

AUDITING CURRENCY OPERATIONS UNDER INTERNATIONAL STANDARDS: EVIDENCE FROM A TRANSITION ECONOMY

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Abstract

The liberalisation of currency operations in transition economies poses serious audit issues. The study gives a comprehensive analysis of currency operations auditing in Uzbekistan, a rapidly reforming foreign exchange in the Central Asian countries. The research framework is based on a qualitative case study approach, which involved a document analysis of national laws, directives of the Central Bank, International Standards on Auditing (ISA) 315, 330, 500 and comparative analysis of audit practices in other countries, followed by expert interviews, that reveal the persistent gaps between regulatory intentions and audit reality. Key findings include: (1) institutional fragmentation and lack of coordination between the Accounts Chamber, Central Bank, commercial banks and external auditors; (2) common irregularities that remain undetected as a result of compliance-oriented audit procedures based on samples (transaction errors, misclassification of foreign exchange gains/losses, unauthorised transfers and delays in reporting); (3) major problems (legal conflicts between the national and international rules, inadequacies in auditor competence and technological constraints (manual systems, no data analytics)). The article suggests an integrated four pillar framework for reform, namely capacity building, legal harmonisation, audit process optimisation, and stakeholder coordination. Based on these results, an integrated four pillars framework for reform is proposed: capacity building (specialised certification, CPE); legal harmonisation (explicit ISA adoption, conflict resolution rules); optimisation of the audit process (model currency audit programmes, data analytics, AI assisted tools); and stakeholder coordination (inter agency platforms, shared databases, feedback mechanisms). It is action-oriented for regulators, audit firms and banks and applicable to other transition economies. Overall, the study provides empirical evidence for an under-researched area, and provides a blueprint for using local audit practice to international standards.

1. Introduction

Currency operations, foreign exchange trading, international settlements and capital movements are now important aspects of the national financial system, as markets become more globalised. Foreign exchange liberalisation is important for the process of foreign investment and integration of transition economies such as Uzbekistan into the world markets (Nesterenko & Kononov, 2022). But there are risks associated with liberalisation as well: exchange rate risk, unauthorised capital flight, money laundering, and misstatements in financial accounts.

The main tool to achieve transparency, compliance and risk mitigation is through auditing of currency operations. There exists an accepted framework for audit work, especially ISA 315 (risk assessment), ISA 330 (responses to assessed risks) and ISA 500 (audit evidence) that are internationally accepted. However, the implementation of ISA in emerging countries can frequently be on paper and not in practice (Eltweri et al., 2022). Despite the important regulatory reforms (the unification of exchange rates in 2017, the Law on Currency Regulation adopted in 2019) in Uzbekistan, the audit of currency operations has not been scaled up.

Research Gap: There are no empirical, ISA aligned studies of currency audit practices in Central Asian transition economies, which is discussed in the existing literature only from the viewpoint of the theory of currency regulation (Khasanboev, 2023) or developed country audit technologies (Kodete & Technology, 2021). This study questions that by answering the following question:

1. What are the current practices and institutional arrangements for auditing currency operations in Uzbekistan?
2. What irregularities commonly occur, and what challenges limit audit effectiveness?
3. How can currency audit practice be reformed to align with ISA and international best practices?

2. Theoretical and Regulatory Framework

2.1 Currency Operations: Definition and Risks

The goals of this unit are to define the term currency operations and outline the risks involved in handling them. The currency operations encompass current account and capital account operations, including trade, services, and transfers of income on one hand, and foreign direct investment, portfolio operations and loans on the other (Zadorozhnyi et al., 2018). They

impose transaction risk (exchange rate fluctuations), translation risk (translation of financial statements) and compliance risk (foreign exchange law violation) on entities. Such risks need to be tackled with strong procedures in the context of effective auditing.

