



TITLE: IMPROVING ACCOUNTING AND INTERNAL AUDIT OF REVENUES AND EXPENDITURES IN BUDGETARY ORGANIZATIONS: INTERNATIONAL EXPERIENCE AND DIGITAL TRANSFORMATION IN UZBEKISTAN

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ABSTRACT

This research investigates the modernization of internal audit and accounting systems in Uzbekistan's public sector, aligned with the Fiscal Strategy for 2026–2028. [1] The rapid expansion of budget expenditures—which are expected to reach 484.7 trillion UZS by 2028—requires a shift from human oversight to Artificial Intelligence (AI) and FinTech-driven "Smart Auditing," even with a "B+" PEFA rating. [2] The study suggests a strategy roadmap that includes a new Law on Internal Control [4] and a Digitization Concept [5] by examining data from 15 ministries [3] and sectoral spending trends in infrastructure and education. According to the results, digital integration can guarantee 100% transaction transparency and increase spending efficiency by 25–30% [6].

KEYWORDS: Fiscal Strategy 2026-2028, Internal Audit, Public Finance, AI, FinTech, PEFA Rating, Fraud Detection, Budgetary Organizations.

1. INTRODUCTION

In Uzbekistan, the strategic transformation of public financial management is at a turning point. Ensuring accountability and openness in the use of public finances is a high concern, according to the national development goals for 2025–2030 (Cabinet of Ministers, 2024). The state budget is expected to grow substantially, with a revenue target of 408.9 trillion UZS by 2026 [1]. As a result, auditing these monies will become more difficult. Even though they are fundamentally sound, traditional internal auditing techniques are no longer adequate to reduce the hazards of modern corruption and systemic inefficiencies. This paper contends that the development of the "Digital Audit" model in Uzbekistan depends on the integration of AI and FinTech technologies, which are backed by the Fiscal Strategy for 2026–2028.

Table 1. Analysis of state budget expenditures by budget levels, trln som

[Fiscal Strategy 2026-2028,2024/60]

	Execution		Parameter	Forecast		
	2023	2024	2025	2026	2027	2028
State budget	281.1	310.9	344.8	408.9	468.3	532.9
Republic budget	179.4	224.1	263.2	319.4	373.7	432.2
Local budgets	101.7	86.8	81.6	89.5	94.5	100.7



The analysis of Table 1 shows that from 2023 to 2028, the state's total expenditures are expected to increase by 1.8 times (from 281.1 trillion to 532.9 trillion soms). This growth rate is significantly higher than that of the Republic budget (2.4 times) and the local budget (0.9 times). From an auditing perspective, it is precisely the sharp increase in the Republic budget's expenditure volume that limits the possibility of control through the human factor. Therefore, the AI audit system proposed in the article allows for the control of this largest expenditure block in real time.

2. LITERATURE REVIEW

Technology-driven auditing is becoming more and more popular worldwide. Big Data analytics enable auditors to transition from sample-based testing to thorough 100% population analysis, according to Appelbaum et al. (2018). Heald (2023) points out that digital platforms lessen the information imbalance between the state and its citizens in the context of public sector accountability [9]. Moreover, AI-driven "Fraud Detection" is especially successful in high-volume social payment systems, according to Issa and Kogan (2021) [11]. These ideas are supported by Uzbekistan's current course, which aims to automate internal control processes in order to raise its PEFA rating from "B+" to "A" (Fiscal Strategy 2026-2028, 2024).

3. METHODOLOGY

A combination of techniques is used in this research. It is also used for qualitative analysis of the newly proposed "Concept for Improving Internal Control Systems (2025–2027)", and more than 10 existing regulatory papers [1]. The financial predictions for 2026–2028 made by the Ministry of Economy and Finance are subjected to quantitative analysis [5]. To pinpoint useful gaps in the existing system, the study also includes a comparative analysis of the internal audit performance of 15 ministries carried out in 2024 [3].

