

# Factors Preventing the Adoption of International Audit Standards in Uzbekistan

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## Abstract

This study aims to investigate the factors preventing adoption of International Auditing Standards in Uzbekistan. This field of study was chosen as literature review shows that there is a huge gap and insufficiency of study regarding this topic. The study aims to fulfil those gaps and create knowledge base in the country. International Auditing Standards became one of the important standards around the world after few world crises which vastly influenced global economy. Moreover, rapid growth of the global market has emphasised on the enhancement of and need for international standards on auditing. The use of a common set of international standards represents major benefits to the economy of the country as well as to investors, regulators and all public companies. The study results showed that all variables selected has direct impact to the adoption of IAS in Uzbekistan. However, Uzbekistan is experiencing rise of investment climate which would facilitate to the adoption of IAS and there is a major of interest of government to transit to international standards so as to ensure and gain trust of potential investors. The research concluded by giving few recommendations to aid other studies in assisting adoption of IAS in the country.

**Keywords:** International Audit Standards (IAS), Professional auditors, Professional auditors, International Financial Reporting Standards (IFRS), Ministry of Finance (MoF), International Auditing and Assurance Standards Board (IAASB), JSC

## Introduction

Since 2006, the Republic of Uzbekistan has made steady advancement in modernizing its legitimate and constitutional structure for professional financial reporting, progressively realising modifications. These accomplishments consist of endorsing the Law on Accounting, which recognized the Ministry of Finance (MoF) as the accounting normal setter, and the Law on Auditing, which shaped the Assembly room of Auditors as a proficient professional association for auditors. These laws were further bound by regime declarations expressing the common requirements of the laws. Corresponding to Uzbek and global standards, national accounting and auditing principles are being developed based on IFRS and ISA. The government of Uzbekistan is considering not only

espousing IFRS and ISA but also formally decoding those principles into the national languages. The huge financial scandals of past years have emphasized the weakness of many organizations 'control systems, continuously rising attention on internal audit and internal controls and their compliance with International Standards (M. Arena, M. Arnaboldi, G.Azzone,2009). Enhancing competition and barriers to market entrance have made organizations to be cautious enough to maintain their shares and stay strong in the market by assessing risks of fiascos and unseen commotion from financial cycle by means of internal auditing. Internal auditing basically explained as an independent, aim assurance and consulting activity formed to progress value and enhance an organization's performance (PWC). In accordance with changes in the business climate, considering the

function of internal audit as the most competent group of specialists to support the constant process of an organization with enhanced management, and also to aid key management progressions by observing, monitoring and gauging functioning productivity in the financial statements. In the scope of conversion economy and active financial growth, businesses meet huge difficulties in entrance to economic and finance market environment that they required to enhance and develop (AbdurahimTuraev, 2016). Challenges in conversion course make companies more exposed to external shocks and unseen influences reliant on the judicial and supervisory approaches for an entity in the economy. Enlargement of private entities and expansion of municipal non-governmental enterprise needs firmer control over financial reporting, monetary affairs and risk management in by means governmental acts, external and internal auditors. In Uzbekistan internal audit is still in developing horizon and distributed on mandatory and optional basis. Undoubtedly, substantial alterations occur in precise features of accounting and auditing approaches and processes, though Uzbekistan approved fundamental doctrines of accounting and auditing. The most striking difference can be seen in financial statement and its auditing process. Particularly income statement audit (in traditional practice income statement is termed as financial results statement) varies both in structure and features. Therefore, auditors often face complications and difficulty in understanding and locating into international principles. NAAA Uz does not have direct responsibility for the adoption of IFRS in Uzbekistan but its aids in promoting the adoption of international standards for application in the Republic of Uzbekistan, which as of 2018 have not been adopted. This article inspects the factors preventing the adoption of International Audit Standards in Uzbekistan.

### **Problem Statement:**

As the world constantly globalizing discussion of convergence of national and international standards has significantly raised. Several efforts have been taken by International Standards to detect challenges and success involved in transition and implementation of international standards (Peter Wong, 2010). In Uzbekistan, the concept of "internal audit" appeared relatively recently. In accordance with the resolution of the President "On measures for further development of the securities market" adopted a resolution of the Cabinet of Ministers "On measures to ensure the effective management of enterprises with a state share established by the Fund and proper accounting of state property" and approved the regulation on the internal audit service until 2012 took employees with valid

certificates of external audit-simply because there were no other options. Hence, it led to outflow of the certified external auditors in internal audit and to emergence of a situation when the regular employee of the audit organization got a job on a part-time worker on the enterprise which passed obligatory audit in the same organization. There was an urgent need to separate these activities and a Provision on the procedure for certification of the internal audit service. However, due to the lack of understanding of the essence of internal audit and the lack of national standards governing these issues, the heads of internal audit services in enterprises began to organize their work in accordance with the national standards of external audit. Basically, this is fundamentally wrong because there are serious differences in the activities of internal and external auditors (Sharipova, 2016).