2.2 International Standards on Auditing (ISA) for Currency Operations

There are three ISAs that make up the "backbone" of currency audit:

- **ISA 315 (Identifying and Assessing Risks):** Auditors need to have an understanding of the regulatory environment, internal controls, and foreign exchange activities of the entity. Some risks are related to the use of wrong exchange rate, unauthorised transfers and Central Bank reporting deadlines (Lubenchenko & Korinko, 2021).
- **ISA 330 (Auditor's Responses):** Requires that the auditor follow substantive procedures which include, but are not limited to, verifying foreign currency contracts, sending out third party bank confirmations, reconciling foreign currency accounts, and testing hedge accounting (Lani, 2018).
- **ISA 500 (Audit Evidence):** Focuses on sufficient and appropriate evidence in bank statements, SWIFT messages, exchange rate sources and regulatory filings (Meleschenko et al., 2020).

Furthermore, there are other ISAs that are relevant to ensuring the quality of the audit, such as ISA 230 (documentation) and ISA 530 (sampling).

2.3 National Regulatory Framework in Uzbekistan

The fundamental law is the Law on Currency Regulation (amended 2019) which lays the foundation for foreign exchange transactions, licence for conducting currency operations and Central Bank's supervisory role. The documentation and reporting requirements and anti-money laundering (AML/CFT) are addressed in Central Bank instructions. But there are still some disagreements between national accounting standards and IFRS/ISA and guidance for complex instruments (such as derivatives or cryptocurrency) is not available (WORK, 2024).

2.4 Global Practices and the Research Gap

Real time monitoring systems, data analytics and anomaly detection using AI, in developed countries (USA, UK, EU), are used for auditing currencies (Abikoye et al., 2024). In Central Asian countries, on the other hand, semi manual processes and compliance checklists are used (Muratshina, 2021). There have been very few empirical studies that focused on the implementation of ISA in this area. This study is intended to address this gap.

3. Research Methodology

To study the institutional practices in depth and with a qualitative approach, a qualitative case study design was used (Muxammadjanov, 2024; Nawaz & Ven, 2026).

Data Sources

Source Type	Specific Materials
Legal and regulatory documents	Law on Currency Regulation, Central Bank instructions (2019-2025), AML/CFT regulations, IMF Article IV reports.
Institutional reports	Annual reports of three large Uzbek commercial banks, Accounts Chamber audit summaries, Central Bank inspection findings (2022-2025).
Expert interviews	12 semi-structured interviews: 6 external auditors (from 4 firms), 4 internal audit managers (from 3 banks), 2 academic specialists in accounting. Conducted 2024-2025, recorded and transcribed.
Secondary case materials	Anonymised summaries of audit findings related to currency irregularities (provided by regulators under confidentiality).

Analysis: Thematic analysis (deductive – inductive approach). Themes for deductive were generated through ISA requirements while the themes for inductive were generated from the textual data. Triangulation between sources increased the validity.

4. Findings

4.1 Current Practices and Institutional Structure

The roles of the institutional actors are:

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- **Council Tax Committee:** Examines and decides on Councils tax and other bills. The frequent reports include inadequate internal controls, insufficient documentation of international payments and late reconciliations (Quwanishbaevna, 2025). But it does not have any authority over private banks.

- **Central Bank:** Makes directions and carries out compliance inspections. Indirect communication with external audit firms (through circulars), with some restriction on risk assessment that can be done in a coordinated way. There was no formalized way to communicate the results of inspections with auditors (Khamdamov et al., 2024).
- **Internal audits by commercial banks** (currency operations) are generally ignored and are not conducted with specialised risk based procedures. Resource constraints, compliance checklists, limited training and pressure to focus on compliance checklists are all issues that internal audit units struggle with.
- **External audit firms:** Mainly rely on documents provided by their client, and seldom get access to the client's supervisory risk evaluations. Audit programmes are often reproduced from the previous year's programmes, without adjustment for currency specific risks.

Key finding: Lack of mandates integration and coordination within institutions - reduces the effectiveness of auditing.

