



Article

Principles and Methods of Internal Audit in Commercial Banks

Kuzibayev Umid Maxsitaliyevich*¹

1. Independent researcher of the Fergana State Technical University

* Correspondence: umidjonquzibayev1987@gmail.com

Abstract: For the effective functioning and preservation of the competitiveness of commercial banks in the modern economy, it is necessary to conduct thorough monitoring and control of their activities. This process, known as an audit, allows for the assessment of the bank's condition and the identification of potential problems. In this regard, this article is devoted to the study of the main aspects of organizing internal audit in commercial banks and discusses its significance. At the end of the study, the author presents his conclusions and proposals on ways to improve the organization of internal audit in commercial banks.

Keywords: Internal Audit, Commercial Banks, Risk Management, Internal Control, Financial Reporting, Audit Standards, Banking Sector, Digital Technologies, Artificial Intelligence

1. Introduction

The main task of economic transformations in Uzbekistan is the creation of a stable market economy. As reforms gain momentum, the importance of commercial banks in the economic development of the state increases.

In accordance with the Decree of the President of the Republic of Uzbekistan dated September 11, 2023, No. PF-158 "On the "Uzbekistan-2030" Strategy," the main directions of state development have been defined [1].

One such vector is the continuation of development and easing of restrictions in the economy, including strengthening the banking sector and ensuring its stability. In such a dynamic situation, it becomes increasingly difficult for the bank to maintain a risk management program (compliance program) that successfully identifies, analyzes, and mitigates risks.

Internal control and audit tools are effective mechanisms aimed at minimizing risks. Internal control ensures justified confidence in the organization's achievement of the following results:

- a. productive work, including the safety of property;
- b. reliable financial reporting;
- c. compliance with all applicable laws and regulations.

Internal audit, in turn, is aimed at monitoring and analyzing internal control processes, as well as managing corporate governance risks to ensure their effectiveness.

Banking institutions as a whole strive to achieve success and excellence at the financial, administrative and competitive levels, therefore they pay attention to the quality

Citation: Maxsitaliyevich, K. U. Principles and Methods of Internal Audit in Commercial Banks. Central Asian Journal of Innovations on Tourism Management and Finance 2025, 6(3), 1091-1096.

Received: 31st May 2025

Revised: 15th Jun 2025

Accepted: 25th Jun 2025

Published: 07th Jul 2025



Copyright: © 2025 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>)

of their services in such a way that it satisfies the community and beneficiaries, criteria of sustainable strategic financial thinking [2].

To minimize risks in the banking sector, it is necessary to strengthen the monitoring and audit system. Control is the foundation that contributes to achieving key goals: effective functioning, preservation of assets, proper accounting of funds, compliance with legislation and established norms [3]. Audit is an analysis of the risk management and control system to ensure its effective functioning in the bank.

Internal audit allows for regular monitoring and assessment of all ongoing activities in the field of internal control, as well as risk management. Such monitoring is important for the effective implementation of internal control in a commercial bank [4].

In recent years, there has been significant progress in the field of internal audit in the banking sector in Uzbekistan. Representatives of various non-governmental and non-profit organizations, including the Audit Chamber of Uzbekistan and the Association of Professional Accountants and Auditors, are actively participating in this process.

Cooperation with these organizations contributes to the implementation of audits in accordance with international standards. It should be noted that the organization and conduct of internal audit in banking institutions represents one of the key elements of the system. Internal control and audit serve as additional tools aimed at reducing risks.

It is very important to define the principles and methods of internal audit in commercial banks, as well as to clearly define the rights and obligations of regulatory bodies. It is also necessary to define the tasks and functions of both state and public auditors. This will allow for the formation of a comprehensive system of regulatory documents that will regulate the internal audit of commercial banks in Uzbekistan.

Internal audit in banks is a key tool for monitoring and evaluating the effectiveness of a financial institution. All processes in the bank must be carried out in accordance with the requirements of internal audit, which must be completely independent.

