



## Auditing Currency Operations under International Standards: Evidence from Uzbekistan's Transition Economy

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### ABSTRACT

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The quality of currency operations is essential for financial stability and international economic integration, but needs to be examined less in transition economies. The aim of this study is to examine the country of rapid foreign exchange liberalisation Uzbekistan in the context of the current practices, institutional structure and the practical challenges of auditing currency transactions. This research is a qualitative case study that examines the legal documents, regulatory reports, expert interviews and secondary audit evidence. The results indicate that there are extensive deviations from local practice regarding the International Standards on Auditing (ISA 315, 330 and 500): disjointed oversight, inadequate coordination between the Central Bank and audit firms, manual or sample-based procedures and often irregularities like misclassifying currency gains, making unauthorised transfers or reporting delays. Some of the problems are related to the conflict between national and international laws, the lack of specialised auditor competence and technological problems. In the light of these findings, the authors propose a four-pillar reform framework: capacity building, legal harmonisation, optimisation of the audit process (data analytics, AI, etc.) and coordination of stakeholders. The study provides empirical evidence and practical conclusions that can be relevant in the context of a Central Asian transition economy, and provide regulators, auditors and policy makers with ideas for action.

### Introduction

The foreign exchange markets in transition economies are liberalised, which presents opportunities and risks. The complexity of currency operations grows with the growth of the cross-border capital flows, such as foreign exchange transactions, international settlements and derivative instruments. To guarantee financial transparency, avoid money laundering and keep the investors' trust, these operations need to be audited effectively (Nesterenko & Kononov, 2022).

The last decade in Uzbekistan has seen a considerable increase in the degree of currency reform, such as the unification of exchange rates and the elimination of numerous capital controls (Khasanboev, 2023). But not all of the framework for auditing currency has kept pace. International Standards on Auditing (ISA) such as ISA 315 (risk assessment), ISA 330 (responses to assessed risks) and ISA 500 (audit evidence) offer a good model, though their implementation in the context of Uzbekistan is not uniform (Ali & Hafez, 2024).

Although there has been an increasing amount of academic research on financial auditing, there is a gap in empirical studies on the application of the principles of ISA in the process of auditing the currency in Central Asian transition economies. This

space is important because it affects the policymakers' and practitioners' capacity to design effective reforms. This study seeks to answer that question by inquiring:

*What are the current practices, common irregularities, and major challenges in auditing currency operations in Uzbekistan, and how can these be aligned with international standards?*

## Literature Review and Theoretical Framework

### Currency Operations and Regulatory Environment

The average annual growth in the monetary supply is 6.2%. The growth rate of the money supply averaged 6.2% over the past year.

The currency operations consist of two types of transactions: current account transactions (goods and services transactions or income transfers) and capital account transactions (foreign direct investment, portfolio transactions, long-term loans) (Zadorozhnyi et al., 2018). These are supervised by national legislation, central bank instructions and international instruments like the IMF guidelines and FATF recommendations (Pavlidis, 2023). The Law on Currency Regulation as well as the instructions of the Central Bank of Uzbekistan provide legal foundations, however, the integration with the international standards is incomplete (Khasanboev, 2023; WORK, 2024).

### International Standards on Auditing (ISA) for Currency Operations

Three ISAs are particularly relevant:

- In ISA 315, the auditors are required to grasp the entity and its environment, including internal controls, that can result in a material misstatement of financial statements (Lubchenko & Korinko, 2021). This encompasses assessing exchange rate risk, fraud risk and foreign exchange legislation for currency operations.
- The auditor is required to design and perform responsive procedures for addressing risks as assessed by ISA 330, for example, for foreign exchange contracts, bank statements are to be reconciled, and the compliance of various regulations is to be confirmed (Lani, 2018).
- ISA 500 also offers guidance on gathering appropriate and sufficient audit evidence, which is the case for bank confirmations, SWIFT messages and reconciliation documents (Meleschenko et al., 2020).

### Research Gap

While existing research has explored currency audit theory and country practices in the western world (Kodete & Technology, 2021; Sa-ngiamwibool & Wisaeng, 2022), few studies have empirically examined the problems faced in the process of implementing currency audits in transition economies, especially in Central Asia. Cepel et al. (2019) pointed out that there were no region-specific auditing guidelines and Criado et al. (2017) advocated for additional local empirical studies (Nawaz & Ven, 2026). This study fills this gap as it focuses on Uzbekistan.

