JOURNAL OF INTERNATIONAL SCIENTIFIC RESEARCH
Volume 4, Issue 9, October-November 2026 Online ISSN: 3030-3508
https://spaceknowladge.com

THE ROLE OF INTERNAL AUDIT IN PREVENTING FINANCIAL ERRORS AND FRAUD IN COMMERCIAL BANKS OF UZBEKISTAN

Abdulazizov Shuxratjon Botirjon o'g'li
Senior lecturer, PhD, Tashkent State University of Economics
Ziyoda Xasanxo'ja qizi Ortiqxo'jayeva
Student, Tashkent State University of Economics

ИНФОРМАЦИЯ О СТАТЬЕ

ИСТОРИЯ СТАТЬИ:
Received:05.11.2026
Revised: 06.11.2026
Accepted:07.11.2026

КЛЮЧЕВЫЕ СЛОВА:
internal audit, financial errors, fraud prevention, commercial banks, internal control, risk management, Uzbekistan..

АННОТАЦИЯ:

Commercial banks process large volumes of transactions, which exposes them to both unintentional errors and deliberate fraud. This paper examines the role of internal audit in preventing and detecting financial errors and fraud in the commercial banks of Uzbekistan. The study uses a qualitative design based on international standards (the IIA Global Internal Audit Standards, Basel Committee guidance and ISA 240), recent empirical studies of the banking sector, the Central Bank's regulatory framework and two publicly reported cases. The review shows that auditor independence and audit quality are the main determinants of internal audit effectiveness, and that an effective internal audit function is associated with lower fraud and faster detection. In the ACFE's 2024 global study, organisations with an internal audit department had a 43% lower median fraud loss and detected fraud twice as fast as those without one. In Uzbekistan, Regulation No. 3302 of 2021 gives the internal audit service an independent mandate and direct reporting to the supervisory board, and the Central Bank's Roadmap for 2025–2028 extends internal audit to outsourced services. The cases of Trastbank and Xalq Bank show that internal audit can uncover misconduct and trigger legal action. The paper concludes that internal audit is most effective as part of a wider control system and recommends risk-based and data-driven auditing, systematic follow-up of findings,

and coverage of outsourced and digital operations.

INTRODUCTION

Commercial banks attract funds from depositors and use them to provide loans and make investments, thereby connecting savers with borrowers and contributing to the efficient allocation of financial resources [1]. Because banks process large volumes of transactions and financial information, the accuracy and reliability of these processes are critical. Errors and fraudulent activities can weaken a bank's financial position and reduce the confidence of customers, investors and supervisors. International auditing standards distinguish between the two problems by intent. Under ISA 240, fraud is an intentional act involving the use of deception to obtain an unjust or illegal advantage, and the distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional[2]. Errors may arise from incorrect accounting entries, human mistakes or system failures, whereas fraud may be committed by employees, customers or third parties. The scale of the problem is significant: the Association of Certified Fraud Examiners (ACFE) analysed 1,921 cases of occupational fraud in 138 countries and territories, with total losses of more than USD 3.1 billion and a median loss of USD 145,000 per case; banking and financial services accounted for 305 of these cases, with a median loss of USD 120,000[3].

Internal audit is one of the main safeguards against these risks. According to the Global Internal Audit Standards of the Institute of Internal Auditors (IIA), effective from 9 January 2025, internal auditing strengthens the organisation's ability to create, protect and sustain value by providing the board and management with independent, risk-based and objective assurance, advice, insight and foresight[4]. The Basel Committee on Banking Supervision similarly expects the internal audit function of a bank to be independent, competent and adequately resourced, to plan its work on a risk basis, and to report to the board or its audit committee[5]. The topic is also relevant to current reforms in Uzbekistan. In November 2025 the Board of the Central Bank approved a Roadmap for further enhancing the bank regulation and supervision system for 2025–2028, based on the recommendations of the first IMF–World Bank Financial Sector Assessment Program (FSAP) for the country. Its priorities include improving requirements for corporate governance and risk management in banks and fully implementing risk-based supervision [6; 7]. The objective of this paper is therefore to assess how internal audit contributes to preventing and detecting financial errors and fraud in Uzbek commercial banks and which factors determine its effectiveness.

