BG Pulse Journal USA
ISSN:1947-2536 http://www.bgpulseusa.com/index.php/bg
BG PULSE JOURNAL

IMPLEMENTATION OF INTERNATIONAL INTERNAL AUDIT STANDARDS IN THE COMMERCIAL BANKS OF UZBEKISTAN: MEASURING COMPLIANCE AND ITS DETERMINANTS

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Annotation: This article examines the implementation of international internal audit standards — the IIA Global Internal Audit Standards (2024), the Basel Committee's BCBS 223 and the COSO frameworks — in the commercial banks of the Republic of Uzbekistan. The study applies a desk-research design that combines comparative-legal (gap) analysis of the national regulatory base with content analysis of the public disclosures of five systemically important banks that jointly hold 49.8 per cent of sector assets. A Standards Compliance Index (SCI), built on five blocks and twenty indicators, is used to quantify the degree of implementation. The average SCI reached 59.0 per cent in 2025, rising from 34.0 per cent in 2021, with the widest gaps observed in quality assurance and digitalisation. Correlation analysis identifies institutional and technological factors as the strongest determinants of compliance. The article concludes with regulatory recommendations aimed at moving internal audit from formal to substantive alignment with international standards.

Keywords: internal audit, international internal audit standards, IIA Global Internal Audit Standards (2024), BCBS 223, COSO, standards compliance index, corporate governance, commercial banks, Uzbekistan.

INTRODUCTION

Internal audit is an integral component of the modern system of corporate governance and financial control. In the widely adopted "three lines" model it constitutes the third line, providing the governing body with independent and objective assurance on the effectiveness of risk management, control and governance processes. In the banking sector these functions acquire particular importance, since banks are systemically significant institutions and weaknesses in their internal control translate directly into risks to financial stability. Accordingly, the requirements for the internal audit of banks are set not only by the professional standards of the Institute of Internal Auditors (IIA) but also by the Basel Committee on Banking Supervision, whose document BCBS 223 establishes twenty principles specific to the sector.

In recent years the Republic of Uzbekistan has undertaken sustained reforms aimed at building an internal audit system based on international standards. The Law "On Auditing Activity" (2021), Presidential Decree PF-6300 on improving the system of state financial control, and the Central Bank Regulation No. 3/2 of 16 April 2021 on the internal audit of commercial banks together form the regulatory architecture. However, the creation of a legal basis does not by itself guarantee the full, consistent and substantive implementation of standards in bank practice. The central research problem addressed here is that, although a legal-regulatory basis for aligning internal audit with international standards has been established, the standards are not yet fully and substantively

implemented in the practice of commercial banks, while the factors affecting their effective implementation remain insufficiently studied.

The aim of the article is to measure the degree to which international internal audit standards are implemented in Uzbek commercial banks and to identify the factors that determine this degree. Two research questions are addressed: (1) to what extent do the national regulatory base and the practice reflected in banks' public disclosures conform to the IIA Global Internal Audit Standards and the requirements of the Basel Committee; and (2) which organisational, methodological and institutional factors influence the effective implementation of the standards.

MATERIALS AND METHODS

The study is based on a desk-research approach that combines qualitative and quantitative methods. The information base comprises the international internal audit standards (IIA, COSO, Basel Committee), the normative-legal acts of the Republic of Uzbekistan, the reports disclosed on the official websites of commercial banks (annual reports, corporate governance reports and IFRS financial statements), Central Bank data and the scholarly literature.