Table 2. Total expenditures on state programs and events, trln som

[Fiscal Strategy 2026-2028,2024/67]

	Execution		Parameter	Forecast	Target	
	2023	2024	2025	2026	2027	2028
Total expenses*	15.4	26.6	23	33.3	36.2	38
<i>From that:</i>						
1. Education	4.1	5	6	5.5	7	7.5
1.1 Preschool and school education	2.1	2.2	2.8	3.2	3.7	4.3
1.2 Higher and secondary vocational education	2	2.8	3.2	2.3	3.2	3.3
2. Science	1.4	1.8	2	2.1	2.5	2.7
3. Health Care	1.4	2.1	2.5	2.8	3.4	3.7
4. Culture	0.6	0.6	0.8	0.6	0.7	0.8
5. Sports	0.6	0.9	0.7	0.7	0.8	0.9



6. Resources for commercial banks for the housing program				12.8	12	11
7. Other social protection measures	0.3	0.5	0.6	0.8	1	1
8. Entrepreneurship and ensuring population employment	0.6	0.6	0.7	0.6	0.7	0.8
9. Agriculture and water management, ecology and environmental protection	0.9	0.9	1.5	1.4	1.6	1.9
10. Economy	1.1	1.7	1.9	1.7	1.6	1.7
11. Others	4.6	12.4	6.1	4.4	5.1	6.1

* Without subsidies

Table 2 shows the analysis and forecasts of expected expenditures for the period 2023–2028. The overall trend is a significant increase in the government's investment in social sectors, particularly education and housing programs. Additionally, total expenses are expected to rise from 15.4 trillion in 2023 to 38 trillion by 2028. This represents an increase of more than 2.5 times. The largest jump is observed in the transition from 2025 to 2026 (from 23 to 33.3), and this is certainly attributed to the education sector.

Housing program: As of 2026, it entered the schedule with a very large figure (12.8 trillion). This indicates that in that year, the economy placed a strong emphasis on supporting housing construction and commercial banks. In the following years, this spending is expected to be slightly reduced.

The social and health care sectors rank next in budget expenditures. Of course, Health Care: steady growth is expected (from 1.4 trillion to 3.7 trillion). This sector is expected to expand 2.6 times over the next five years, and spending on Science will also nearly double (from 1.4 trillion to 2.7 trillion), which certainly reflects the focus on innovation.

Moreover, other significant changes Economy and Agriculture: There were no drastic jumps in these sectors, but steady growth (approximately 1.5-2 trillion times) was maintained.

In the 'Others' category, an unusually high figure (12.4 trillion) was recorded in 2024, indicating that some unexpected major project or emergency expenditure was carried out that year, as this figure drops back to 6.1 trillion starting in 2025.

As the table shows, the state policy considers the financing of "Human Capital" (Education + Healthcare) and "Social Infrastructure" (Housing) to be a priority. In



particular, 2026 is planned to be a turning point for economic reforms and housing provision.

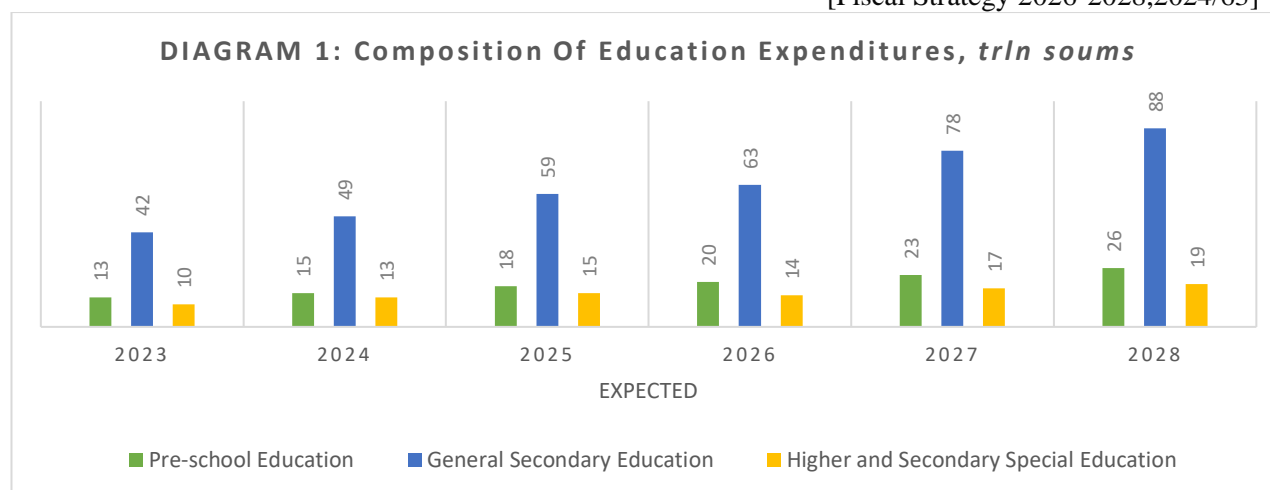
And these indicators increase the demand for further improvement of internal audit.

