MEASURING THE IMPLEMENTATION OF INTERNATIONAL INTERNAL AUDIT STANDARDS IN THE COMMERCIAL BANKS OF UZBEKISTAN

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ABSTRACT

The thesis presents a method for measuring the degree to which international internal audit standards are implemented in the commercial banks of Uzbekistan and identifies the main determinants of compliance. Using comparative-legal (gap) analysis and content analysis of the public disclosures of five systemic banks, a Standards Compliance Index (SCI) with five blocks and twenty indicators is applied. Average compliance reached 59.0% in 2025, up from 34.0% in 2021, with the weakest results in quality assurance and digitalisation. Institutional and technological factors are the strongest determinants of compliance.

Keywords: *internal audit, international standards, IIA Global Internal Audit Standards, BCBS 223, compliance index, commercial banks, Uzbekistan.*

INTRODUCTION

In the banking sector internal audit constitutes the third line of the corporate-governance model, providing the board with independent assurance on risk management and control. Its requirements are set by the IIA Global Internal Audit Standards (2024) and, for banks, by the Basel Committee's BCBS 223. In Uzbekistan a legal-regulatory basis for aligning internal audit with these standards has been created through the Law "On Auditing Activity" (2021) and the Central Bank Regulation No. 3/2 of 2021, yet the standards are not fully and substantively implemented in bank practice, and the factors affecting implementation remain insufficiently studied.

The aim of the study is to measure the degree of implementation and to identify its determinants. Two research questions are addressed: to what extent the national regulatory base and the practice disclosed by banks conform to the IIA and Basel requirements; and which organisational, methodological, institutional and technological factors influence effective implementation. Addressing these questions requires a measurable indicator that can capture both formal (regulatory) and substantive (practical) alignment, which is the methodological contribution of the study.

MATERIALS AND METHODS

The study uses a desk-research design combining comparative-legal (gap) analysis of the national regulatory base with content analysis of the public disclosures of a purposive sample of five

banks that jointly hold 49.8% of sector assets. A Standards Compliance Index (SCI) was constructed from five blocks — institutional independence, interaction with the governing body, professional competence, risk-based methodology, and quality assurance and digitalisation — comprising twenty indicators scored to a maximum of forty points. Determinant factors were weighted by expert assessment and correlated with the index. The design is limited by the small sample (n = 5) and by its reliance on public disclosure, so results support analytical rather than statistical generalisation.

RESULTS AND DISCUSSION

The national regulatory base is on average 62.5% aligned with the international standards, with the widest gaps in managing the function (50.0%) and delivering audit services (37.5%). This configuration reveals an institutional–methodological gap: the visible, status-related norms are transposed comparatively fully, whereas the methodological and technological requirements remain weakly regulated. The SCI averaged 59.0% across the sample in 2025, ranging from 40.0% to 77.5%, and rose from 34.0% in 2021 — an increase of 25 percentage points over five years (Table 1).

Non-state banks outperform state-dominated banks (68.8% against 52.5%), a difference consistent with agency theory, and no bank disclosed an external independent assessment, showing that the quality-assurance mechanism does not yet function. Correlation analysis identifies institutional (r = 0.993) and technological (r = 0.984) factors as the strongest determinants, while these same factors display the largest capability gaps (4.4 and 5.2 points on a ten-point scale). The areas most strongly linked to compliance are therefore precisely those least developed in practice, which explains why the quality-assurance and digitalisation block remains the weakest (45.0%). These findings are consistent with international empirical evidence and with the 2025 IMF Financial System Stability Assessment.

Table 1

Dynamics of the Standards Compliance Index (SCI), 2021–2025, %

Bank	2021	2025	Change, p.p.
Ipoteka-Bank (non-state)	45.0	77.5	**+32.5**
Sanoat Qurilish Bank (state)	37.5	65.0	**+27.5**
Hamkorbank (non-state)	35.0	60.0	**+25.0**
National Bank of Uzbekistan (state)	30.0	52.5	**+22.5**
Agrobank (state)	22.5	40.0	**+17.5**
Sample mean	**34.0**	**59.0**	**+25.0**

Source: author's calculation based on content analysis of the banks' 2021–2025 public disclosures.

The dynamic pattern is also informative. Although compliance rose in every bank, growth was faster in institutions with higher initial levels, so the gap between the leading non-state banks and the lagging state-dominated banks widened over the period. This divergence indicates that a purely voluntary trajectory is unlikely to close the gap and that a binding regulatory instrument, combined with a supervisory assessment mechanism, is required to raise the sector as a whole.

SCIENTIFIC NOVELTY AND PRACTICAL SIGNIFICANCE

The scientific novelty of the study lies in operationalising the concept of "implementation of internal audit standards" through two measurable dimensions — formal (regulatory) and substantive (practical) compliance — and in constructing a disclosure-based Standards Compliance Index with five blocks and twenty indicators that is applicable to the banking sector. The practical significance consists in the fact that the proposed index and rubric can be used by the Central Bank as a methodological basis for a supervisory assessment of internal audit quality, and by banks as a self-assessment and benchmarking tool. The identification of institutional and technological factors as the binding constraints provides a clear priority ordering for regulatory and managerial action.

CONCLUSION

Internal audit in Uzbek commercial banks is transitioning from formal to substantive compliance with international standards: institutional requirements are largely met, but methodological and technological maturity and quality assurance are still developing. Priority measures are to make the quality assurance and improvement programme (QAIP) and periodic external assessment mandatory, to require a documented risk-based planning methodology, to raise professional certification, and to set a minimum standard for the disclosure of internal audit activity.

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