### Research Methodology

The design of the study was qualitative case study, which is suitable for studying the institutional practice in the context of its actual conditions (Muxammadjanov, 2024). There were three data sources:

1. **Documentary analysis** – Legal acts (Law on Currency Regulation, Central Bank instructions), regulatory inspection summaries, annual reports commercial banks, audit opinions made public.
2. **Expert consultations** – Semi structured interviews with 12 practicing auditors, internal audit managers from three large Uzbek banks and academic experts in accounting and auditing (2024–2025).
3. **Secondary case materials** – Summarised audit findings and regulatory reports of typical irregularities (anonymised for confidentiality).

Triangulating across these sources increased the validity. Thematic analysis was used for data analysis, consisting of deductive and inductive themes, both of which were derived from the ISA requirements and the texts.

## Findings

### Institutional Structure of Currency Audit in Uzbekistan

Oversighting the currency audit involves several actors:

- **Accounts Chamber** – Audits foreign currency activities of government organs and government owned enterprises. Many reports refer to insufficient internal control, absence of documentation of international transactions and delayed reconciliations (Quwanishbaevna, 2025).
- **Central Bank** – acts as a regulator of the commercial banks and issues directions and does compliance inspections of commercial banks. However, its communication with external audit firms is not coordinated, and the communication is mostly unidirectional, through the circulars (Khamdamov et al., 2024).
- **Commercial banks** – have internal audit departments. In reality, currency operations frequently are considered as part of the general financial audit, without specific risk-based procedures. Limited resources and independence decrease effectiveness.
- **External audit firms** – Primarily depend on client documentation without access to sector wide vulnerabilities as this is generally not provided by the client, limiting the ability to spot vulnerabilities across the sector.
- **The findings:** Institutional fragmentation, overlapping mandates, and poor information sharing have a negative impact on the overall effectiveness of the oversight of the currency audit.

### Audit Process for Currency Transactions

Observation of audit practices reveals several process limitations:

Audit Phase	Observed Practice in Uzbekistan	ISA Requirement
<b>Planning</b>	Generic risk checklists; currency risks not treated as a separate high-risk area.	ISA 315: entity-specific risk assessment.
<b>Materiality</b>	Uniform materiality thresholds applied across all areas, ignoring qualitative importance of regulatory breaches.	ISA 320: performance materiality for high-risk areas.
<b>Field work &amp; evidence</b>	Reliance on manual records, semi-automated systems, and judgmental sampling; frequent inconsistencies between accounting and bank confirmations.	ISA 500: sufficient appropriate evidence; ISA 530: sampling.
<b>Documentation</b>	Incomplete working papers; lack of clear audit trails for exchange rate testing and control evaluations.	ISA 230: comprehensive documentation.

**Example:** Auditors are more likely to test high value transactions, and may overlook systematic errors on small transactions that occur often in foreign exchange conversions.

### Common Irregularities

From the findings of regulators and audit reports, three type of irregularities emerged:

#### 1. Transaction errors and omissions

- Wrong exchange rates used when revaluating.
- Foreign currency payments that are not recorded or duplicated.
- Late settlement recording of cross border settlements.

## 2. Misclassification

- The foreign exchange gains/losses reported on the income/expense statement as operating income/expense, unlike financial items, which leads to distorting operating profit and tax calculations (Ulugbek, 2025).

## 3. Unauthorised transfers and control breaches

- Unauthorized payments, frequently a result of inadequate segregation of duties.
- Instances of management override of controls.
- Late detection in Bank reconciliation which has already losses.

## 4. Reporting gaps

- Reporting dates that are too far back in the past when using old exchange rates.
- Late submission of regulatory currency reports – particularly from smaller non-bank entities.