4. SECTORAL ANALYSIS OF BUDGETARY EXPENDITURES (2023-2028)

The **Fiscal Strategy for 2026–2028** outlines massive investments in social and economic sectors. Analyzing these trends is vital for designing effective audit algorithms. The following charts show and analyze the expenditures with the highest allocations from the state budget.

5.1 Education Sector Analysis

[Fiscal Strategy 2026-2028, 2024/63]



This chart shows the composition of education expenditures and their change dynamics from 2023 to 2028 (in trillions of soums). The figures for 2025-2028 are projections (expected). As the chart shows, the funds allocated for all levels of education are growing steadily year-over-year. Total expenditures are expected to increase from 65 trillion won in 2023 to 133 trillion won by 2028 (an almost twofold increase).

General secondary education (schools): accounts for the largest share. Expenditures are rising from 42 trillion won to 88 trillion won. This indicates the government's primary focus on developing school education, and the largest growth is projected for the period between 2026 (63 trillion) and 2027 (78 trillion), an increase of 15 trillion won.

Preschool education (kindergartens): Expenditures are planned to double in 5 years (from 13 to 26).

Higher and vocational education: Although it receives the least funding compared to other sectors, it is also projected to grow from 10 trillion to 19 trillion. A slight decrease in higher education spending is projected for the transition from 2025 (15 trillion) to 2026 (14 trillion), but we can see that growth will resume later on.

5.2 Energy and Social Subsidies

The government is strategically reducing energy subsidies to optimize the budget. Natural gas subsidies are projected to fall as the market transitions toward cost-recovery pricing.