METHODOLOGY

The study uses a qualitative design that combines document analysis with a structured review of the literature. Four groups of sources were analysed: (i) international standards and

guidance, namely the IIA Global Internal Audit Standards[4], the Basel Committee guidelines on the internal audit function in banks[5] and ISA 240[2]; (ii) peer-reviewed empirical studies of internal audit in the banking sector published in 2023–2024 with a clearly described sample and method [8–10], complemented by the ACFE's global study as a quantitative benchmark[3]; (iii) the national regulatory framework, namely Central Bank Regulation No. 3302 on requirements for internal audit of commercial banks[11] and the Roadmap for 2025–2028[7]; and (iv) publicly reported cases of irregularities at Trastbank and Xalq Bank[12]. The sources were compared using a framework of three internal-audit roles: prevention (assessing the design and operation of controls), detection (identifying irregularities) and correction (follow-up of identified weaknesses). The study relies on secondary data and does not include surveys, interviews or access to banks' internal records. The empirical studies come from other countries, and the cases are based on official statements and media reports, so they are used as illustrations rather than as representative evidence.

RESULTS

Khanam studied internal audit effectiveness using 152 survey questionnaires collected from 43 privately owned and 6 state-owned commercial banks in Bangladesh. Structural equation modelling showed that internal auditor independence and internal audit quality had a significant effect on internal audit effectiveness, whereas auditor competence and management support did not have a significant effect[8]. This result is consistent with the Basel Committee's emphasis on independence and on the authority of the internal audit function within the bank[5]. It suggests that formal qualifications alone are not sufficient: an auditor must also be organisationally independent of the activities being audited and must apply a high-quality, risk-based methodology. The empirical studies summarised in Table 1 show a consistent association between internal audit and lower fraud.

Table 1.

Empirical evidence on internal audit and fraud in banks

Study	Data and method	Main finding
Khanam (2024), Bangladesh [8]	152 questionnaires; 49 commercial banks; structural equation modelling	Independence and audit quality significantly affect internal audit effectiveness; competence and management support do not.
Baqir and Sulhani (2023), Indonesia [9]	53 observations from annual reports of Islamic banks, 2010–2019; regression analysis	Effectiveness of the internal audit function reduces fraud; corporate governance has no significant effect on fraud.

Study	Data and method	Main finding
Lukman and Chariri (2023), general banking [10]	Questionnaires from 78 internal auditors; statistical analysis in SPSS	The role of internal auditors has a significant effect on both fraud prevention and fraud detection.

Source: compiled by the authors on the basis of[8–10].

The ACFE's global data provide a broader benchmark (Table 2). Internal audit was the initial detection method in 14% of fraud cases, after tips (43%) and ahead of management review (13%) and external audit (5%). Organisations with an internal audit department had a median fraud loss of USD 120,000 compared with USD 210,000 in organisations without one, and the median duration of the fraud was 12 months instead of 24 months. At the same time, a lack of internal controls was the primary weakness in 32% of cases[3].

Table 2.

Internal audit and occupational fraud: global evidence, 2024

Indicator	With internal audit department	Without internal audit department	Difference
Median loss per fraud case, USD	120,000	210,000	–43%
Median duration of fraud, months	12	24	–50%

Source: ACFE, Occupational Fraud 2024: A Report to the Nations [3].