### Major Challenges in Practice

Synthesising the evidence, four overarching challenges emerge:

Challenge Category	Specific Issues
<b>Legal and regulatory</b>	Frequent changes in foreign exchange rules; conflicts between national law and IFRS/ISA; ambiguous classification of hybrid transactions (e.g., crypto-related, cross-border leasing).
<b>Institutional coordination</b>	Fragmented oversight; lack of formal real-time information sharing between Central Bank, tax authorities, and audit firms; no common database for transaction monitoring.
<b>Human resources</b>	Shortage of auditors with specialised knowledge of foreign exchange markets, hedging instruments, and ISA requirements for currency; limited continuing professional education (CPE) on advanced currency audit topics.
<b>Technological</b>	Predominantly manual or semi-automated accounting systems; limited use of data analytics, AI, or continuous monitoring tools; auditors unable to test full populations of transactions.

### Discussion and Recommendations

#### Interpretation of Findings

The results indicate that there is a gap between regulatory changes and implementation of the principles of ISA in the field of currency auditing in Uzbekistan. This can be attributed to other transition economies' research findings (Eltweri et al., 2022) that formal standards generally come before actual competency. Lack of institutional learning and corrective mechanisms is indicated by the persistence of common irregularities on their repeated identification in reports.

The inter-agency coordination and technological infrastructure is found lacking, which leads to non-proactive checking of the currency risks. Rather, audits are still sample, retrospective and compliance focused, and not risk focused.

#### A Four-Pillar Reform Framework

The following integrated framework is suggested for Uzbekistan based on gaps and challenges identified:

##### Pillar 1: Capacity building

- Apply compulsory CPE courses covering currency audit (ISA 315/330/500 application, foreign exchange accounting, AML aspects of cross border flows).

- To develop a professional certification programme in ‘Certified Currency Auditor’ in collaboration with international organizations (such as ACCA, IIA, etc.).
- Large audit firms develop teams of specialists within teams for complex financial instruments.

#### **Pillar 2: Legal harmonisation**

- Make the ISAs requirements on audit of currency operations express reference in the Law on currency regulation.
- Implement a hierarchy of rules: When there is a conflict between national rules and IFRS/ISA, the IFRS/ISA prevail in financial reporting and audit.
- Create guidelines for interpretation of hybrid transactions (e.g., cryptocurrency, multi stage trade finance).

#### **Pillar 3: Optimisation of audit process**

- Implement a model currency audit program using a standardised currency audit planning template, risk checklist and documentation requirements.
- Ensure that full population of foreign exchange transactions are tested using data analytics (e.g., anomaly detection, trend analysis).
- Use of automated tools and processes for suspicious transaction flagging, exchange rates and automated reconciliation with pilot support of AI.

#### **Pillar 4: Coordination and governance of stakeholders**

- Create a formal inter agency working group quarterly between Central Bank, Accounts Chamber and Ministry of Finance, audit professional bodies to exchange risk assessments and inspection results.
- To establish a safe and secure data sharing solution for aggregated, anonymised currency transaction data that is available for authorised auditors.
- Incorporate auditee feedback to enhance auditing processes in light of practical considerations.

#### **Practical Implications**

- For commercial banks: Improve the internal audit function by establishing specialised currency audit function and build up automated monitoring systems.
- External auditors: Focus on compliance checklists to risk based, data driven methodologies.
- As regulators, shift from periodic inspections to ongoing, risk-based supervision, with shared analytics.
- For educational institutes: Incorporate case studies and exercises on currency audit in accounting and finance education.

#### **Conclusion**

The study is the first empirical study on an ISA aligned currency operation auditing in Uzbekistan. The findings show that there remains a significant disconnect between the ambition of regulation and the quality of the audits carried out, which is attributable to a number of institutional issues, including fragmentation, skills shortages and technological lag. There are four categories of transaction error, misclassification, unauthorised transfers and reporting gaps and these are endemic, but auditing processes are not necessarily effective at identifying them on a regular basis.

The four-pillar proposal provides a realistic set of policy and practice directions for policy makers and practitioners. The concept was developed with particular reference to the situation in Uzbekistan, but can be applied to other central Asian and transition countries with comparable problems.

Restrictions and further research: Publicly available reports and expert interviews were used in the study which did not reach confidential audit working papers. A longitudinal study of cases within the individual banks needs to be done to measure the effect of reform interventions in the future. Comparative studies between the countries of Central Asia (Kazakhstan and Kyrgyzstan) would also add to evidence base.

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