4.2 Audit Process Observations

Comparison of current practice with ISA requirements:

Audit Phase	Observed Practice in Uzbekistan	in ISA Requirement	Gap
Planning & risk assessment	Generic checklists; currency risks not treated as separate high- risk area.	ISA 315: entity- specific, risk- based planning.	High
Materiality	Uniform thresholds; qualitative importance of regulatory breaches ignored.	ISA 320: performance materiality for high- risk areas.	High
Substantive procedures	Judgmental sampling (high- value transactions only); manual reconciliations; late detection of mismatches.	ISA 500: sufficient appropriate evidence; ISA 530: representative sampling.	Medium- High
Documentation	Incomplete working papers; lack of audit trail for exchange rate testing.	ISA 230: comprehensive, contemporaneous documentation.	Medium

Use of Semi-manual systems; no technology data analytics or AI tools. International best practice: continuous monitoring, Very High full population testing.

4.3 Common Irregularities

Analysis of regulatory summaries and audit reports revealed four recurring irregularity types:

Irregularity Type	Description	Example
Transaction errors	Wrong exchange rates applied; unrecorded or duplicated foreign currency payments.	Using closing rate instead of average rate for monthly revenue conversion.
Misclassification	Foreign exchange gains/losses recorded as operating income/expense instead of financial items.	Distorting operating profit and tax calculations.
Unauthorised transfers	Payments made without proper approval; management override of controls.	Late detection during bank reconciliation after funds transferred offshore.
Reporting gaps	Outdated exchange rates at reporting date; late submission of regulatory currency reports.	Submitting Central Bank reports 1- 2 months overdue.

These irregularities are not single instances, but are a recurring pattern in various entities and years, reflecting inadequate internal control and audit detection.

4.4 Major Challenges

Four overarching challenges emerged from triangulated data:

Challenge Category	Specific Issues	Consequence
Legal & regulatory	Frequent rule changes; conflicts between national law and IFRS/ISA; ambiguous classification of hybrid transactions (crypto, cross-border leasing).	Inconsistent application; auditor uncertainty.
Institutional coordination	No formal inter-agency data sharing; fragmented oversight; audit firms unaware of regulatory risk alerts.	Duplication, gaps, delayed detection of systemic risks.
Human resources	Shortage of auditors with specialised currency knowledge; limited CPE on ISA for foreign exchange; no specialist certification.	Audit quality suffers; reliance on outdated procedures.
Technological	Manual or semi-automated accounting; no data analytics; no AI for anomaly detection; sample-based testing misses many errors.	Low detection rate for fraud and misstatements.

The challenges are all mutually reinforcing: lack of legal clarity lowers demand for training, poor coordination lowers investment in technology, technology gaps lead to manual sampling.

5. Strategic Reform Framework

Based on the gap analysis and international best practices, we propose an integrated four pillar reform framework for Uzbekistan.

Pillar 1: Human Capacity Building

Action	Implementation Steps	Responsible Bodies
Specialised certification	Create “Certified Currency Auditor” track in partnership with ACCA or IIA.	Ministry of Finance, Professional Audit Association
Mandatory CPE	Require annual 20 hours of currency-specific training for auditors of financial institutions.	Central Bank, Audit Oversight Board
In-house teams	Large audit firms and banks to establish dedicated currency audit units.	Audit firms, banks

Pillar 2: Legal Harmonisation

Action	Implementation Steps
ISA adoption	Amend Law on Currency Regulation to explicitly require compliance with ISA 315, 330, 500 for currency operations audits.
Conflict resolution rule	Specify that where national rules conflict with IFRS/ISA, the international standard prevails for financial reporting and audit.
Guidance notes	Issue interpretative guidelines for hybrid transactions (cryptocurrency, multi-stage trade finance).

Pillar 3: Audit Process Optimisation

Action	Description	Expected Benefit
Model currency audit programme	Standardised planning templates, risk checklists, and documentation forms reflecting ISA requirements.	Consistency, reduced omission risk.

