

THE ROLE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN AUDITING PUBLIC SECTOR COMPANIES

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Abstract: The implementation of International Financial Reporting Standards (IFRS) has significantly transformed the landscape of public sector auditing. This article explores the role of IFRS in improving transparency, comparability, and accountability in the audit processes of public sector companies. It discusses the alignment between IFRS and International Public Sector Accounting Standards (IPSAS), evaluates the challenges of IFRS adoption in public institutions, and examines case studies from developing countries, including Uzbekistan. Findings reveal that the application of IFRS enhances audit quality by introducing uniform standards, though full compliance is often hindered by institutional capacity and legal discrepancies. Recommendations are provided to harmonise IFRS with national audit frameworks for better governance outcomes.

Keywords: IFRS, public sector auditing, financial reporting, IPSAS, transparency, audit standards

Introduction

The evolution of public financial management in Uzbekistan has been marked by a transition from traditional, opaque budgetary practices to more transparent, accountable, and internationally harmonised standards. One of the most prominent shifts in this transformation is the gradual incorporation of International Financial Reporting Standards (IFRS) into the auditing systems of public sector companies. This transition is not only a technical upgrade but also a strategic reform embedded within the broader framework of the “Uzbekistan–2030” development strategy, which emphasises the modernisation of state governance and financial transparency as pillars of economic sustainability¹.

The introduction of IFRS into public sector auditing is a response to the need for improved fiscal discipline, investor confidence, and enhanced governance mechanisms. In particular, Decree No. PQ–4611 of the President of the Republic of Uzbekistan (dated February 24, 2020) on the “Concept for the Development of Public Financial Management

¹ Strategy “Uzbekistan – 2030”, approved by Presidential Decree No. PF–158 (September 11, 2023), emphasises financial transparency and modernisation of public administration.

for 2020–2024” explicitly recognises the necessity of aligning public accounting and auditing with international standards, including IFRS². Additionally, the Resolution of the Cabinet of Ministers No. 455 (June 2021) laid out a roadmap for pilot implementation of IFRS in major state-owned enterprises (SOEs), targeting sectors such as oil and gas, banking, and utilities³.

The adoption of IFRS in public auditing enhances the credibility and comparability of financial statements, fostering accountability to citizens and international development partners. According to the World Bank, countries that adopt accrual-based accounting systems, such as those mandated under IFRS, demonstrate higher audit quality and better fiscal forecasting accuracy⁴. In Uzbekistan, where over 80% of the economy is directly or indirectly influenced by state involvement, applying IFRS in SOEs is essential for improving public sector efficiency and managing quasi-fiscal risks.

While IFRS is primarily designed for the private sector, its application in public sector companies, particularly in hybrid entities operating in competitive markets, provides a more robust framework for financial reporting. However, this shift is not without challenges. Institutional resistance, a shortage of qualified IFRS auditors, and inconsistencies between local accounting standards (NAS of Uzbekistan) and IFRS complicate the transition process. Furthermore, the coexistence of International Public Sector Accounting Standards (IPSAS)—tailored for public entities—and IFRS presents a dilemma regarding standard selection, especially in semi-commercial public organisations.

From a strategic standpoint, the move toward IFRS-aligned audits is closely tied to Uzbekistan’s aspirations for greater integration into the global financial system. The government’s recent push to attract foreign investment and issue sovereign bonds underscores the need for transparent and internationally recognisable reporting standards. As noted in Decree No. PQ–4561 (January 2020) on “Improving the Investment Climate and Business Environment,” state-owned companies must meet global accounting and audit standards to ensure credibility with international lenders and rating agencies⁵.

Moreover, the ongoing digitisation of public finance under the auspices of the Ministry of Economy and Finance aims to integrate digital audit platforms with IFRS-compliant software systems. This is in line with the Cabinet of Ministers' Resolution No. 515 (July 2022)

² Presidential Decree No. PQ–4611 “On Approval of the Concept for the Development of Public Financial Management for 2020–2024” (24 February 2020).

³ Cabinet of Ministers Resolution No. 455 “On Measures to Implement IFRS in Large State-Owned Enterprises” (15 June 2021).

⁴ World Bank (2022). *Public Financial Management in Europe and Central Asia: Achievements and Remaining Challenges*.

⁵ Presidential Decree No. PQ–4561 “On Measures to Improve the Investment Climate and Business Environment in the Republic of Uzbekistan” (8 January 2020).

on the “Development of the Unified Public Financial Management System,” which prioritises the modernisation of audit methodologies and real-time reporting⁶. To summarise, the integration of IFRS into the auditing of public sector companies in Uzbekistan is not merely a compliance exercise but a fundamental restructuring of financial governance. It reflects a commitment to global best practices, investor protection, and fiscal transparency—core tenets of the country’s strategic reform agenda.