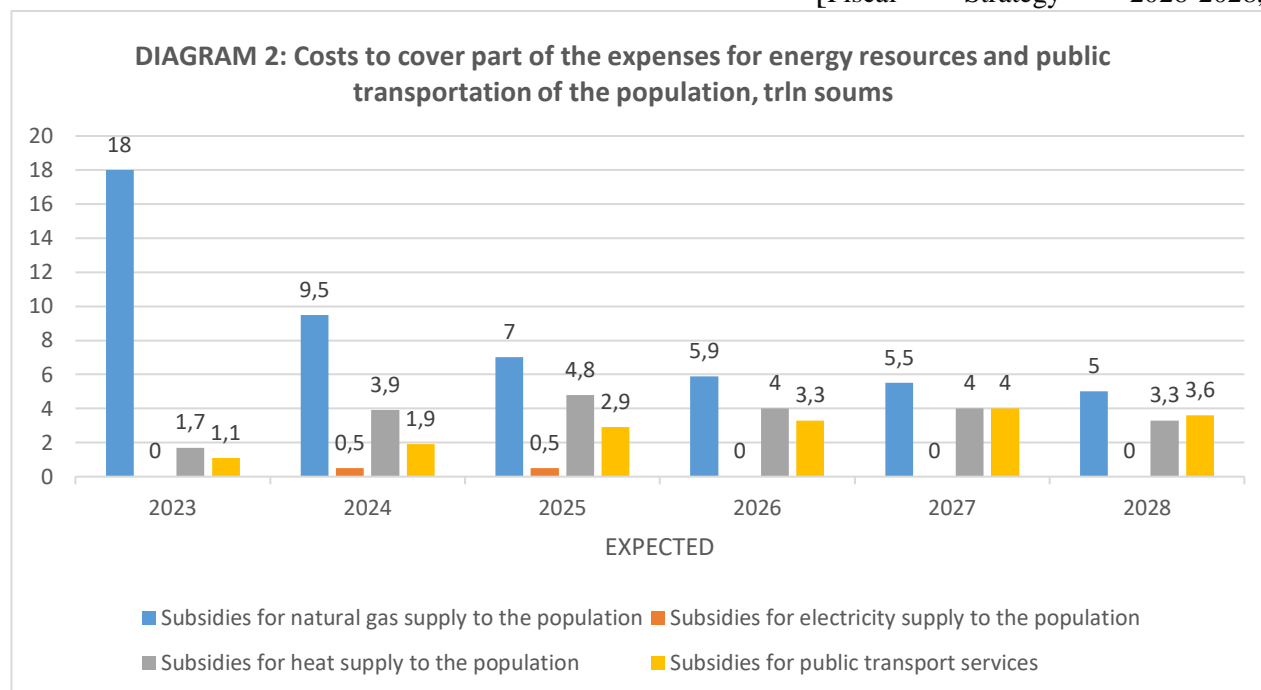


Diagram 2 shows the dynamics of subsidies allocated to cover the costs of energy resources and public transportation for the population from 2023 to 2028 (projected figures for 2026–2028).

We can analyze this data along several key dimensions:

1. The sharp reduction in natural gas subsidies (The main trend) means,

The most notable aspect of the chart is the reduction of natural gas subsidies (blue bars) from 18 trillion soums in 2023 to 5 trillion soums by 2028 (a decrease of nearly 72%). This indicates the government's strategy to liberalize the energy market and gradually transition to market prices. The nearly halving of expenditures in 2024 (from 18 to 9.5) signals the start of tariff reforms. In the following years, we can see this figure decreasing to 2.5-0.5 trillion soums per year.

2. Growth of public transport subsidies

In contrast to natural gas subsidies, subsidies for public transport (yellow column) are steadily increasing: they are expected to rise from 1.1 trillion soums in 2023 to 4 trillion soums in 2027. This indicates that the government is shifting its social focus. Direct subsidies for energy resources are being reduced, with greater emphasis placed on ensuring public mobility and improving the quality of public transportation.

3. Heat Supply

Heat Supply (gray): Expenditures, which were 1.7 trillion soums in 2023, are expected to rise to 4.8 trillion soums in 2025, and then stabilize around 3.3 trillion soums. This may be related to the costs of modernizing the thermal systems.

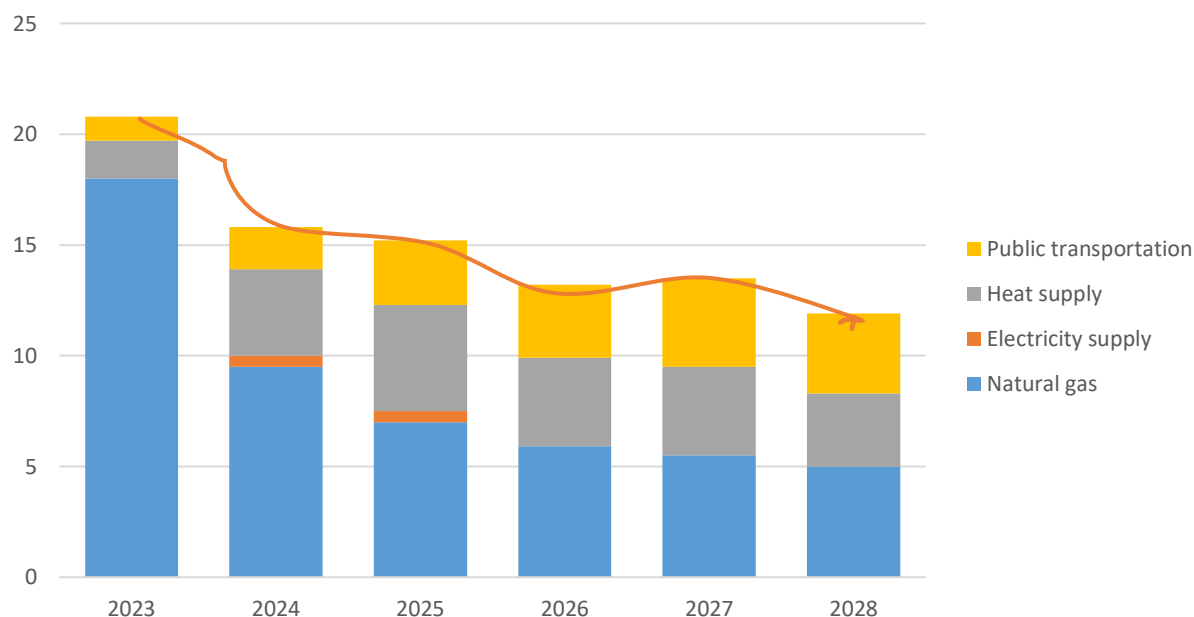
4. Electricity (orange)

Electricity (orange): The amount of subsidies is very low (a maximum of 0.5 trillion soums) and is projected to be zero starting in 2026. This means a full transition to a self-sustaining system in the electricity sector.



