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Article

State-Led Audit Reform and ISA Adoption in Uzbekistan: Regulatory Transformation in a Central Asian Transition Economy

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Abstract: This article analyzes the state-led transformation of auditing in Uzbekistan with a specific focus on the adoption of International Standards on Auditing (ISA) and the construction of a new regulatory architecture for the audit profession. The study addresses a major gap in the international auditing literature by examining a Central Asian transition economy that has undergone rapid legal and institutional change in a compressed time period. Drawing on documentary analysis of laws, presidential decrees, cabinet resolutions, and official market statistics, the paper evaluates how Uzbekistan moved from a Soviet-legacy, compliance-oriented audit model toward an internationally aligned framework based on ISA, external quality assurance, registry reform, and revised certification arrangements. The findings demonstrate that the Uzbek reform trajectory is characterized by unusually strong state direction, accelerated formal convergence with international professional standards, and substantial market expansion. Between 2021 and 2025, the number of registered audit organizations increased from 96 to 175, the number of certified auditors rose from 651 to 1,296, and total market revenue reached 785.77 billion UZS. At the same time, the study shows that formal regulatory modernization has generated new implementation pressures related to market concentration, regional asymmetry, and variable organizational capacity. The article contributes to the literature by documenting a rare case of comprehensive audit reform in Central Asia and by demonstrating that ISA adoption in transition economies must be understood not merely as technical harmonization, but as a broader process of state-driven institutional restructuring.

Keywords: audit reform, ISA adoption, Uzbekistan, transition economy, audit regulation, state-led reform, audit market development

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1. Introduction

The globalization of financial reporting and assurance has significantly increased the importance of internationally recognized audit standards. Over the past three decades, the adoption of International Standards on Auditing (ISA) has become one of the most visible mechanisms through which countries seek to improve audit quality, strengthen the credibility of financial reporting, and enhance investor confidence (Humphrey, Loft, & Woods, 2009; DeFond & Zhang, 2014). In developed economies, ISA adoption is often studied in the context of mature markets and stable professional institutions. In transition economies, however, the same process is embedded in broader structural change involving legal reform, market creation, institutional restructuring, and

professional capacity building.

Uzbekistan presents a particularly important case in this regard. Since 2018, the country has undertaken a broad transformation of auditing activity. The reform sequence includes the adoption of a new Law on Auditing Activity, recognition of ISA as the sole applicable auditing standards, the creation of an external quality assurance mechanism, modernization of auditor certification, and establishment of digital monitoring systems. This transformation is notable not only because of its breadth, but also because of its speed. Within roughly five years, Uzbekistan moved from a fragmented and nationally rooted audit framework to a much more internationally aligned system.

Despite the scale of these changes, Uzbekistan remains largely absent from the international audit reform literature. Most prior studies on convergence and institutional transformation in auditing focus on Eastern Europe, Sub-Saharan Africa, Southeast Asia, or major emerging economies. Central Asia has been treated as an empirical void, despite the region's economic significance and the distinctive role of the state in directing institutional change.

This article examines the regulatory transformation of auditing in Uzbekistan and addresses three questions. First, how was the new regulatory architecture created? Second, how did ISA adoption function as a mechanism of institutional modernization? Third, what structural challenges remain after rapid formal convergence? In answering these questions, the paper contributes to comparative research on audit reform in transition economies and offers insights relevant to regulators and scholars interested in the political economy of professional modernization.

2. Literature Review

Research on international audit reform identifies ISA adoption as a major component of global financial harmonization. International standards aim to enhance the comparability, consistency, and credibility of audit engagements across jurisdictions (IAASB, 2022). A large body of scholarship has linked this process to international legitimacy, investor confidence, and convergence pressures generated by cross-border financial integration (Carson et al., 2012; Simunic, Ye, & Zhang, 2017).

At the same time, comparative research consistently warns that formal adoption of international standards does not automatically ensure substantive implementation. In developing and transition economies, weak regulatory enforcement, limited professional capacity, insufficient translation into local practice, and market constraints often produce a gap between formal compliance and practical effectiveness (Albu, Albu, & Alexander, 2014; Nurunnabi, 2017; Soobaroyen, Tsamenyi, & Sapra, 2017). This is particularly relevant where the profession is still consolidating and where international standards are introduced into environments historically shaped by very different administrative and professional traditions.[1]

The study of reform in transition economies further suggests that the architecture and sequencing of change matter. In some countries, professional associations play a central role in leading convergence; in others, the executive branch becomes the primary institutional entrepreneur. State-led reform models are especially likely where professional institutions are still evolving and where broader economic modernization is centrally coordinated (McGee, 2008; Mennicken, 2010). In such contexts, audit reform becomes part of a wider state project rather than a purely profession-led development.