The structure of the internal audit function can vary depending on the scale of the bank's activities. However, regardless of size, an effective internal audit service has common features. That is why auditing should be based on universal principles applicable to all organizations, although it may have different consequences in each specific case.

To improve the internal audit system in commercial banks, it is necessary to more actively use methods and tools that contribute to the effective management of financial resources. In the process of managing commercial banks, special attention is paid to direct and indirect control. The Central Bank closely monitors the financial and economic activities of commercial banks and their branches.

From the above, it becomes clear how important it is to effectively manage commercial banks and develop effective measures aimed at increasing their financial competitiveness. This task requires the joint efforts of both the scientific community and the specialists working in practice. This problem is especially acute for banks, which need to form a reliable internal audit system. One of the key elements of this system should be internal audit, which will allow for the timely identification and elimination of potential threats at the earliest stages.

Literature Review

In 1941, the Institute of Internal Auditors appeared in the USA, which became the basis for the development of internal audit in the banking sphere. This event marked the beginning of a professional approach to internal audit [5]. Internal audit has become a powerful tool for ensuring management stability and efficiency [6].

Internal audit is an important tool for stable management. Hammadi and Sultan [7] analyze the role of internal audit and its effectiveness in government organizations, particularly in the banking sector. During the study, shortcomings were identified, errors were corrected, and the effectiveness of the work was assessed.

According to the definition of the Russian scientist T.A. Miroshnichenko, "Internal audit is not only a comprehensive study of the financial and economic activities of an economic entity, but also the development of proposals for optimizing its business activities, rationalizing costs and increasing profits, as well as providing consulting services to management" [8].

We believe that the main purpose of internal audit in banks is to ensure the adoption of sound decisions and to monitor the results of work. It is crucial that the internal audit is independent and encompasses all aspects of the bank's operations.

Audit activity has deep historical roots, which go back centuries. The first mention of it can be found in China, where, around 2000 BC, there were already specialists engaged in auditing financial statements [9].

In those times, auditors were independent and responsible for their work and profession. They played an important role in state and family affairs.

With the development of industry, there was a need to create a unified system of accounting and independent auditing for companies and institutions. However, in the mid-19th century, auditing was expensive and ineffective [10].

Currently, the internal audit process is carried out by the organization's auditors, who are officials in terms of quality, that is, they evaluate the organization's work using a set of standards within the framework of management and improving the quality and quality of services provided [11].

The Internal Audit Institute can be defined as an independent and objective activity with a structured approach to assessing and improving management effectiveness, risk management, and control processes [12; 13].

In conclusion, internal audit is a procedure that includes elements of verification and provision of recommendations. It can be carried out both within the company and with the involvement of external specialists on the basis of outsourcing. During this work, an analysis of the internal control system is carried out, including an assessment of its effectiveness and compliance with the set goals.

2. Materials and Methods

This article is devoted to the study of the principles and methods of internal audit in commercial banks. The scientific work of experts in this field was taken as a basis, as well as relevant regulatory documents. Various methods were used in the research process: data analysis and processing, generalization, systematization, induction and deduction, as well as logical thinking.

3. Results and Discussion

In the realm of commercial financial institutions, the internal audit process is founded on the principle of impartiality, ensuring unbiased decision-making. This approach allows for a high level of professionalism and quality in conducting audits. The integrity of the audit process is crucial, as it must be free from external influences and pressures. Only under such circumstances can the effectiveness and credibility of audits be ensured.

Some experts view internal audit as a vital instrument for assessing and enhancing the performance of a commercial bank. Particular emphasis is placed on scrutinizing the control and risk management systems, as well as the specifics of various banking operations. To foster the growth of the internal audit system in commercial banks, it is essential to fulfill a series of essential prerequisites:

- a. The internal audit team or external auditors may not always be able to identify all potential risks and assess their potential impact on the bank's operations. In such cases,

the bank is unable to conduct a risk assessment in accordance with established procedures and properly evaluate the internal control system.