The legal basis for internal audit in Uzbek banks is the Regulation on requirements for internal audit of commercial banks, adopted by Decision No. 3/2 of the Central Bank Board of 16 April 2021 and registered by the Ministry of Justice on 7 May 2021 under No. 3302[11]. The Regulation establishes that the internal audit service is independent of the bank's audited activities and management and reports directly to the supervisory board and its audit committee (clause 5). The service must independently analyse and assess the bank's internal control, risk management and corporate governance systems, covering all operations and structural units (clauses 18–19), develop proposals for improving the bank's operations and submit them to the board or audit committee (clause 26), submit audit reports directly to the board or audit committee (clause 48), and monitor the elimination of deficiencies and violations identified during audits (clause 50)[11]. The Regulation therefore covers all three roles of internal audit: prevention, detection and correction.

The Roadmap for 2025–2028 develops this framework further. It envisages amending Regulation No. 3302 so that services and operations outsourced by banks are subject to internal audit reviews, amending the corporate governance regulation to require a risk

management committee in systemically important banks, and adding provisions on the assessment of banks' operational resilience and third-party risks to supervisory practice[7]. Two publicly reported cases illustrate the detection role of internal audit. According to Trastbank's official statement, an inspection by the bank's internal audit service found that in January–April 2021 the former chief accountant of the Termez branch had made unlawful transfers from some customers' accounts without primary documents. The bank referred the materials to the Surkhandarya regional prosecutor's office on its own initiative, the chief accountant was dismissed and prosecuted, the employment contracts of five other employees responsible for oversight, including the branch manager, were terminated, and on 11 November 2022 the appellate court ruled that the defendants must compensate the damage caused to customers and the bank[12]. In the second case, the Syrdarya regional department of the State Security Service, together with specialists from Xalq Bank's internal audit and internal control and compliance departments, identified the misappropriation of UZS 3,828.4 million of budget funds at the bank's Khavast branch in 2020–2023 through forged or missing documents and false information. A criminal case was opened under Article 167 of the Criminal Code, and a responsible employee was detained[13].

DISCUSSION

The results confirm that internal audit can reduce the risk of financial errors and fraud, but its effect depends on how it is organised. First, the evidence from Bangladesh indicates that independence and audit quality matter more than formal competence[8]. In Uzbekistan the structural conditions for independence are already set out in Regulation No. 3302, which requires direct reporting to the supervisory board and audit committee[11]. The main challenge is therefore the quality of audit work: risk-based planning, a sufficient sample of transactions, and the use of data analytics. Second, the ACFE data show that internal audit is the initial detection method in only 14% of cases, while tips account for 43%[3]. Internal audit is therefore most effective when it does not work alone but also tests the bank's whistleblowing channels, continuous monitoring and first-line controls. The finding that a lack of internal controls was the main weakness in about one-third of cases supports the view that the preventive role of internal audit, namely the assessment of control design, is as important as the detection of individual irregularities.

Third, the Uzbek cases show both the value and the limits of internal audit. In both cases misconduct was uncovered and led to legal action, which is consistent with the detection role found in the Indonesian and general banking studies[9; 10]. However, the irregularities continued for several months at Trastbank and over several years at Xalq Bank before they were identified[12; 13], which is in line with the ACFE's median fraud duration of 12 months[3]. This suggests that basic controls such as authorisation of transactions, segregation of duties and document verification did not operate effectively at the branch level, and that the follow-up of audit findings required by clause 50 of Regulation No. 3302 is crucial for

preventing similar cases. Finally, the growth of digital banking and outsourcing creates new risks. The Roadmap's requirement to extend internal audit to outsourced services[7] responds to this trend. The limitations of the study should also be noted: the empirical evidence comes from other countries and partly from survey data, and the Uzbek cases rely on a bank's own statement and a media report. Further research using data from Uzbek banks would allow the effect of internal audit to be measured directly.

