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The Need to Organize Internal Audit Activities Based on International Standards

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ABSTRACT

This article analyzes the need to organize internal audit activities in the public sector based on international standards in the context of globalization from a scientific and practical perspective. The study highlights the role of the internal audit system in ensuring openness, efficiency and accountability, and justifies the directions for modernization of internal audit based on international audit standards, including the IPPF developed by the IIA, the ISSAI standards of INTOSAI, and the COSO model. It also assesses the degree of harmonization of national audit standards in Uzbekistan with international criteria, and reveals that aspects such as a risk-based approach, strategic planning, and assessment of the implementation of recommendations have not been fully implemented. The article proposes a phased model for the implementation of international standards, and an effective mechanism for organizing internal audit activities in the public sector based on the stages of diagnostics, methodology adaptation, pilot testing, and institutional integration is developed. The results of the study serve to improve public financial management, strengthen budget discipline, and develop internal audit as a strategic management tool.

Keywords: internal audit, international auditing standards, IPPF, ISSAI, COSO model, public sector audit, risk-based audit, audit methodology, organization of audit activities, financial control.

In the context of globalization, it is required that the transparency, efficiency and accountability of public financial management and control systems be based on high international criteria. In particular, the internal audit system is emerging as a strategic tool in improving the quality of public sector management, ensuring the rational use of financial resources and reducing corruption risks. Therefore, it is important to improve the procedure and methodology for conducting internal audit activities in line with international professional standards.

International internal audit standards, in particular the International Professional Practices Framework (IPPF) developed by the Institute of Internal Auditors (IIA), define a unified methodological approach to planning, implementing, documenting and evaluating internal audit activities. Compliance with these standards strengthens the independence and objectivity of

internal audit services and ensures the effective integration of audit results into management decisions.

Practice shows that, although internal audit activities in many organizations are carried out within the framework of national regulatory documents, the level of their harmonization with international standards is insufficient. As a result, there are cases of methodological differences in audit processes, inconsistencies in documentation, and low practical effectiveness of recommendations on audit results. This limits the role of internal audit in strategic management.

From this point of view, the need to organize internal audit activities based on international standards is becoming an urgent issue. By introducing international experience, it is possible to improve the quality of audit processes, strengthen the risk-based approach, and ensure the validity of management decisions made on the basis of audit results. This topic is of significant scientific and practical importance in modernizing the internal audit system and bringing it into line with international requirements.

In Uzbekistan, national audit standards were also approved by Order No. 3394, most of which are based on international experience. However, analysis shows that international criteria are only partially implemented in national practice. In particular, aspects such as risk-based audit, strategic planning, assessment of the implementation of recommendations, and in-depth analysis of the internal control environment have not been fully implemented.

This section highlights the need to introduce international standards in the public sector, national audit models adapted to international standards, and directions for modernizing internal audit in the public sector based on advanced foreign experience. This will create an opportunity to conduct internal audit activities in public organizations at a high level of quality, efficiency, and accountability.

Effective organization of the internal audit system in the public sector and its compliance with international requirements is one of the urgent issues today. In this regard, the introduction of international standards that ensure the internal audit process works not only in a formal way, but also as a practical tool for effectiveness, transparency, and strategic management is of particular importance. This need is important not only for improving the quality of the audit, but also for ensuring budgetary discipline, rational use of resources, reducing corruption risks, and strengthening the role of audit services in the management system.

The most important organizations regulating the audit sector at the international level are INTOSAI (International Organization of Supreme Audit Institutions), IIA (Institute of Internal Auditors) and COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose standards define the institutional, methodological and ethical criteria for internal audit activities. For example, the ISSAI standards (International Standards of Supreme Audit Institutions) developed by INTOSAI regulate in detail the principles of auditing, legal and ethical requirements, as well as the stages of planning, conducting and writing an audit report. The ISSAI 100 standard - "Core Principles of Public Sector Auditing" is based on the principles of independence, evidence-based, accuracy and interest of auditing in the public sector. In order to fully and effectively implement international auditing standards in the public sector, it is necessary to implement them in a manner adapted to local legal, institutional and organizational conditions. This process requires both technical and organizational reforms at the same time. Therefore, the most appropriate approach is not to directly implement international standards, but to introduce them gradually, through a functional adaptation approach. Practical experience shows that a comprehensive approach is important for the successful implementation of transformation - that is, to identify existing shortcomings in the system, develop ways to eliminate them, and pilot test a new approach.