### **Adoption of International Audit Standards**

International standards on auditing are allotted by International Auditing and Assurance Standards Board (IAASB), and board designated by and functioning independently under the auspices of the International Federation of Accountants. The IAASB's main mission is to promote internationally recognized standards of auditing. The core aim of these standards is the improvement of united auditing practices and procedures across countries. International Standards on Auditing (ISAs) include core ideologies and important procedures for auditing, along with requires guidance in their implementation (Smith, Sagafi-Nejad, Wang, 2008). In late 20<sup>th</sup> century global market experienced market collapse and few Asian countries adopted corporate governance reforms for public listed companies. Leung and Cooper, (2009) studied Internal Audit on Asia-Pacific profile and the level of compliance with Internal Auditing Standards. Authors highlighted that Malaysia and India passed legislation relating governance, whereas other countries supported a less-stringed method. In 2001 Asian Confederation of Institutes of Internal Auditors (ACIIA) was regarded and later in 2005 was assembled. ACIIA was assembled to provide leadership for the internal auditing profession and to aid the adoption of international and national best practices in this field. But, internal auditors speak a universal language there may be various control concepts, but they follow similar professional regulation, ethics and standards installed by the IIA. Even though internal auditors speak English language it is debatable that in practice, throughout various countries internal auditors may have dissimilar professional and educational experience, with alterations in their understanding of the Standards and their obedience. In addition, particularly in non-English speaking countries, the

progress of internal audit as a profession can vary, consequently resulting to differences in the recognised significance of expertise and proficiency (Leung & Cooper, 2009).

Referring to other country Romania in 1990s Romanian market oriented towards the codified French accounting standard, which consequently gave rise to interest in International Accounting Standards. This interest of Romanians in the connecting to the European Union influenced national supervisory body to conduct synchronization of national standard with European Directives (ED). As a result, after some period in 2005 Order of the Minister of Public Finance was deal out to adopt IAS only harmonized with ED (Albu et. al., 2011).

According to Zehri&Chouaibi (2013), more than 100 countries adopted or expressed their willing to implement or even to convert towards, the international auditing standards. In fact, first version of IAS regulations mainly focused as well as targeted on the establishment and enhancement on the developed countries, moreover large corporations were interested to follow unique regulations among developed countries. Tunisia was ground-breaking world country that expressed willingness to join international accounting and auditing harmonization movement. Country adopted IAS/IFRS in 1996 following implementation of new business accounting/auditing system. Regarding academic level, most of the studies were concerned in relation with cost and issues linked with the implementation of IFRS and IAS in developed countries. According to the studies conducted earlier and focused on investigation on the IAS and IFRS adoption factors by the developing countries. Study based on 32 developing countries implementing IAS and 32 non implementing countries. Authors found that those developing countries studied having a capital market, advanced educational parameters and high growth are more motivated to adopt IAS (Zehal and Mhedhbi, 2009).

Zehri&Chouaibi (2013) focused their studies on vast determinants that aids to the adoption of IAS and IFRS by the developing countries. Their studies show that there are two lines of research focus. The first line centres on the macroeconomic factors linked to factors for adopting international standards, the second stream focuses on microeconomic determining factor.

Studies conducted by various researchers on the effect of IAS implementation shows that the process has both advantages and challenges in this stage. For instance, few studies represents that the application of IAS

results in enhancement of comparability, transparency and quality of audit reports. Moreover, significant influence was seen on companies registered equity, enhancing volatility of outcomes and a decreasing conservativeness were also observed (Veneziani et.al, 2008).

In the world experience International Standards on Auditing are not as widely accepted as International Financial Reporting Standards, but statistics shows that the implementation is increasing. For instance, Chinese Auditing Standards Board indicated its proposal to accelerate conjunction with ISAs. The target of the International Auditing and Assurance Standards Board is to serve the public interest by installing good-quality auditing, assurance, and quality control standards. Global marketplace takes advantage from homogeneity in accounting and auditing standards. Most importantly entrepreneurs, financiers and investors are required to take into account the variances that occur in adoption. Those variances significantly decrease the enhancement of international business operation. Synchronization of accounting and auditing standards has prospective of bettering economic activity around the global market. At least, standardization would enable the work of accountants and auditors by reducing direct cost to multinational corporations (Smith & Kun Wang, 2008).