Three principal methods were applied. First, comparative-legal (gap) analysis was used to compare the Central Bank Regulation and the National Internal Audit Standards with the requirements of the IIA Global Internal Audit Standards (2024) and BCBS 223. Second, content analysis of the public disclosures of a purposive sample of five banks — the National Bank of Uzbekistan (NBU), Sanoat Qurilish Bank (SQB), Agrobank, Ipoteka-Bank and Hamkorbank, jointly accounting for 49.8 per cent of sector assets — was carried out by coding against a purpose-built compliance rubric. Third, the results were generalised through a Standards Compliance Index (SCI) composed of five blocks (A — institutional independence and accountability; B — interaction with the governing body and audit committee; C — professional competence and human-resource capacity; D — risk-based methodology; E — quality assurance and digitalisation), each block containing four indicators scored on a 0–2 scale, giving a maximum of forty points. The relative importance of the determinant factor groups was established through expert weighting, and the relationship between the factor scores and the SCI was tested using Pearson and Spearman correlation coefficients. Reliability was reinforced by triangulating results from independent sources.

The design has two principal limitations. The sample is small (n = 5), so the quantitative results support analytical rather than statistical generalisation; and the assessment is based on public disclosure, which may not fully reflect actual practice — the phenomenon of "decoupling" — so the disclosure-based index should be interpreted as a proxy for internal audit quality and complemented by triangulation.

RESULTS AND DISCUSSION

The comparative-legal analysis showed that the national regulatory base is, on average, 62.5 per cent aligned with the international standards. Compliance is highest in the domains of the purpose of internal audit (83.3 per cent) and governance of the function by the board (80.0 per cent), and lowest in managing the function (50.0 per cent) and delivering audit services (37.5 per cent). This configuration reveals an "institutional–methodological gap": the visible, status-related norms are transposed comparatively fully, whereas the methodological and technological requirements that are harder to observe remain weakly regulated.

The application of the SCI rubric to the five sample banks for 2025 produced an average compliance of 59.0 per cent, ranging from 40.0 per cent to 77.5 per cent (Table 1). At the block level, compliance is strongest for institutional independence (block A, 70.0 per cent) and weakest for quality assurance and digitalisation (block E, 45.0 per cent). Notably, not a single bank in the sample disclosed that an external independent assessment of the internal audit function had been carried out, which shows that the quality-assurance mechanism does not yet operate in practice.

Table 1

Standards Compliance Index (SCI) results for the sample banks, 2025

Bank	A	B	C	D	E	Total (of 40)	SCI, %
Ipoteka-Bank (non-state)	7	7	6	6	5	31	**77.5**
Sanoat Qurilish Bank (state)	6	6	5	5	4	26	**65.0**
Hamkorbank (non-state)	6	5	5	4	4	24	**60.0**
National Bank of Uzbekistan (state)	5	5	4	4	3	21	**52.5**
Agrobank (state)	4	4	3	3	2	16	**40.0**
Sample mean (score)	5.6	5.4	4.6	4.4	3.6	23.6	**59.0**
Block compliance, %	70.0	67.5	57.5	55.0	45.0	–	**59.0**

Note: A — institutional independence and accountability; B — governing body and audit committee; C — professional competence; D — risk-based methodology; E — quality assurance and digitalisation. Source: author's calculation based on content analysis of the banks' 2021–2025 public disclosures.

The distribution by ownership form is analytically important. The two non-state banks (Ipoteka-Bank and Hamkorbank) score above the sample mean, whereas the three state-dominated banks are grouped around or below it (Figure 1). The average SCI of the non-state banks is 68.8 per cent against 52.5 per cent for the state-dominated group — a difference of 16.3 percentage points. This pattern is consistent with agency theory: where ownership involves a foreign strategic investor or international institutional shareholders, the demand for a genuinely independent and effective internal audit function is stronger.