The indicators suggest that the total subsidies of 20.8 trillion soums in 2023 will decrease to 11.9 trillion soums by 2028. This represents a savings of nearly 43% for the state budget. And I might add that the reduction in natural gas subsidies will compel consumers to conserve energy and use energy-efficient technologies.

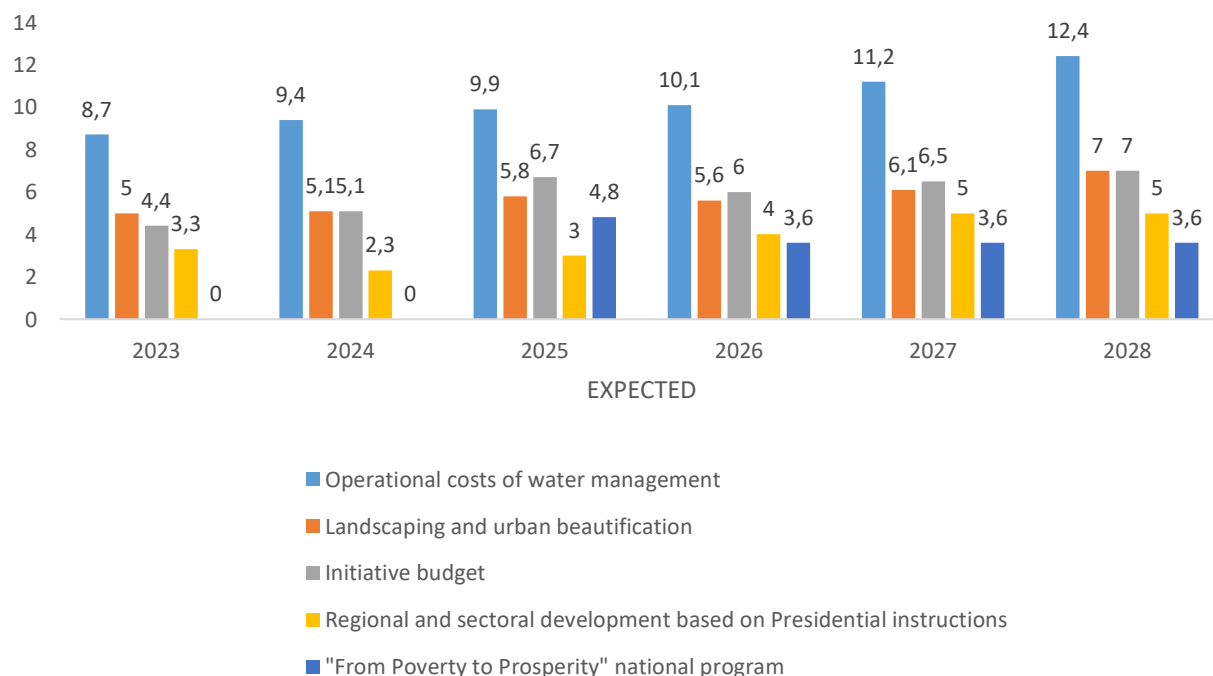
Diagram 3: Year-over-year decline in government subsidies.



5.3 Economic and Infrastructure Expenditures
Major investments in water management (12.4 trillion UZS by 2028) and the "Initiative Budget" reflect a decentralized spending model.

[Fiscal Strategy 2026-2028, 2024/63]

DIAGRAM 3: Large expenditures in the economy sector, trln soums





As the diagram shows, expenses in all major areas are increasing year over year. The total budget is expected to be significantly higher by 2028 than it was in 2023.

We will conduct a detailed analysis by sector.