### Economy of the country

There is few studies carried out relating to our topic in Uzbekistan and those few studies does not investigate the influence of the foreign direct investment which aids in economic growth to the adoption of international standards. According to Romaniuk, 2011 internal auditing in every organ of public administration and in the private sector can aid entities to reach their goals. Performing with the authority of public administration or private company, internal audit cannot guarantee the reliability of financial statements and compliance with the law, but it definitely can decrease the risk in this regard. According to Sandwith, 2017 investors usually look at the quality of the board of directors, as well as the track of the CEO and management team. However, they may also look for the presence of an internal audit function in an entity. Even though having internal audit does not guarantees success in companies, but not having one does perhaps indicate how much the leadership values or indeed does not value strong, effective risk management, internal control and governance. More investors seek to enhance their level of understanding and ultimately assurance around who is providing the board with independent and objective assurance and insight on how well risk management,

governance and internal controls are being managed the value and need for an internal audit function has never been bigger of Internal Auditors Chapters is linked to economic wealth of the country and its citizens (Abdolmohammadi et.al, 2009).

According to PROTIVITY,2009 the internal audit team can play a major role in aiding lead business out of the current economic condition and into recovery, but only if helped by executive management and the board. The efforts of internal audit executives initiate to reshape and solidify robust and effective risk management strategies and prepare entities to face future challenges. Internal audit should be value adding resource to the companies.

Larson, (2013) also found in his investigation that there is relationship between the adoption of the IASB standards and economic growth in developing countries; international accounting standards modified to aid local conditions may be handy in promoting economic growth.

Al-Akra, Jahangir and Marashdel, (2009) discovered that the economic growth level, constitutes a major determinant for adopting the international accounting as well as auditing standards. Nevertheless, study revealed that factors such as culture, political system and the existence of a capital market do not have pointedly influenced the decision to adopt the IAS/IFRS.

Zehri and Chouabi, (2013), have studied determinants that affect decision of adopting international standards and one of her variables was economic growth and how it impacts the decision of adoption of IFRS/IAS. Study states that since creation of IASB majority of the countries tried to enhance their accounts by implementing IAS standards. These standards were having been established and inspired by some actualities by the developed countries. Undeniably, on testing of the IASB arrangement and assembly, it obvious evidence that the developed countries are over predominantly with respect to the developing countries.

According to Arpan et al. (2010), economic enhancement is certainly the fundamental variable that strongly affects the growth of accounting and auditing seeing that it impacts other functions in a society. Many old researches proved that there is a link between economic development and accounting quality. Also, Mueller et. al, (2009) proved that there is a positive correlation amid the rate of economic growth as well as quality of accounting. But referring to the theory it is highlighted that IFRS and IAS

relationship with economic development are controversial. Taking example the Asian context there were no significant alteration noticed in terms of economic growth among IFRS and IAS implementing countries and those which applying their local standards (Leung and Cooper, 2009).

Zehri and Chouabi, (2013) in their study highlighted the importance of capital market which means the reliability of financial information is a major tool in the development of capital market. Basically, the foremost trial for adopting the IFRS and IAS depends on enabling stock markets operations, as a result protecting the investor's interest on the many worldwide exchange marketplaces. Investors constantly require sophisticated evidence to be capable to analyse investment prospect and elevate their choice. For example pressure exerted by the international surroundings has stimulated few countries to have recourse to a mere substitution of their local standards with IFRS as well as internal auditors checking on the compliance with those standards. Study conducted by Jemakowicz et.al, (2009) have shown that countries with financial market that a reopen to foreign investors are more likely to implement the IFRS/IAS. As a result, by improving information comparability the IFRS/IAS launched signifies of fitting in the local financial market in the chain of global exchanges.

### Investment climate

Uzbekistan President ShavkatMirziyoyev in his annual message to the parliament declared 2019 as the Year of Active Investment and Social Development (Bureau, 2018). As president said adding investment is the driving force for economic growth and helps to attract new technologies and highly qualified experts. According to State Committee of Investment of Uzbekistan, country plans to use foreign direct investment worth of 4.2 billion U.S. dollars in 2019 which is 1.5 times more than in 2018 (Xinhua,2018). As mentioned earlier, if the country is planning to attract and increase its foreign direct investment there should be national or international standards that ensure that company has effective risk management, well established internal control and governance. According to Doty, 2014 independent audit provide trust for investors and thus bridge the gap among entrepreneurs who require capital and investor who has capital.

Burkhanov&Maitah, 2015 studied problems of investment climate in Uzbekistan they stated that risk in changes of taxation, in customs, currency rate have been rated as the most risk factors as surveyed

companies told. However, in 2017 The World Bank in Uzbekistan reported that state has launched ambitious program of market-oriented reforms. Government made rapid progress on implementing an impressive number of policy changes in a short period of time initiating public service, judicial, educational and tax systems reforms, liberalizing the foreign exchange regime, simplifying visa regime, improving investment climate and business environment. Due to the strong calls by investors and other of financial statements for the auditors' report to provide more prudent and valuable information, the IAASB issues new and revised enhanced auditor report standards (ACCA Malaysia, 2018).