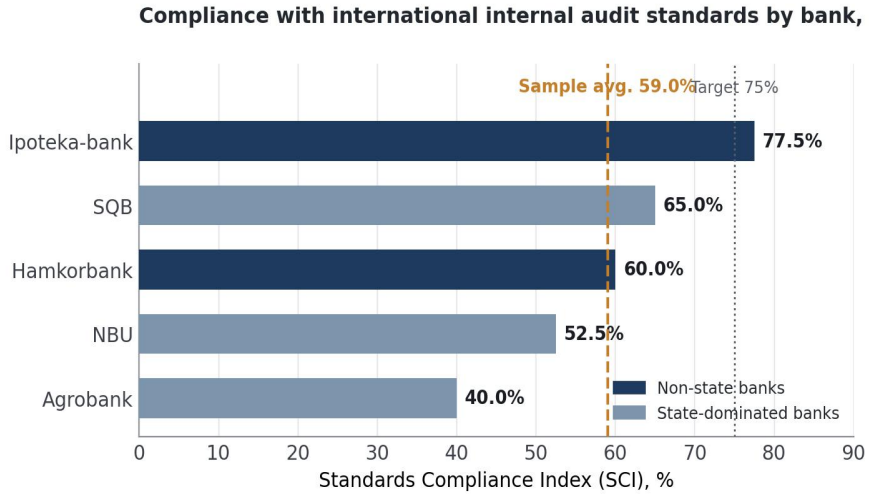


Figure 1. Standards Compliance Index by bank, 2025 (sample mean 59.0%, target 75%)

The dynamic analysis of the disclosures for 2021–2025 shows that the average compliance level rose from 34.0 per cent to 59.0 per cent, an increase of 25 percentage points. Growth was recorded for every bank, but it proceeded faster in banks with higher initial levels, which has widened the divergence between institutions. The implementation of standards is therefore a real and continuing process, yet an uneven one.

To explain these differences, four groups of determinant factors were weighted by expert assessment and correlated with the SCI (Table 2). All four groups show a strong positive association with compliance; the institutional factors (professional certification, senior-management support and staff stability) and the technological factors (data analytics, continuous auditing and IT-audit capacity) exhibit the closest relationship, with Pearson coefficients of 0.993 and 0.984 respectively, while the integral factor index reaches 0.997. At the same time, these two groups display the largest capability gaps (4.4 and 5.2 points on a ten-point scale), which means that the areas most strongly linked to compliance are precisely those that are least developed in practice.

Table 2

Determinant factor groups and their correlation with the SCI (n = 5)

Factor group	Weight, %	Mean score (of 10)	Capability gap	Pearson r	R^2
F1. Organisational	30	6.7	3.3	0.923	0.852
F2. Methodological	25	6.4	3.6	0.927	0.859
F3. Institutional (HR)	25	5.6	4.4	0.993	0.986
F4. Technological	20	4.8	5.2	0.984	0.968
Integral factor index	100	5.97	4.03	**0.997**	0.993

Source: author's expert assessment and correlation analysis based on content analysis of the banks' public disclosures.

The results confirm that the binding constraints on compliance are concentrated in the methodological and technological domains and in human-resource capacity. The absence of a mandatory quality assurance and improvement programme (QAIP) and of external independent assessment, together with the near-absence of data-analytics tools, explains why block E remains the weakest. These findings are consistent with international empirical evidence that risk-based methodology, professional certification and audit-committee activity are the principal drivers of internal audit effectiveness, and with the 2025 IMF Financial System Stability Assessment, which pointed to corporate-governance and supervisory-capacity weaknesses in the sector.

CONCLUSION

The study shows that internal audit in the commercial banks of Uzbekistan is at the threshold between formal and substantive compliance with international standards. Institutional requirements are largely met in form, but methodological and technological maturity and the quality-assurance mechanism are still taking shape. The measured average compliance of 59.0 per cent, the marked gap between state-dominated and non-state banks, and the concentration of the largest capability gaps in the institutional and technological factors together indicate where regulatory effort should be directed.

On this basis the following priorities are proposed: making the quality assurance and improvement programme (QAIP) and periodic external independent assessment mandatory in the Central Bank Regulation; introducing an explicit requirement for a documented risk-based planning methodology; setting a minimum volume of continuing professional development and a target share of internationally certified auditors; and establishing a minimum standard for the disclosure of internal audit activity. Implementing these measures would move internal audit from a formal control body towards a strategic partner of bank governance, thereby strengthening the stability of the banking system and the quality of corporate governance.

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