1. Water Management Costs (Largest Share):

This sector remains the most heavily funded area throughout all years.

Expenditures are expected to increase from 8.7 trillion won in 2023 to 12.4 trillion won in 2028 (an approximately 42% increase). This indicates the growing strategic importance of water resource management and irrigation issues in the country.

2. Beautification and Greening:

Expenditures are growing steadily: from 5 trillion sou in 2023, they are projected to reach 7 trillion sou in 2028. This indicates that the focus on improving urban infrastructure and environmental conditions will be maintained.

3. Participatory Budgeting (Open Budget):

This area is projected to see a sharp increase in 2025 (6.7 trillion). By 2028, this figure will reach 7 trillion soums. This indicates that the scope of funding for projects proposed by the public is expanding.

4. Regional and Sectoral Development Based on Presidential Decrees:

Although a decrease (2.3 trillion) was observed in this area in 2024, a growth trend began in 2025. Expenditures are expected to stabilize at the 5 trillion sou level in 2027-2028.

5. "From Poverty to Prosperity" National Program:

The most significant aspect of the chart is the program's implementation starting in 2025. At the start of the program (2025), 4.8 trillion soums will be allocated, and in subsequent years (2026-2028), 3.6 trillion soums per year are planned to be allocated.

Based on the above indicators, we can conclude that water security is one of the top priorities. The size of the funds allocated to the water sector indicates that reforms in this area are the backbone of the economy. The next major area of spending is social orientation: funds allocated to participatory budgeting and poverty reduction programs constitute a significant portion of total expenditures.

It is particularly important to emphasize the stability of the forecast: the indicators for 2026-2028 show a relatively stable growth rate, which indicates the presence of long-term economic planning.

5. INSTITUTIONAL EVOLUTION AND CURRENT STATUS

Uzbekistan has effectively built a strong institutional structure for internal audit. So far, over ten laws have been passed, establishing the national norms, responsibilities, and certification procedures for auditors. The certification of about 800 experts who now possess the national internal audit certificate is a major accomplishment [4].

A risk-based evaluation of internal audit services was carried out in 15 chosen ministries and organizations in 2024 [3]. To ensure compliance with industry regulations, this assessment gave methodological and practical assistance. The Ministry of Economy and Finance (2024) reported the results to the Cabinet of Ministers, noting the necessity for a



change from "compliance checking" to "risk management." The "Public Internal Audit" site [3], which makes auditor registries and international cooperation data available to the public, was established to encourage transparency.

6. STRATEGIC ROADMAP FOR 2026–2028

The following stage of reforms centers on four fundamental systemic pillars:

1. Legislative Basis: Creating the "Law on State Internal Control and Internal Audit" in order to integrate and codify all current regulations.
2. Digitization Concept: Putting the "Concept for Digitizing Internal Audit Service Activities" into practice, which includes automated risk scoring and AI helpers for auditors.
3. Outsourcing Methods: Creating a framework for audit outsourcing in smaller state agencies where internal units are not viable.
4. International Harmonization: Modifying the certification system to comply with the IIA's Global Internal Audit Standards.

7. DISCUSSION: THE IMPACT OF AI AND FINTECH

By integrating AI into the framework created by the 2026–2028 Fiscal Strategy, the audit will be converted from a "post-facto" inspection to a "real-time" prevention system. The state can identify potentially fraudulent transactions in the 171.4 trillion UZS social payment budget before they happen by using "Fraud Detection" algorithms [1]. Additionally, using Cloud Data Warehousing (based on UK NAO experience) [12] will cut audit time by 60% [7], enabling auditors to concentrate on strategic, high-level risks rather than mundane data input.

8. CONCLUSION

Based on the information and figures provided above, I must conclude that Uzbekistan is developing year after year, dedicating special attention and substantial funds to each sector. This indicates that these allocated funds must certainly be placed under oversight. The Fiscal Strategy for 2026–2028 strongly supports Uzbekistan's move toward a "Digital Audit." The aggressive adoption of AI and FinTech, along with the legal codification of internal audit, are necessary for the shift from a B+ PEFA rating to becoming an international leader in fiscal transparency [2]. By 2028, these reforms will not only protect 532.9 trillion UZS of public funds [1], but they will also guarantee that all expenditures support the nation's socio-economic well-being.

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