Literature Review

The relevance of International Financial Reporting Standards (IFRS) in public sector auditing has been a subject of increasing scholarly attention in both global and regional academic circles. IFRS, initially tailored for private sector entities, has expanded its influence into public sector enterprises due to globalisation, fiscal decentralisation, and rising demands for transparency. This section reviews the theoretical and empirical contributions of foreign and Uzbek scholars regarding the application of IFRS in the public sector. One of the foundational theoretical frameworks is provided by Nobes and Parker, who emphasise that IFRS serves as a universal financial language, reducing asymmetry and enhancing comparability of financial statements across borders⁷. They argue that the application of IFRS in state-owned enterprises (SOEs) creates consistency in disclosures and facilitates better governance, especially in emerging markets. This viewpoint aligns with the World Bank's 2021 analysis, which found that countries with IFRS-based reporting demonstrate higher audit quality and are better equipped to attract foreign investment⁸.

Similarly, Brusca et al. (2016) explain that IFRS improves decision-usefulness of financial statements by applying fair value accounting, comprehensive disclosure principles, and accrual-based reporting, which contrasts sharply with traditional cash-based accounting in the public sector⁹. These standards, when adopted by public companies, enable financial performance to be evaluated similarly to private entities—an important factor in public-private partnerships and quasi-governmental entities.

However, scholars such as Chan (2003) and Jorge et al. (2022) warn against a one-size-fits-all approach. They argue that the IFRS model, being profit-centred, may clash with the

⁶ Cabinet of Ministers Resolution No. 515 “On the Development of the Unified State Financial Management System” (28 July 2022).

⁷ Nobes, C., & Parker, R. (2021). *Comparative International Accounting*. Pearson, 15th Ed.

⁸ World Bank (2021). *Enhancing Public Sector Accounting and Auditing Standards in ECA Countries*. Washington, D.C.

⁹ Brusca, I., Caperchione, E., Cohen, S., & Manes-Rossi, F. (2016). *Public Sector Accounting and Auditing in Europe: The Challenge of Harmonisation*. Palgrave Macmillan.

public sector's accountability orientation, especially in pure budgetary institutions¹⁰. Instead, they advocate for a hybrid model that incorporates IFRS for commercial public enterprises and IPSAS for governmental agencies.

In the context of Central Asia, especially Uzbekistan, the academic discourse on IFRS integration into public audits is gaining momentum. Uzbek scholar A. U. Rakhimov highlights that one of the main barriers to IFRS implementation in Uzbekistan's public sector is the lack of trained personnel, as well as incompatibility between national accounting standards and IFRS principles¹¹. He emphasises the necessity for systemic capacity building and legal harmonisation to bridge this gap. Another local researcher, Sh. K. Karimov, in his 2021 publication, discusses how the modernisation of Uzbekistan's state financial control is tightly linked with the application of IFRS and notes that recent presidential decrees have created favourable conditions for aligning national audit practices with international frameworks¹². He identifies energy, transport, and banking as key sectors for pilot IFRS audits.

Globally, many nations have already adopted IFRS for their state-owned entities. For instance, in the UK and Australia, public corporations are legally mandated to follow IFRS, leading to improved financial disclosures and public trust. In Georgia and Kazakhstan—two regional peers of Uzbekistan—the shift to IFRS has been implemented in large SOEs through regulatory reform and public-private cooperation¹³. From a methodological viewpoint, the literature converges on several recurring themes: (i) the transparency-enhancing role of IFRS, (ii) the conflict between performance vs. accountability goals, and (iii) the challenges of dual reporting, where entities must comply with both IFRS and national regulatory frameworks. The implementation of IFRS in the public sector is also linked to increased donor confidence, better sovereign credit ratings, and enhanced investor perception—critical outcomes for countries like Uzbekistan seeking foreign capital.

Research methodology

This study employs a qualitative-comparative methodology to examine the integration of International Financial Reporting Standards (IFRS) into the auditing practices of public

¹⁰ Chan, J. L. (2003). Government accounting: An assessment of theory, purposes, and standards. *Public Money & Management*, 23(1), 13–20; Jorge, S., Brusca, I., & Oliveira, L. (2022). Towards harmonisation of financial reporting in the public sector: Lessons from European implementation. *Accounting Forum*, 46(2), 131–148.

¹¹ Rakhimov, A. U. (2020). *Integration of International Financial Reporting Standards in the Public Sector of Uzbekistan*. *Journal of Economic Research of Uzbekistan*, 2(3), 78–86.

¹² Karimov, Sh. K. (2021). *Modernisation of State Financial Control: The Role of IFRS in Public Audits*. *Finance and Statistics*, 4(1), 33–41.