- b. At first, the shortcomings may appear to be minor and not have a significant effect on the bank's operations. However, if they are not promptly addressed, they can become systemic and cause serious issues for both the bank and its clients.
- c. It is crucial that the internal audit is conducted at the same frequency as the risk assessment. The Internal Audit Department scrutinizes all aspects of the bank's operations and examines numerous operational processes.

Thirdly, when evaluating risks, complications may arise if the task is tackled without a systematic approach and without the use of specialized tools. The risks may be dispersed, and their intricacies may be difficult to fully comprehend. If the information about risks is not consolidated, it will be challenging to discover novel methods for enhancing the effectiveness of a commercial bank.

A risk assessment plan typically encompasses various facets of operations, processes, and products. However, it is crucial to also examine how the bank upholds the rights of its customers. This area is frequently neglected, which can result in a limited evaluation of the objectivity and comprehensiveness of the customer rights program. The examination of the customer rights program enables the assessment of the level of control culture that is essential for consistent adherence to requirements.

The approach to conducting an internal audit in a commercial bank involves developing a comprehensive plan. Auditors can employ separate risk-based procedures, but not all aspects can be fully and accurately assessed.

In a commercial bank, there are specific areas of operation that require regular risk assessments and annual audits. It is essential to conduct these checks in accordance with a pre-established plan. This approach minimizes the risk of subpar audits and enhances the efficiency of banking operations.

In this context, selecting a risk management strategy is paramount. The integration of modern digital technologies into the internal audit process enhances the likelihood of achieving superior outcomes and minimizing errors [14].

There are numerous software tools available in the market that enable the automated creation of standard and sophisticated risk assessment reports as part of the internal audit process for banks. These reports assist in identifying the most crucial products for a commercial bank and pinpoint additional functions that impact its operations [15].

During the audit, potential issues with the bank's credit or deposit policies may be uncovered. Consequently, a report is generated that outlines all the weaknesses and areas affecting the loan or deposit portfolio. These reports aid in identifying problems and enhancing the bank's performance. However, the internal audit process may not always prioritize document analysis, which can result in significant errors.

The process of monitoring various operations is aided by documents, but the findings must be recorded in a dedicated log. Analyzing documents enables the identification of discrepancies, the interpretation of data, and the comprehension of how the outcomes impact the operations of a financial institution.

The effectiveness of the internal audit service is significantly influenced by the thoroughness of the verification of all relevant documentation.

To sum up, it is crucial to acknowledge that internal audit is a vital component for financial institutions, regardless of their size or the nature of their operations. It serves as a tool for ongoing risk assessment and enhancement of the internal control framework. The advancement of internal audit within financial institutions is a fundamental objective, as it contributes to the maintenance of their competitiveness in the market. The success of financial management within a bank is heavily reliant on the sophistication of its internal audit methodology.

4. Conclusion

Thus, regardless of the volume of assets of commercial banks and the complexity of banking operations, the principles and methods of internal audit directly play a key role in risk management. In this regard, it will be aimed at the continuous improvement of internal audit procedures and management methods.

In modern banking policy, the prospects for the development of internal audit are enormous. In the context of uncertainty and rapid changes in the requirements for guarantee provision by commercial banks, internal audit can have a significant impact and provide valuable services. However, for this, the internal audit must correspond to the pace of change.

Today, in the conditions of intensive activity of commercial banks, they face new problems. These are cyber threats, changes in legislation, and the transition to digital technologies. To effectively solve these problems, banks need to apply new methods of internal audit.

In our opinion, in such conditions, commercial banks should rely on scientific developments that can help solve these problems:

Use of artificial intelligence and digital technologies in the process of internal audit. Significant changes are taking place in the field of internal audit through the application of modern technologies. AI algorithms allow automatic transaction analysis, detection of suspicious transactions, and prevention of fraud. Also, predictive analysis based on historical data helps to assess risks and make rational decisions.

Use of constant audit and monitoring. The innovative approach consists in the use of automated tools for conducting internal audit and monitoring in real time. These tools allow for instant data analysis. When opening an account, control mechanisms such as KYC/AML verification are integrated into business processes, which provides reliable protection. As a result, timely detection of violations and reduction of regulatory risks are ensured.