There is impact of FDI on local economies, societies and environments. Specific regulations need to be adopted and enforced to facilitate the entry, treatment and protection of climate foreign direct, investment including normally regulated by IAS.

### Qualification of Auditors

According to Oksana Ognevchuk, 2016 in process of transition to international standards, many JSC face problems as it requires specific preparation and education. Moreover, when applying international standards whether it is Financial or Auditing standards both requires professional judgement and from this ability of judgement the successful transition to International Financial and Auditing Standards depends. From the obtained information it is clear that in adoption of International Internal Audit Standards require professional cognition. According to World Bank report regarding the observance of standards and codes the Republic of Uzbekistn, 2009 there is a need to reinforce the volume of accounting and auditing education at universities in order to establish continuity among university organizations and pre-professional training programs, by following more expansion of present CPD programs. Moreover, the report mentions the significance of the proper understanding and application of International accounting and auditing standard needs solid basement of education and training for financial statement generators, auditors and managers. Thus, the insufficiency of qualified professional auditors should be considered as an independent variable in this research. Second problem of this research is limited researches conducted relating professional auditor's levels in Uzbekistan.According to International Federation of Accountants (IFAC) standard on "Competence Requirements for Audit" audit professional defined as individual(s) who have a consistent starring role in the audit assignment and whose verdicts are relied on in arriving at the overall

audit view. That is to say an audit professional should be a professional accountant. Audit professional required to qualify as a professional accountant, hold an undergraduate degree and have the additional familiarity, abilities, practical involvement, professional beliefs, morals and attitudes established by standards. A review directed by audit experts comprises of the examination of the financial articulations. Sadler, Marais &Fourie, 2009 stated that expanding role of the internal auditors requires a developing sophisticated body of knowledge for internal auditors to perform their job. Also author stated that competency framework is necessary to determine the changes in the practice of internal auditing which was caused by the implementation of the IAS revised definition of internal auditing and the raised focus on the internal audit function as a vital component of corporate governance.

Internal auditors had to consider business leadership, risk management, regulatory matters, capital and liquidity, trading, IT and accounting/tax matter as well while performing their duties (KPMG, 2016; Grabmann&Hofer, 2014).

Disruptions are important and fast developing and potentially unplanned or unanticipated events that create risk and potential opportunity, demanding the attention and resources of the business. That means disruption are no longer episodic but they are constant, ranging from disruptive innovation that creates a new market, to economic volatility, regulatory changes or even a catastrophic event (Kristall, Mack, Torcasi&Basden, 2017)

However, skills needed by Internal Audit have changed in recent years and are evolving more rapidly. Skills that IA needed to accelerate as areas such as technology advancement and digital innovation further disrupt companies (Grabmann& Hofer, 2014; PwC, 2017). Having the necessary skills may also mean having the right tools and technology for internal audit talent to leverage (KPMG, 2016; Lambekova, Nurgalieva, Syzdykova, Zhanivekova and Aff, 2017).

Internal audit needs to continue with developing agility, integration, transparency and the prognostic approach that together demonstrate its value to stakeholders (Hill, Marsden & Wolldridge,2018;ChIIA,2017).

Romanik, 2011 emphasised that internal auditor employed in the community should have relevant qualification in one of the certifications: Certified Internal Auditor (CIA), Certified Government Auditing Professional (CGAP), the Association of

Chartered Certified Accountants (ACCA), and Certified Fraud Examiner (CFA) etc. So as to carry out internal audit in public administration, including its organizational units, the internal auditor employed by the office of local government units certified.

Zehri and Chouabi, (2013) studied adoption of international standards adoption IFRS and IAS one of the determinant was education level. The modules enhanced by the IAS and IFRS are basically stem from the professional proficiency guidance and opinions as well as the practical experience of the IASB numerous members. In fact, these standards are considered to be difficult and their understanding need bottomless and complete knowledge not only of accounting but as well as of other corrections such as actuarial calculations, finance as well as auditing. Hence the extent of their acceptance needs a highly advanced level of expertise by countries adhering

Brody, Moscove&Wnek, 2005 in their study on auditing standards in Poland stated that professional education and training is needed as market economy requires. Additionally to the educational requirements there are also practical experience necessities for entry into the auditing profession