¹³ IFAC (2023). *Global Status Report on the Adoption of International Standards*. Retrieved from <https://www.ifac.org/>

sector companies in Uzbekistan. The research aims to assess the role of IFRS in enhancing audit quality, transparency, and comparability, as well as to identify institutional and legal barriers hindering its effective implementation. Data for the study were obtained from three primary sources. First, Uzbekistan's official regulatory documents were reviewed, including Presidential Decree No. PQ-4611 (2020), PQ-4561 (2020), and Cabinet Resolutions No. 455 (2021) and No. 515 (2022), which provide the legal foundation for IFRS adoption in the public sector. Second, reports and standards from international organisations such as the World Bank, IFAC, and OECD were analysed to provide global benchmarks and comparative insights. Third, academic literature from both international and Uzbek scholars, including Rakhimov (2020) and Karimov (2021), was reviewed to understand the theoretical and contextual dimensions of IFRS implementation.

To place Uzbekistan's experience in context, the study draws on comparative case studies from Georgia, Kazakhstan, and the United Kingdom. Georgia represents a successful transition in adopting IFRS in public enterprises; Kazakhstan is a regional peer with a phased IFRS strategy for its SOEs; and the UK provides an advanced model with full IFRS application in public corporations. The research relies on qualitative content analysis to examine themes across legislation, audit guidelines, and academic discourse. A SWOT framework was used to evaluate Uzbekistan's institutional readiness for IFRS, identifying its strengths (political will, digital reforms), weaknesses (shortage of IFRS-trained auditors), opportunities (foreign investor confidence), and threats (regulatory fragmentation, IPSAS-IFRS conflicts). While the methodology provides a comprehensive foundation, it has limitations. The absence of field interviews restricts practical insight from auditors and regulators. In addition, the limited availability of public IFRS-based audit reports in Uzbekistan constrains empirical analysis. Furthermore, the coexistence of IPSAS and IFRS in some institutions introduces complexity in evaluating standard-specific effects.

Despite these challenges, the chosen methodology enables a structured analysis of how global financial reporting norms interact with Uzbekistan's evolving audit systems. The study offers both strategic and operational insights for policymakers aiming to harmonise national audit practices with international standards, thereby contributing to the broader goals of public sector transparency and accountability in line with the "New Uzbekistan – 2030" reform agenda.

Analysis and discussion of results

The analysis reveals that the gradual implementation of IFRS in the public sector audit systems of Uzbekistan reflects a strategic reform direction aimed at aligning financial governance with international practices. Based on the review of official documents, case studies, and regional experiences, this section analyses key outcomes related to institutional readiness, legal harmonisation, and audit quality improvements. According to the Ministry of Economy and Finance (2024), approximately 22 major state-owned enterprises (SOEs) in Uzbekistan have initiated transition processes toward IFRS-based reporting, primarily in sectors such as energy (Uzbek oil and gas), transportation (Uzbekistan Railways), and banking. These entities were selected for pilot projects following the Cabinet of Ministers' Resolution No. 455 (2021). However, only 9 of these enterprises had submitted full IFRS-compliant reports as of Q4 2024, indicating that institutional readiness remains uneven.

Table 1 presents a comparative analysis of IFRS implementation in selected countries with relevance to Uzbekistan¹⁴:

Country	Public IFRS Mandate	Audit Infrastructure Quality	Training Programs	% of SOEs using IFRS	Digitalization
Uzbekistan	Partial (pilot basis)	Developing	Moderate	40% (approximate)	Medium
Kazakhstan	Phased adoption	Developed	Advanced	65%	High
Georgia	Full mandate (SOEs)	Advanced	Strong	90%	High
UK	Full mandate	Highly advanced	Institutionalized	100%	Very High

As shown in the table, Uzbekistan is still in the early stages of IFRS rollout, lagging behind Georgia and Kazakhstan in terms of both coverage and institutional preparedness. One key limitation is the shortage of certified IFRS auditors in the country. According to a 2023 survey by the Chamber of Auditors of Uzbekistan, only 15% of auditors in the public

¹⁴ Author's compilation based on World Bank (2023), IFAC (2024), and national audit authorities.

sector had formal IFRS training, and less than 10% were actively engaged in IFRS-based audits¹⁵.

Where IFRS has been implemented, several public enterprises reported improvements in the clarity and consistency of asset valuation, revenue recognition, and risk disclosures. For instance, in the 2023 audit report of Uzbek Oil and Gas JSC, the use of IFRS improved transparency in inventory accounting and significantly reduced discrepancies between operational and financial data. Moreover, the integration of IFRS has contributed to increased confidence from international partners. In 2024, Uzbekistan received a BB credit rating from Fitch Ratings, partially attributed to improved financial reporting and the adoption of international audit practices¹⁶.