For Central Asia, the empirical literature remains very limited. Uzbekistan therefore offers a distinctive case through which to explore how regulatory transformation unfolds when legal authority, administrative coordination, and professional modernization are compressed within a single state-driven reform cycle.

3. Methodology

The article relies on qualitative documentary analysis and descriptive analysis of official market indicators. Primary documentary sources include the Law on Auditing Activity of the Republic of Uzbekistan No. LRU-677 (2021), Law No. LRU-815 (2023), Presidential Decrees No. PD-3946 (2018), No. PD-5210 (2021), and No. PD-282 (2025), and Cabinet of Ministers Resolutions No. 171 (2022), No. 538 (2022), and No. 387 (2023). These sources were analyzed to identify the legal content, institutional sequencing, and reform mechanisms of the new audit framework.

The analysis is supplemented by official audit market indicators, including the number of audit organizations, the number of certified auditors, audit market revenue, geographic distribution of audit activity, and the extent of international network participation. These data allow assessment of how regulatory reform interacted with the organizational growth and structural composition of the national audit market.

The study does not seek to establish statistical causality. Rather, it aims to provide analytical generalization (Yin, 2018) about the relationship between regulatory transformation and professional market development in a transition economy setting.

4. Results

4.1. Legal Consolidation and the New Audit Law

The central turning point in Uzbekistan's audit reform was the adoption of the Law on Auditing Activity No. LRU-677 on February 25, 2021. This law fundamentally reorganized the legal architecture of the profession. It clarified the roles and responsibilities of audit organizations, individual auditors, professional associations, and state regulatory bodies. It also established a new registry-based mechanism for audit organizations, replacing the earlier licensing regime with a more streamlined and modernized regulatory structure.

Most importantly, the law recognized International Standards on Auditing as the sole applicable audit standards. This marked a decisive institutional break from earlier arrangements in which national and international approaches coexisted. The reform therefore represented more than technical updating; it constituted a redefinition of the professional basis of audit practice in Uzbekistan.

The subsequent amendment through Law No. LRU-815 in 2023 further refined the legal framework and demonstrated that audit reform was being managed as an iterative rather than one-off process. This is a common feature of transition economy reform, where initial legal frameworks are often adjusted as implementation challenges emerge.

4.2. Presidential Decrees as Instruments of State-Led Change

A distinctive feature of the Uzbek case is the role of presidential decrees in driving professional transformation. Presidential Decree No. PD-3946 of September 19, 2018 established the initial political and administrative mandate for modernization of auditing activity and integration with international standards. This decree signaled that audit reform was part of a broader state modernization agenda.

Presidential Decree No. PD-5210 of August 4, 2021 addressed modernization of the auditor certification system and promoted alignment with international education and qualification arrangements. Presidential Decree No. PD-282 of September 15, 2025 connected audit reform to broader financial accounting modernization. Taken together, these decrees demonstrate that audit reform in Uzbekistan was embedded within a comprehensive public-sector and financial-governance reform strategy.

This pattern distinguishes Uzbekistan from cases where reform emerges incrementally through professional self-regulation or gradual market convergence. The Uzbek case shows that in transition economies with concentrated political authority, executive power can accelerate institutional change at a pace rarely observed in more decentralized systems.

4.3. Administrative Operationalization Through Cabinet Resolutions

The broader reform agenda was translated into operational procedures through cabinet resolutions. Resolution No. 171 of April 11, 2022 established the procedure for recognizing ISA for application within Uzbekistan, including translation-related arrangements. Resolution No. 538 of September 28, 2022 created the institutional basis for external quality assurance of audit organizations. Resolution No. 387 of August 15, 2023 defined administrative procedures for including audit organizations in the official registry.[2]

This layered structure reveals a coherent reform sequence. Laws defined the overarching framework, presidential decrees established political direction, and cabinet resolutions operationalized implementation. Such sequencing strengthened regulatory coherence and reduced ambiguity in institutional responsibilities.[3], [4]

5. ISA Adoption as Institutional Modernization

The adoption of ISA in Uzbekistan should be understood as an institutional shift, not merely as a technical substitution of standards. ISA embody a professional model grounded in risk-based reasoning, evidence sufficiency, professional skepticism, and judgment. Their adoption therefore implies a new understanding of audit work, a new relationship between auditors and regulation, and a new basis for evaluating professional performance.[5]