### National Standards

The national standard of audit activity (NSAD) is developed on the basis of article 21 of the law of the Republic of Uzbekistan "on audit activity" (statements of the Oliy Majlis of the Republic of Uzbekistan, 2000, № 5-6, article 149), paragraph 3 of the resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 22, 2000 № 365 "on improvement of audit activity and increasing the role of audit" (JV of the Republic of Uzbekistan, 2000, № 9, article 62) and is an element of normative regulation of audit activity in the Republic of Uzbekistan. The purpose of this standard is to establish rules and regulations for cases where the auditor makes an audit report on the financial statements of the entity, using the results of an audit conducted in one or more units of the entity by another auditor (auditors). According to Ikramov, 2017 Uzbekistan has made steady developments in modernizing its legal and statutory standards for corporate financial reporting. This accomplishment comprises Law on Accounting, in the following year which sets the Ministry of Finance as accounting standard establisher, and the Law on auditing, after few years which formed the Chamber of Auditors as a charitable professional auditors association. To match Uzbek and global principles, national accounting and auditing principles were created by using basement on IFRS and ISA. Consideration on not just adopting the

IFRS and ISA were held but also legitimately translating those principles into the domestic languages were also considered. World Bank, 2008 suggested to continuously develop national accounting standards for non-public interest entities as they are not interested going globally they would mostly follow the national standards requirements. According to World Bank report the last issue of national accounting standard was made in 2005 and the organizations suggests to the country to continue national standard establishment. According to report of COORDINATING COUNCIL ON ACCOUNTING THE EXECUTIVE COMMITTEE CIS, 2014 the audit in many CIS member States is regulated by national standards developed on the basis of the ISA (Republic of Belarus, Russian Federation, Republic of Tajikistan, and Republic of Uzbekistan). Gradually, however, CIS member States are beginning to directly recognize ISAS as national standards. In particular, the ISAS are recognized as national standards in the Republic of Azerbaijan, the Republic of Armenia, the Kyrgyz Republic, and the Republic of Moldova. In the Republic of Kazakhstan, ISAS are applied directly. The Russian Federation announced the transition to the application of ISAS as national standards in the coming years. Moreover, they highlighted that in the process of implementation and application of ISAS, the CIS member States faced a number of common problems: institutional, organizational, legal, financial, personnel and methodological. The solution of these problems will make it possible to fully realize the benefits of the ISA. Therefore the existence of National Standards should be taken in account as an independent variable in this investigation. The additional problem of this research is limited research surveyed relating the influence of National Standards on adoption of the International Standards.

### Research Objectives

The main objective of this project is to identify to what extend the variables prevents adoption of IAS. The key aims are as follows:

- To identify if economic factor impacts IAS adoption
- To identify if investment climate factor impacts IAS adoption
- To identify if competence of internal auditors impacts IAS adoption
- To understand if the factor of existence National Standards impact on IAS adoption

### Research Methodology

Research approach that will be used is Quantitative methods and source of primary data will be used, since

the investigator will only obtain information from the auditors. Quantitative methods reveal a particular phenomenon by collecting numerical data that are analysed using mathematically based approach which is statistics. Primary data is defined as a combination of data gathered which is particularly collected for the target of this research. Data collection will be carried with the use of google forms by sending links to the professional auditors, accountants, entrepreneurs and economists in Uzbekistan, as they possess with the knowledge of business and investors.

Raosoft software is going to be used to determine the confidence level and error level and then questionnaires will be distributed according to data obtained by software. The description of questionnaire is a pre-formulated written set of questions to which respondents record their answer, basically within rather closely alternatives (Sekan&Bougie, 2009). Raosoft is systematic software to enable the researchers to calculate the total sample size in order to stipulate the quantity if respondents needed in this research. This research utilising Raosoft method set the confidence level at 90% and accepted level of error at 10%. With the confidence level and error level in the determined margin, the sample size suggested for this research is 122 respondents. (Refer to Appendix 1) Hence, the data collection through issuing questionnaires will be expected and based on 122 respondents in Uzbekistan. Additionally, before distributing the questionnaires, researcher will conduct prequestionnaire for testing purposes. The aim is to make sure that all the target interviewees are able to understand the meaning of the question; hence, they can give their clear opinion.

### 3.4 Data analysis

In this research will use quantitative data analysis and include procedures in which data received will be converted to numerical data and subject the data into statistical analysis. That is to say, data collected from respondents will be converted into knowledge base. Further, study will use Statistical package for the social science (SPSS) software to perform descriptive analysis and deliver the data obtained from questionnaire to the final information. The purpose of using SPSS is to save time and resources, also to provide more prudent information. In addition, SPSS software enabled the study to easily analyse the information compare to manually analyse it. SPSS is started by detecting a set of variables. The research is needed to enter data for the variable in order to establish number of cases. It significant for research to use SPSS in this research as it supports the data obtained from questionnaires. Descriptive analysis

only explaining about the data and what is the data shows and it is mostly used to show the basic element of data.

Each case had value to the variable and every variable comprises a particular type of number. Once the data is entered to the SPSS, the researcher can run the analysis, SPSS will read the cases. Perform analysis and produce output using graph and tables (Griffith, 2010).