Despite these gains, several challenges persist. The dual reporting burden—where SOEs must comply with both Uzbekistan's National Accounting Standards (NAS) and IFRS—creates confusion and increases compliance costs. Furthermore, gaps between the Law on State Financial Control (2019) and IFRS disclosure requirements hinder full harmonisation. In addition, there is no centralised enforcement body dedicated to overseeing IFRS compliance in public audits. Most public audit offices still rely on legacy cash-based audit templates, limiting the effectiveness of IFRS integration into financial scrutiny mechanisms.

The lack of interagency coordination between the Ministry of Finance, the State Tax Committee, and sectoral ministries slows down the implementation process. Although the government launched a digital financial reporting portal in 2022, its coverage is still limited to large SOEs. Small and medium-sized public enterprises continue to submit reports manually, creating inconsistencies and audit lags.

Conclusions and suggestions

The analysis of the role of International Financial Reporting Standards (IFRS) in auditing public sector companies in Uzbekistan reveals both considerable progress and critical gaps that require targeted policy action. The gradual transition to IFRS-based auditing, initiated through strategic presidential decrees and cabinet resolutions, demonstrates the country's commitment to enhancing transparency, accountability, and international credibility within its public financial management system. The

¹⁵ Chamber of Auditors of the Republic of Uzbekistan (2023). *Annual Audit Personnel Capacity Survey*. Tashkent.

¹⁶ Fitch Ratings (2024). *Uzbekistan: Credit Rating Update – Improved Transparency Factors*. Retrieved from: <https://www.fitchratings.com/>

implementation of IFRS in key state-owned enterprises (SOEs) has already led to visible improvements in audit quality, particularly in asset valuation, risk disclosure, and harmonisation of financial data. These reforms are aligned with the long-term objectives of the “Uzbekistan–2030” strategy, which places fiscal openness and institutional modernisation at the heart of public sector reform.

However, despite the political will and regulatory framework supporting IFRS integration, the practical implementation faces several structural and institutional challenges. The limited number of IFRS-trained auditors, dual-reporting burdens arising from coexistence with national accounting standards, and the absence of a centralised oversight mechanism significantly constrain the consistency and depth of reforms. Furthermore, the lack of a fully digitalised and unified audit infrastructure hampers the scalability of IFRS adoption across smaller and medium-sized public enterprises. These issues are compounded by insufficient interagency coordination and inconsistencies between existing national audit legislation and the core principles of IFRS.

The experience of countries such as Georgia and Kazakhstan demonstrates that the successful institutionalisation of IFRS in the public sector requires more than regulatory alignment—it demands sustained investment in capacity-building, cross-ministerial coordination, and digital transformation. Uzbekistan’s progress, while noteworthy, remains partial and uneven, with successful outcomes concentrated in a handful of pilot SOEs. Without expanding the scope of these reforms and addressing underlying bottlenecks, the country risks fragmenting its public audit ecosystem and undermining the credibility of its fiscal reports on the global stage.

In light of these findings, several practical suggestions can be proposed. First, it is essential to establish a dedicated national body or unit under the Ministry of Finance responsible for supervising IFRS implementation in public enterprises and coordinating standard-setting with the Chamber of Auditors. This would ensure consistency, monitoring, and accountability. Second, nationwide IFRS certification and retraining programs should be expanded, especially targeting regional auditors and sector-specific public accountants, using partnerships with international institutions such as ACCA and IFAC. Third, the government should accelerate the digital transformation of public financial reporting through integrated platforms that enable real-time data exchange between SOEs, audit bodies, and fiscal regulators.

Additionally, legal reforms are needed to streamline the reporting process. Harmonisation of the Law on State Financial Control, the Law on Accounting, and tax reporting rules with IFRS principles will eliminate redundancy and reduce compliance costs. In parallel, a phased sunset clause for the use of outdated national standards in large SOEs should be introduced to avoid duplication and confusion.

Finally, it is recommended that Uzbekistan formalise regional audit cooperation mechanisms, allowing knowledge transfer from neighbouring states that have achieved higher levels of IFRS integration. Pilot bilateral audit harmonisation programs with countries such as Kazakhstan or Georgia could be valuable in overcoming technical and administrative challenges during this transition.

In conclusion, IFRS offers a transformative opportunity for Uzbekistan to modernise its public audit system and align with global financial governance standards. However, to fully realise its benefits, the reforms must move beyond formality and be supported by institutional infrastructure, professional capacity, and political continuity. A strategic, phased, and coordinated implementation of IFRS, rooted in the realities of Uzbekistan's economic and administrative structure, can significantly enhance the quality of public financial oversight, promote fiscal sustainability, and bolster the country's attractiveness to international investors and development partners.

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