Application of blockchain technology to ensure transparency in the internal audit process. Application of innovative methods: registration of transactions using distributed databases, which eliminates the possibility of data falsification. Smart contracts are used to automatically monitor compliance with the terms of the concluded contract. Advantages: increasing the trust of regulatory bodies and clients, simplifying the verification process.

As a result of the development of digital technologies in the banking sector, the growth of data volumes, and the strengthening of regulatory requirements, significant changes are taking place in the field of internal audit. The introduction of innovative solutions such as artificial intelligence, blockchain, and continuous audit allows for increased efficiency, accuracy, and predictability of control processes.

Also, in our opinion, promising areas of further research are:

- a. development of auditing standards for systems using artificial intelligence;
- b. adaptation of audit methods to the digital currencies of central banks.

These areas require further scientific study, especially in the field of ethics in the application of artificial intelligence and the harmonization of international audit practices.

REFERENCES

- [1] The President of the Republic of Uzbekistan, "On the 'Uzbekistan – 2030' Strategy," *Official Gazette*, Sep. 11, 2023. [Online]. Available: <https://lex.uz/docs/-6600413>
- [2] D. A. Kolesnikova, *The Economy of Attention in the Age of Mental Capitalism*. 2019.

- [3] K. U. Maxsitaliyevich, "Issues of Creating and Rationally Using the Internal Audit Service at the Enterprise," *Scientific Journal of Actuarial Finance and Accounting*, vol. 4, no. 08, pp. 265–271, 2024.
- [4] A. A. Daimbekova, "Optimization of the Approach to Conducting Internal Audits in a Commercial Bank," *Bulletin of the Kazakh-American Free University*, pp. 98–104, 2023.
- [5] S. Parker and L. A. Johnson, "The Development of Internal Auditing as a Profession in the US During the Twentieth Century," *Accounting Historians Journal*, vol. 44, no. 2, pp. 47–67, 2017.
- [6] U. B. Mexmonaliyev, "Improving Internal Control System," *Yashil Iqtisodiyot va Taraqqiyot*, vol. 1, no. 1, 2024.
- [7] D. S. Sultan and S. A. Hammadi, "Internal Auditing in Commercial Banks as a Tool to Assess Performance and Technique to Correct Variance," *Tanmiyat Al-Rafidain*, vol. 37, no. 117, pp. 109–118, 2018.
- [8] T. A. Miroshnichenko, *Audit: A Textbook. Part 1. Fundamentals of Auditing*, Novocherkassk: Kolorit, Don State Agrarian University, 2018, 163 p.
- [9] S. Ramamoorti, "Internal Auditing: History, Evolution, and Prospects," 2003.
- [10] R. Lenz and G. Sarens, "Internal Auditing Effectiveness: Multiple Case Study Research in Germany," *SSRN*, 2016.
- [11] L. Hut-Mossel, G. Welker, K. Ahaus, and R. Gans, "Understanding How and Why Audits Work: Protocol for a Realist Review of Audit Programmes to Improve Hospital Care," *BMJ Open*, vol. 7, no. 6, e015121, 2017.
- [12] J. Ramachandran, R. Subramanian, and I. J. Kisoka, "Effectiveness of Internal Audit in Tanzanian Commercial Banks," *British Journal of Arts and Social Sciences*, no. 8(1), pp. 32–44, 2012.
- [13] U. B. Mexmonaliyev and O. G. Erkinjon, "Current Issues of the Development of Internal Audit," *University Research Base*, pp. 810–811, 2024.
- [14] P. O. Gavrys, M. O. Gavrys, and O. M. Gavrys, "Features of Risk Management and Organization of Internal Audit at Industrial Enterprises," *Business Inform*, no. 9(512), pp. 128–135, 2020.
- [15] Institute of Internal Auditors, "Standards for the Professional Practice of Internal Auditing," IIA, USA. [Online]. Available: <https://www.theiia.org/en/standards/>