Action	Description	Expected Benefit
Data analytics mandate	Require auditors to test full populations of foreign exchange transactions using software (e.g., ACL, IDEA, or custom scripts).	Higher detection of anomalies.
AI pilot	Pilot AI-assisted reconciliation and anomaly detection in 3- 5 large banks, then scale.	Real-time or near-real-time monitoring.

Pillar 4: Stakeholder Coordination and Governance

Action	Implementation Steps
Inter-agency working group	Monthly meetings of Central Bank, Accounts Chamber, Tax Committee, and audit professional bodies to share risk assessments.
Shared data platform	Secure, anonymised platform for currency transaction aggregates and regulatory findings accessible to authorised auditors.
Auditee feedback mechanism	Structured surveys and focus groups with audited entities to identify practical barriers to compliance and audit efficiency.

Implementation Roadmap (Suggested Timeline)

Phase	Time	Key Actions
Short-term (0- 12 months)	2026	Amend laws; form working group; issue guidance on hybrid transactions; launch CPE modules.
Medium-term (12- 36 months)	2027- 2028	Pilot model audit programme and data analytics in 5 banks; train 200 auditors; establish shared data platform.

Phase	Time	Key Actions
Long-term (3-5 years)	2029-2030	Full rollout of AI tools; specialist certification operational; continuous monitoring system.

6. Discussion and Conclusion

6.1 Contribution to Knowledge

This analysis, grounded in the method of ISA, is the first empirical analysis of currency operations auditing in the country of Uzbekistan and it is to a certain degree improving the comparatively limited body of literature on audit practices in Central Asian transition economies. The results of this study indicate that there is no direct link between formal adoption of ISA and substantive implementation of the regulation. Rather, this is because of institutional fragmentation and a lack of skills and technology.

The four-pillar framework transcends mere recommendations and includes specific, sequenced interventions, which are locally relevant. It is also transferable to other post liberalisation audit countries (such as Kazakhstan, Kyrgyzstan, Tajikistan) with similar problems.

6.2 Policy and Practical Implications

- For regulators: Prioritise inter agency coordination and shared data platforms. If not, even well-trained auditors are using information silos.
- For audit firms: Make investments in data analytics capabilities, and specialist teams of currency auditors. With the number of transactions and complexity, compliance checklist auditing is no longer enough.
- For commercial banks: Strengthen internal controls and internal audit independence. There are numerous irregularities that would be avoided in the lead up to external audit.
- For educators: Incorporate ISA application for currency operations in the curriculum of the university and professional exams.

6.3 Limitations and Future Research

Limitations

- Confidential audit working papers were not available and findings are based on the regulatory summaries and expert reports.
- The study is single country; there is a need to replicate to achieve generalisation.

- Limited to 12 experts: a larger survey might be able to provide quantitative information about the prevalence of issues.

Future Research Directions

1. Longitudinal case studies to monitor implementation of proposed reforms in selected banks.
2. Comparative analysis of the situation in Uzbekistan and other Central Asian countries (Kazakhstan, Kyrgyzstan) identifying region specific and common challenges.
3. Quantitative research comparing the effects of the use of audit technology (data analytics / AI) and detection of currency irregularities.
4. Action research piloting the model currency audit programme in collaboration with a local audit firm.

6.4 Conclusion

Financial stability risks arise when currency markets are liberalized without the improvement of the audit system. In the field of currency audit, commendable regulatory steps have been taken in Uzbekistan, but the practice of currency audit is still behind national and international best practices and the requirement of the ISA. This article lays out the current situation, exposes systemic irregularities and difficulties and offers a four-pillar framework for reforming the system. Uzbekistan can adopt the recommendations for currency audit system based on international standards by implementing the following steps: capacity building, process optimisation and legal harmonisation, and coordination of the stakeholders, which will contribute to an increase in financial transparency and sustainable economic integration.

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