#### 3.4.1 Descriptive statistical method

This study uses descriptive statics to obtain different analysis from the data collected such as mean, mode, percentages and graphs. Descriptive method describes the data in a simple and mannered way. It gives clear estimation and used to show the fundamental components of the information in this research. This method gives a summary which is simple in relation to the measure and sample.

This statistical approach will be used in this research to demonstrate descriptions from quantitative data in a sensible manner and forms. This approach eases this research by rearranging a lot of information in mannered way.

#### 3.4.2 Reliability method

Data analysis has different objectives which includes reliability of the data. The reliability of the data means how consistent and reliable the data is which is collected in this research. In current research, the data obtained will be tested regarding its reliability and the sample adequacy since it measures the internal consistency of the data. This study will use Cronbach alpha in testing the reliability of the data collected.

The Cronbach's alpha is a famous tool used in many researchers to measure the reliability and validity of the studies. In this study, Cronbach's alpha will be utilized in order to calculate and test the internal consistency and reliability of the data. The internal consistency means how closely the set of data are. Therefore, it measures the reliability of the scale in this study. In this research the Cronbach alpha, the data will be highly reliable if it is more than 0.65 since it is recommended by various methodologies. Any coefficient which will be less than 0.5 will be regarded as unacceptable.

The researcher has created a consent letter which will then be attached to the complete set of questionnaire. This can be seen as a warranty card to the participant and can make them easily trust the researcher. The consent letter consists of the purpose of conducting this research as well as the contact person of the

researcher. Thus, if the interviewee has any inquiries

in the future, they can contact the researcher.

## Findings

### Hypothesis testing based on linear regression model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673 <sup>a</sup>	.453	.435	.38569

a. Predictors: (Constant), Average\_IVD, Average\_IVB, Average\_IVC, Average\_IVA

b. Dependent Variable: Average\_DV

**Figure 1.** Regression model summaries

As shown in **Figure 1**, it illustrates the overall test conducted based on linear regression model in which the table was produced through SPSS software. The regression model summary is a significant part of analysing the data obtained from the respondents. The R square is a significant element in the regression model summary in which it aids the study to calculate the overall strength and stability of linear association in which it is between different independent variables and the overall dependent variable. R is the correlation that measures how the variables move in relation to each other and how well the model fits the actual data. R is always between (-1) and (+1).

The further away R is from zero, the stronger is the correlation. R equals to **0.673**, which identify that there is a positive strong correlation between

dependent and independent variables in the model. Adjusted R Square might be a more reliable statistic because it considers the sample size of the data. Moreover, Adjusted R Square should be used when the case has more than one independent variable because it will show clear explanation. The result gathered of the R Square represents that 67.3% which is the variation of adoption of IAS is explained and related with the set in with five independent variables (Economic condition, Investment Climate, Qualification of auditors, existence of National Standards). The remaining 32.7 % is described and explained by other various determinants of adoption of IAS. This gives insight to do further research in this study in order to discover the other various factors that challenges adoption of IAS in the country in this particular study (Uzbekistan).

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.435	4	3.609	24.259	.000 <sup>b</sup>
	Residual	17.404	117	.149		
	Total	31.839	121			

a. Dependent Variable: Average\_DV

b. Predictors: (Constant), Average\_IVD, Average\_IVB, Average\_IVC, Average\_IVA

**Figure 2.** ANOVA Results

The overall analysis of F test is the basis of the multiple regression model and analysis. The f test is applied to analyse and provide insight to the study in relation to whether the regression model is significant. In addition, the total judgement of the significance level is that the p value (Sig.) ought to be lower than 0.05 so as to demonstrate the overall model is statistically significant and adequate.

From the above results from the **Figure 2** above ANOVA table indicates the significance level of the F statistics in which the total value of the Sig. was below

**5%** with the value of **.000** in which it is showed **0.00<0.005**. That is to say, this implies the total regression model used in this study is significant enough to elucidate relationship of the variable. According to results obtained in the above **Figure 2**, the above model is significant and adequate since it is supported by the value of R Square at **0.673** joint with the result of F statistic which is 24.259 with the overall significance level of .000 which less than p value of 0.05.

This represents that overall four variables of the alternative hypothesis ( $H_0$ ) are accepted in which it indicates that there is a direct relationship of all the five independent variables (IV) to the dependent variable (DV).

### **Research Objective 1: To find if condition of economy of the country can prevent IAS adoption**

As Smith and Kung (2008) stated that synchronization of accounting and auditing standards has prospective of bettering economic activity around the global market. Current study found that 53.3 % of the stated their strong agreement that the development of economic condition aids to the adoption of IAS as well as mean for this statement was 4.41 which signifies average response for this statement was agreement with statement (refer to section 4.5.1 of full research paper). It is believed by authors that homogeneity in accounting and auditing standards brings advantage to global market.