Uzbekistan's reform went beyond the narrow adoption of core ISA and extended to the wider IAASB architecture, including quality management and other assurance pronouncements. This expanded the professional reference framework available to practitioners and aligned national audit practice more closely with international expectations.[6][7]

However, the significance of ISA adoption lies not only in its technical content but in its symbolic and institutional effects. It enhances the international legibility of the Uzbek audit system, facilitates communication with external investors and financial institutions, and provides a benchmark for modernizing certification, oversight, and firm-level methodology. In this sense, ISA adoption functioned simultaneously as a practical reform tool and a legitimacy-enhancing mechanism.[8]

At the same time, the Uzbek case also shows that legal recognition of ISA creates implementation obligations that extend far beyond formal enactment. A country may adopt the standards quickly, but deeper adaptation depends on training, interpretation, market incentives, and professional culture. This issue becomes clearer when the reform is examined through audit market indicators.[9]

6. Audit Market Transformation Under Reform

6.1. Growth in Firms, Auditors, and Revenue

One of the clearest effects of reform has been rapid market expansion. The number of registered audit organizations increased from 96 in 2021 to 175 in 2025, reaching 176 by the first quarter of 2026. The number of certified auditors grew from 651 in 2021 to 1,296 in 2025, and further to 1,337 by early 2026. Total audit market revenue reached 785.77 billion UZS in 2025, representing growth of 31 percent over 2024 and approximately 2.8 times the 2020 level.[10]

These figures indicate that audit reform was accompanied by significant organizational and professional expansion. The market did not merely become more regulated; it also became larger and more economically consequential.[11]

6.2. Structural Features of the Market

Yet growth has not eliminated structural concentration. In 2025, 34 of 175 firms had international network membership, and only 6 were subsidiaries of international audit companies. Around 170 of 1,296 auditors held international certifications such as CIPA, ACCA, or CPA. These figures suggest meaningful but still uneven international integration.[12]

Geographically, the market remains highly concentrated in Tashkent. Of 6,428 audited entities in 2025, 4,836 were located in the capital city, representing 75.2 percent of the total. This reflects concentration of corporate activity, but it also highlights unequal development of professional service capacity across the country.[13]

6.3. Caution in Reading Market Indicators

The market data reveal progress, but they should be interpreted carefully. Growth in firm numbers and revenue does not automatically imply uniform deepening of quality.[14] Similarly, the high proportion of unmodified audit opinions—92 percent in 2025—cannot be treated as straightforward evidence of strong reporting quality across all engagements. Such figures may also reflect market conservatism, client expectations, or limited willingness to issue modified opinions in a rapidly expanding profession.[15]

These observations reinforce a central point: regulatory modernization and market expansion are necessary indicators of institutional change, but they do not by themselves demonstrate fully mature professional practice.[16]

7. Discussion

The Uzbek experience provides several broader insights into state-led audit reform in transition economies. First, it demonstrates that strong executive coordination can achieve rapid formal convergence with international audit standards. Second, it shows that ISA adoption is most effective when embedded in a coherent legal and administrative architecture rather than treated as a standalone technical reform. Third, it highlights that market growth is an important but incomplete measure of successful reform.[17]

The case also underscores the distinctive role of the state in professional system building. In more mature audit environments, professional self-regulation and market mechanisms play a stronger role in institutional evolution. In Uzbekistan, by contrast, the state has acted as the central architect of legal, organizational, and procedural change. This makes the Uzbek case especially relevant for comparative scholarship on professional reform under concentrated political authority.[18]

At the same time, the findings suggest that formal convergence creates its own second-order challenges. Once the legal architecture is in place, the next problem is ensuring consistent implementation across firms of different sizes, across regions with unequal market depth, and across a profession experiencing rapid expansion. In this sense, the success of the first reform phase creates the agenda for the second.[19]

8. Conclusion

Uzbekistan has undertaken one of the most comprehensive audit reform programs observed in a Central Asian transition economy. Through a combination of legal consolidation, executive direction, administrative operationalization, and ISA adoption, the country has significantly modernized the formal basis of auditing activity.

The evidence presented in this article shows that the reform has produced genuine institutional change: a new legal architecture, expanded professional and organizational participation, and stronger alignment with international audit standards. At the same time, the Uzbek case reminds us that regulatory modernization is only the first stage of transformation. The long-term success of the reform depends on whether formal convergence can be translated into stable, consistent, and broadly distributed professional practice.

For transition economies pursuing similar reforms, the central lesson is that ISA adoption must be approached as part of a larger institutional project involving law, market structure, public administration, and professional development. Uzbekistan's experience offers a valuable example of both the possibilities and the continuing challenges of such transformation

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