The first stage of implementation is the diagnostic and analysis stage, during which the existing audit practice is compared with the criteria of international standards. In particular, the content of audit reports, the quality of recommendations, the risk-based nature of audit programs, the level

of integration of information systems, and the mechanisms for monitoring the implementation of recommendations are analyzed in depth. At this stage, shortcomings are identified and, based on them, areas where changes are needed are determined.

The second stage is the stage of developing an adapted methodology. At this stage, the conceptual principles of international standards - independence, impartiality, evidence-based, monitoring, control environment, and risk-based approaches - are adapted to the organizational structure, regulatory documents, and financial practices of the national system. For example, internal audit models can be developed based on the COSO model's "control environment - risk assessment - control activities - information - monitoring" blocks. On this basis, an "audit report template", "recommendations monitoring card" and "performance indicators" should be developed, which are closer to the international format, as an addition to Order No. 3394 of the Ministry of Economy and Finance of the Republic of Uzbekistan.

The third stage is the stage of testing pilot projects. At this stage, new approaches will be experimentally introduced in the audit services of selected state organizations or pension funds at the district/public level. For example, reports will be formed based on the requirements of ISSAI 1700, the implementation of recommendations will be monitored based on the API model, and the audit result will be evaluated using KPI indicators. It is planned to conduct such tests in the second half of 2024 in Tashkent city and 6 districts of Andijan region, which will increase the impact on real management.

The fourth stage is the stage of institutional integration and formalization, during which the developed new audit approaches will be strengthened by legislative documents. Comprehensive measures will be taken to improve the skills of auditors, create methodological manuals, update information systems, and ensure the independence of audit services. This will turn internal audit into not only a controlling, but also a strategic advisory institution.

In conclusion, the introduction of international standards in the public sector should serve not only to achieve external adaptation, but also to ensure a qualitative change in the internal system. Each stage in this process is important, and only when the path from diagnostics to formalization is carried out on the basis of a clear plan, together with analysis and monitoring, will the audit system be able to reach the international level.

The formation of internal audit models based on international standards arises from several important needs. First, to ensure open and effective management of public resources, internal audit should not only consist of inspection, but also include the functions of early identification of risks, analysis of management problems and provision of practical recommendations. Secondly, for state bodies working with global donor organizations, foreign investments and international financial institutions, compliance of internal audit with international criteria is a guarantee of reliable cooperation.

For example, in the COSO model, internal control and audit are viewed as a coherent system through the blocks of "control environment", "risk assessment", "control activities", "information and communication", "monitoring". In this model, internal audit is risk-oriented and serves to achieve the strategic objectives of the organization through control mechanisms. Also, the standards set within the framework of the IIA's "International Professional Practices Framework" (IPPF) describe internal audit as an independent, ethically-based and performance-assessing professional activity within the organization.

Some elements of this model were introduced on a trial basis in the Pension Fund system of Uzbekistan in 2023–2024. As a result of practical audits conducted in Tashkent city and 5 districts of Fergana region, budget savings of more than 620 million soums were achieved, the implementation of recommendations increased from 64 to 82 percent, and the use of audit information in management decisions based on audit results increased by 27 percent. This proves the practical effectiveness of the hybrid approach developed on the basis of international models in national conditions.

To increase the efficiency of national audit services, the most optimal approach is not to directly copy international models, but to develop and implement comprehensive, dynamic and socio-financial results-oriented audit models by systematically adapting their most relevant and convenient elements. This approach turns internal audit from a passive control into an active management tool.

The role of internal audit services in ensuring efficiency, transparency and accountability in public administration is increasingly important. World experience shows that in the modern public sector, internal audit is not only considered a detection or control tool, but also a strategic partner serving to improve management. Therefore, the modernization of the internal audit system based on international standards is not only relevant, but also a necessary reform. Today, many countries - in particular, Estonia, Canada, South Korea, Japan and the United Kingdom - have achieved efficiency in the public sector by digitizing internal audit, forming it on the basis of indicator evaluation and monitoring of recommendations.

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