The first objective of this study was to determine if the factor such as economy of the country can affect or challenge the adoption of IAS. As determined by the descriptive statistics in *4.5Section C* it is proven that the economic development of the country can directly impact to the adoption of International Internal Auditing Standards in Uzbekistan. Second statement which states most of the developed countries have already implemented IAS was supported by strong agreement of 56.6 % of surveyors with the mean of 4.42 and this also signifies that average respondents agreed with the statement (refer to section 4.5.2 of full research paper). Third statement was supported by 54.1 % of the respondents proving statement that higher investment climate the higher chance of adoption of IAS and mean for this statement was 4.45 which also indicates that average respondents agreed with the statement (refer to section 4.5.3 of full research paper). Fourth statement under section B was supported by 50% of the surveyors and mean for the statement was 4.33 which means average response for this statement was "agree" (refer to section 4.5.4 of full research paper). 41.8 % of the respondents agreed on the statement that strong auditing and reporting system creates competitive advantage of the country (Uzbekistan) (refer to section 4.5.5 of full research paper). As descriptive statistics shows refer to *table 4.9* average mean for the factor was 4.35. All means for first variable was described in *Chapter Four*. The average mean was calculated by adding all means of five statements given and divided by 5. This further was strengthening by the positive cointegration coefficient between the two variables as highlighted in *Section 4.9*.

In addition, additional testing on Cronbach's alpha in *section 4.10* of full research paper (*Table 4.43*) revealed that the variables have a relatively high internal consistency. As Larson, (2013); Zehri and Choubi, (2013); Mueller et. al, (2009) Arpan et al. (2010); Leung and Cooper, (2009); Jemakowicz et.al, (2009); stated that there is relationship between the adoption of IAS standards and economic growth in developing countries. Therefore, it can be concluded that economic condition of the country impacts adoption of IAS in Uzbekistan.

### **Research Objective 2: To find if investment climate of the country can prevent IAS adoption**

The second objective of this study was to prove that investment climate of the country can prevent adoption of IAS. That is to say, when a country has low investment climate there is less chances of adoption of IAS once its rises foreign investors would require providing audited financial statements which were audited based on International Internal Auditing Standards. Basically, study asked surveyors opinion regarding five statements. Following results were obtained through the analysis of the study. 59.8% of the respondents agreed that country with good investment establishes IAS to gain the trust of potential investors (refer to section 4.6.1 of full research paper). 48.4 % of the participants stated their strong agreement that investors will not have trust to invest in a country with poor internal auditing regulations and financial standards. Following by 50% of strongly agreement of the respondents that Uzbekistan is likely to adopt IAS standards due to rising investment climate. 46.7 % of the respondents strongly agreed that country need to adopt IAS in order to harmonise reporting system and create stable environment for companies. Lastly, fifth question was strongly supported by 49.2% study participants proving that investors are less likely to invest in a country with local audit standards as it brings higher risk. Mean of the five statements were more than 4.30 proving (refer to Exhibit 4.10) and this further was strengthening by the positive cointegration coefficient between the two variables as highlighted in *Section 4.9*. In addition, additional testing on Cronbach's alpha in *section 4.10* of full research paper (*Table 4.43*) revealed that the variables have a relatively high internal consistency. Therefore, it can be concluded that investment climate of the country can directly impact adoption of IAS in Uzbekistan.

### **Research Objective 3: To find if qualification of internal auditors can impact IAS adoption**

The competence of auditors has direct impact on adoption of International Auditing Standards. The results obtained in this investigation are according to the findings and results by Grabman et. al (2014) in which author argues importance of internal audit professional skills and knowledge importance. The explanation for such results is that insufficiency of knowledge of auditors can impact of adoption of International Auditing Standards. That is to say, is auditors will not possess with competent knowledge regarding international standards transition stage for the country will be more challenging as most of the auditors would not know how to apply those standards in practice as well as major misunderstandings and biases may arise from this factor. As Romaniuk (2015), emphasised that internal auditors employed in the organization should have relevant qualification in one of the certifications. Moreover, as Brody et. al (2005) stated that professional education and training is required as market economy requires. In addition to qualification requirement professional auditors should possess practical experience before giving any professional judgement regarding adoption of IAS. Supporting the result of the study mean of the five statements were more than 4.28 in section 4.7 and this was strengthening by the positive conegration coefficient between the two variables as highlighted section 4.9. Moreover, testing on Cronbach's alpha in section 4.10 of full research paper (Table 4.43) discovered that the variable have a relatively high internal consistency. Additional to statistics that proved relationship between two variables in section 5.2 of full research paper proves there is a positive strong correlation between dependent and independent variables in the model. Therefore, it can be resolved that qualification of auditors can impact adoption of IAS in Uzbekistan.

