements

[1] Made by author
[2] Made by author

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 55, March, 2026
ISSN: 2749-3628,

5	Subsequent events review	Identify refinancing or breaches	Board minutes

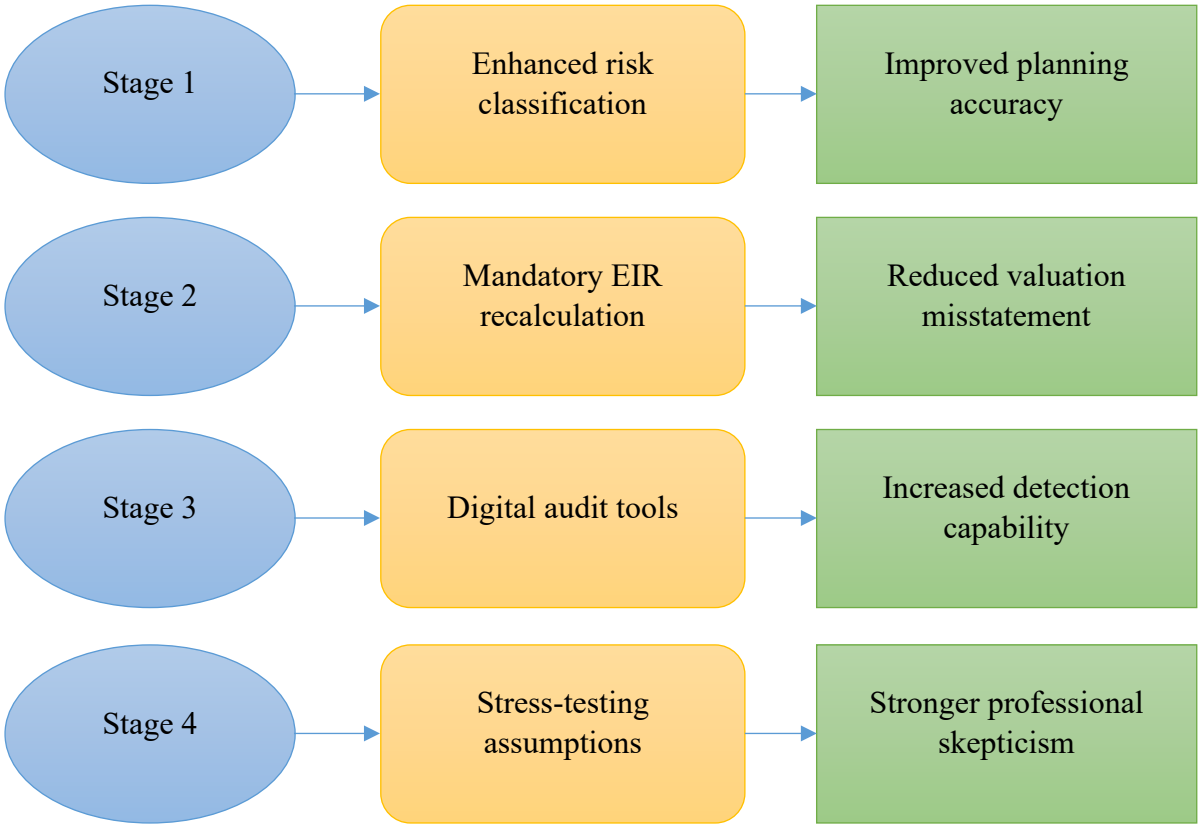
The table indicates that recalculation procedures and external confirmations provide the highest level of audit assurance. Analytical procedures enhance the auditor's ability to detect anomalies but must be supported by substantive evidence.

Improving liability audit practices requires a structured risk-based framework. The first component involves enhanced risk assessment through classification of liabilities by complexity and estimation sensitivity. Instruments measured at amortized cost or fair value require differentiated audit strategies. Integration of estimation risk evaluation into audit planning significantly strengthens audit effectiveness.

The second component focuses on digital and analytical enhancement. The use of data analytics tools enables automated recalculation of interest schedules and detection of unusual journal entries. Continuous auditing mechanisms may also improve monitoring of covenant compliance. These improvements reduce human error and strengthen audit transparency.

The results confirm that auditing liabilities in joint-stock companies requires a higher level of methodological rigor compared to other financial statement components. Estimation uncertainty, financial instrument complexity, and market volatility increase inherent risk. Therefore, the adoption of a purely checklist-based audit approach is insufficient.

The proposed improvement framework is summarized in the picture below.



Picture 1. Framework for improving audit of liability[3]

The framework demonstrates that combining structured risk assessment with technological integration significantly enhances audit quality and reduces detection risk in joint-stock companies.

[3] Made by author

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 55, March, 2026
ISSN: 2749-3628,

A transition toward a risk-oriented and technology-enhanced audit model is essential. Incorporating digital audit tools and data analytics significantly strengthens auditors' ability to detect material misstatements. Moreover, professional skepticism and continuous auditor training remain critical determinants of audit quality.

Improving liability audits also supports broader corporate governance objectives. Transparent reporting of debt structures enhances investor confidence and strengthens capital market stability.

CONCLUSION. The study confirms that liabilities represent one of the most risk-sensitive components in the audit of joint-stock companies. The complexity of financial instruments, reliance on estimation techniques, and application of discounting and effective interest rate methodologies significantly increase inherent and estimation risk. Without structured recalculation procedures and independent validation of management assumptions, the probability of material misstatement remains substantial.

The findings demonstrate that a risk-based audit approach, supported by enhanced substantive testing and analytical procedures, is essential for improving audit reliability. Particular emphasis should be placed on completeness verification, recalculation of amortized cost schedules, and confirmation of contractual compliance. Integrating estimation risk assessment into audit planning strengthens professional skepticism and improves overall audit effectiveness.

Finally, the implementation of digital audit tools and continuous monitoring techniques represents a forward-looking strategy for enhancing liability audit practices. Automation of recalculation models and data-driven anomaly detection significantly improve detection capabilities. Strengthening liability audit methodologies contributes to greater financial reporting transparency, increased investor confidence, and improved corporate governance within joint-stock companies.

REFERENCES

1. Altman, E. I. (1968). Financial ratios and bankruptcy prediction. Journal of Finance, 23(4), 589–609.
2. Carson, E., et al. (2013). Audit reporting for going-concern uncertainty. Auditing: A Journal of Practice & Theory, 32(1), 353–384.
3. DeFond, M., & Zhang, J. (2014). A review of archival auditing research. Journal of Accounting and Economics, 58(2–3), 275–326.
4. Geiger, M., & Raghunandan, K. (2002). Auditor reporting and going concern. Auditing: A Journal of Practice & Theory, 21(1), 123–139.
5. IAASB. (2009). ISA 315: Identifying and assessing risks. IFAC.
6. IAASB. (2009). ISA 330: Auditor's responses to assessed risks. IFAC.
7. IAASB. (2018). ISA 540 (Revised): Auditing accounting estimates. IFAC.
8. IFRS Foundation. (2023). IFRS 9 Financial Instruments. IFRS Foundation.
9. Knechel, W., et al. (2013). Audit quality insights. Auditing: A Journal of Practice & Theory, 32(1), 385–421.
10. Porter, B., Simon, J., & Hatherly, D. (2014). Principles of external auditing (4th ed.). Wiley.