CONCLUSION

This study shows that internal audit contributes to preventing financial errors and fraud in commercial banks by assessing internal controls, detecting irregularities and ensuring that identified weaknesses are corrected. Its effectiveness depends above all on independence and audit quality. Uzbekistan's regulatory framework already provides for an independent internal audit service with direct reporting to the supervisory board, and the Roadmap for 2025–2028 extends its scope to outsourced operations. To strengthen this role, commercial banks in Uzbekistan should, first, apply risk-based audit planning that gives priority to branches, cash and account operations and other high-risk areas; second, introduce continuous auditing and data analytics to identify unusual transactions, such as transfers without supporting documents, at an early stage; third, systematically monitor the implementation of audit recommendations and report unresolved issues to the audit committee; and fourth, extend internal audit to outsourced services and digital channels in line with the Roadmap. Internal audit is an important part of a wider internal control and risk management system rather than a complete solution to financial errors and fraud on its own.

REFERENCES

1. Melicher, R. W., & Norton, E. A. (2016). *Introduction to Finance: Markets, Investments, and Financial Management* (16th ed.). Hoboken, NJ: Wiley.
2. International Auditing and Assurance Standards Board. (2024). ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements. In *Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2023–2024 Edition*, Vol. I. New York: IFAC.
3. Association of Certified Fraud Examiners. (2024). *Occupational Fraud 2024: A Report to the Nations*. Austin, TX: ACFE.
4. The Institute of Internal Auditors. (2024). *Global Internal Audit Standards*. Lake Mary, FL: IIA. https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/
5. Basel Committee on Banking Supervision. (2012). *The internal audit function in banks*. Basel: Bank for International Settlements. https://www.bis.org/publications/201206-guidelines-internal-audit-function-banks.pdf

6. Central Bank of the Republic of Uzbekistan. (2025, November 18). “Roadmap” for further enhancing the bank regulation and supervision system for 2025–2028 [Press release]. https://cbu.uz/en/press_center/news/3049875/

7. Central Bank of the Republic of Uzbekistan. (2025). *Roadmap aimed at further improving the bank regulation and supervision system in 2025–2028*. https://cbu.uz/upload/medialibrary/5d0/g24jiu5hub25yew2aiihdzwc964sjz1q/FSAP-Roadmap_Eng-17.11.2025_.pdf

8. Khanam, Z. (2024). Effectiveness of internal auditing from the lens of internal audit factors: Empirical findings from the banking sector of Bangladesh. *Journal of Financial Crime*, 31(6), 1467–1484. https://doi.org/10.1108/JFC-11-2023-0299

9. Baqir, N., & Sulhani. (2023). Corporate governance, effectiveness of internal audit function and fraud in Islamic banking in Indonesia. *Asia Pacific Fraud Journal*, 8(1), 77–84. https://doi.org/10.21532/apfjournal.v8i1.272

10. Lukman, R. P., & Chariri, A. (2023). The role of internal auditors in fraud prevention and detection: Empirical findings from general banking. *Diponegoro Journal of Accounting*, 12(1).

11. Central Bank of the Republic of Uzbekistan. (2021). Regulation on requirements for internal audit of commercial banks (registered by the Ministry of Justice on 7 May 2021, No. 3302). https://www.lex.uz/en/acts/-5431666

12. Trastbank. (2022, November 26). *Rasmiy munosabat: mijozlarga yetkazilgan moddiy zarar to‘liq qoplab berilgan* [Official statement: Material damage caused to customers has been fully compensated]. https://trustbank.uz/uz/press_center/news/rasmiy-munosabat-mijozlarga-yetkazilgan-moddiy-zarar-to-liq-qoplab-berilgan/

13. UzA. (2023, March 3). *DXX: “Xalq banki”ning Xovos filialida 3,8 mlrd so‘m talon-taroj qilinganligi aniqlandi* [SSS: Misappropriation of UZS 3.8 billion identified at Xalq Bank’s Khavast branch]. https://uza.uz/ar/posts/dhh-halq-bankining-hovos-filialida-38-mlrd-som-talon-torozh-qilinganligi-aniqlandi_459368