#### **Research Objective 4: To find if existence National Standard and its impact on IAS adoption**

The existence of National Standard has direct impact on adoption of International Auditing Standards. The explanation for such results is that existence of National Standards can challenge transition to International Auditing Standards. Even though country has based its standards with IAS/IFRS there is significant difference how reports are made in Uzbekistan compare to countries which has implemented IAS. As Zehri and Chouabi (2013) studied in adoption of IAS there are macroeconomic and microeconomic factors. According to survey carried by researcher 56 of professional auditors with years of experience strongly agreed that existence of

National Standards challenges implementation of IAS. Moreover, 44 of them believed that foreign investors will not be keen to invest in a country with National Standards. The reason for that is that National Standards does not qualify to IAS hence a lot of biases and misunderstandings are in the financial and auditing reporting statement was strongly agreed by 44.3 % of the professional respondents. But later if Uzbekistan will decide to implement IAS this may create auditors' reluctance to learn International Auditing Standards as they already used to National Standards this may create challenge throughout transition stage. This statement was strongly supported by 41 % of the respondents. Lastly, study found that uniformity of the auditing standards will ease the performance of work of the audit professionals and statement was strongly supported by 59 % of the respondents. As a proof for this statements all means for these variables were higher than 4 this further was strengthening by the positive coefficient between the two variables as highlighted in Section 4.9. Moreover, *additional testing on Cronbach's alpha in section 4.10 of full research paper (Table 4.43)* revealed that the variables have a relatively high internal consistency. Therefore, it can be concluded that existence of National Standards can impacts adoption of IAS in Uzbekistan.

#### **Conclusion**

In regards to this study the objective and target of this investigation was to investigate and analyse different factors preventing adoption of the International Internal Auditing Standards in Uzbekistan. The selected variables of factors that may affect to the adoption of IAS was studied and analysed so as to allow the targeted audience for instance audit professionals to analyse and obtain the knowledge why Uzbekistan still cannot adopt IAS standards and what are the factors that influences to it and auditing companies to try to investigate this field and study this more deeply so as to in future to aid country to open new horizons of global market which requires implementation of IAS in order to maintain reliability of financial statements and organizational governance. Conclusion based on variables is selected in this investigation. The variables used in this study economic condition, investment climate, qualification of auditors as well as existence of National Standards as possible factor. All four variables chosen in this research was to analyse how it impacts the dependent variable which is adoption of IAS. The outcomes received in this research were basically from the primary data through questionnaires in which the participation of respondents was high and encountered expectation of the study.

From the research conducted, study met all objectives and concluded that the four independent variables which are factors in this study have direct impact on the adoption of IAS.

## Recommendations

### There are a number of following recommendations for future researches can be outlined:

Recommendation from the author to other researchers is taking other factors which may impact adoption of IAS and to understand main issues. Variables of these studies were taken with presuming and testing if those factors are in fact influencing and challenging to the transition.

Second recommendation will be to conduct this research from perspective of whole Central Asia as all those countries have not yet implemented international auditing standards but still using national standards.

Third suggestion to auditors, finance students and audit companies to investigate more on this topic as there is a big gap in literature in order to create knowledge basement for future researchers and to publish it in the webpages so as other student have access to the studies carry out and to fulfil the gap and create the knowledge basement. In addition there is necessity to create big data storage webpages (e.g. Research Gate, Science Direct, and Emerald Insight) on the researches carried out by students in order to aid researchers to refer to previous studies

In addition, it is suggested for future studies to conduct qualitative study by collecting data through interviews so as to obtain opinion of the professional auditors in regards to the issues and to get their possible suggestions.

Moreover, fourth suggestion is to investigate main problems of auditing in Uzbekistan as there is still misconception regarding internal and external auditing.

### Recommendation to study based on problems identified:

First, suggestion to Ministry of Finance of Uzbekistan is to increase implementation of International Auditing Standards studies at university and diploma levels in order to aid enhancement of qualified audit professionals in the country who can apply professional judgement and aid country to transit to International Auditing Standards.

Other recommendation to the country is to implement IAS subjects in university studies so as to create

knowledge basement among audit and finance students.

Moreover, it suggested to country to create profiles of the professional auditors listed in online portal so international students who are carrying studies can directly lease with professionals. In addition, it suggested testing other factors that challenging adoption of the IAS in the country.

Restructure the study into more specific area as using google forms can be irrelevant and it would be more relevant to conduct research with partnership with governmental universities as there was lack of past researches carried due to all researches conducted are kept in paper form and are not published. Face to face interviews with professional auditors would be more relevant as they could give their view regarding the variables and problems identified and could suggest more specific area to study.

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