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INTERNAL AUDIT AND CORPORATE GOVERNANCE: ENSURING TRANSPARENCY AND EFFICIENCY

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A B S T R A C T	K E Y W O R D S
In this article, the importance of internal audit in the corporate governance system, tariffs given to corporate governance, their variety, corporate governance models, Anglo-Saxon model, Continental-European model, Mixed model, regulatory documents on corporate governance, participants and the importance and necessity of internal audit among these participants are discussed.	Corporate management, business entity, internal audit, corporate management models, Anglo-Saxon model, Continental European model, Mixed model, participants of corporate management, principles of corporate management, normative documents of corporate management.

Introduction

At present, it is no secret that a number of measures are being undertaken to further develop and improve the economy. In particular, within business entities, internal audit serves as a tool of corporate governance to enhance enterprise performance, ensure accurate assessment of risks, maintain proper internal control, prevent errors and shortcomings, eliminate fraud, and create an effective management environment.

Internal audit is understood as a systematic and continuous process conducted by internal auditors within a business entity, following a carefully developed plan and optimal procedures. As a result, all errors and deficiencies are identified in a timely manner in each department, rectified by responsible persons, and the enterprise achieves higher efficiency and overall positive outcomes.

The simultaneous establishment of corporate governance and internal audit within business entities is extremely important and necessary. This can be understood through numerous examples, the study of foreign practices, and the scientific research conducted by our scholars.

Literature Review and Methodology

Corporate governance, in English "corporate governance," refers to the set of circumstances through which the board of directors conveys information, manages, and monitors the activities of a company to achieve its objectives.

According to national legislation, corporate governance is defined as "a set of rules that determine the key actions of shareholders, members of the supervisory board, and other executive personnel in managing the company's activities."

The concept of corporate governance is quite broad, which can also be observed through the approaches of various scholars:

V. Lekaram: "Corporate governance is not merely corporate management; it is a system that includes fair, efficient, and transparent management aimed at achieving clearly defined objectives."

Parkinson: "Corporate governance is a monitoring and control process designed to ensure that company management operates in the interests of shareholders."

World Bank: "Corporate governance refers to a set of legal regulations that facilitate investment in business entities and enable effective operational performance. The governance structure of joint-stock companies (general meeting of shareholders, supervisory board, executive body, audit commission, internal and external audits) is considered an element of the corporate governance system."

D. Suyunov: "Corporate governance is a set of actions carried out to achieve the company's objectives based on existing regulations that protect the rights of entities within corporate ownership and on certain governance principles."

A. Khashimov: "The main essence of corporate governance is to establish a balance of interests among the various parties involved in the activities of a joint-stock company."

A. Karimov: "Corporate governance is a system through which a business entity is managed; it ensures the effective and secure management of economic and social resources for development, oversees the administration of shareholder and investor capital, identifies and aligns stakeholder interests, and allocates generated profits proportionally among them through organizational, legal, and economic measures."

Results

As can be seen above, these definitions are numerous and reflect a diversity of perspectives. This list could be extended with many more definitions. The emergence of such varied viewpoints is due to the fact that corporate governance is structured according to different models. Currently, corporate governance consists of the following models:

Table 1 Corporate Governance Models and Their Content

No.	Model Name	Model Description
1	Anglo-Saxon (US-UK)	Divided into the US and UK models. The primary goal is for corporate managers to maximize shareholders' wealth. Information disclosure and accounting standards differ between these countries. US corporations follow **GAAP** (Generally Accepted Accounting Principles), while the UK follows **IFRS** (International Financial Reporting Standards) for financial reporting.
2	Continental Europe (Germany)	Internal mechanisms of corporate governance play a significant role in protecting minority shareholders and ensuring management efficiency. The corporate governance model in Uzbekistan is similar to this model but has notable differences, such as the existence of golden shares, the absence of workers' and employees' participation in the supervisory board, among others.
3	Hybrid (Japan)	The Japanese corporate culture model has been shaped by national traditions and geopolitical characteristics. Its main motto is "We are one." This philosophy is reflected in corporate strategic objectives—improving employees' living standards through lifelong employment, ensuring stability, and promoting equal pay for workers are leading values in Japanese companies.

From the data presented in the table, it can be emphasized that corporate governance models vary and can be described in different ways. However, their essence and function remain the same: the effective management of a company, which can only achieve positive outcomes through the proper and efficient organization of internal audit.

Furthermore, the participants of corporate governance play a crucial role in ensuring the effective operation of business entities. As mentioned above, there are several participants, each performing specific functions, and these functions differ from one another. This can be illustrated in the following diagram:

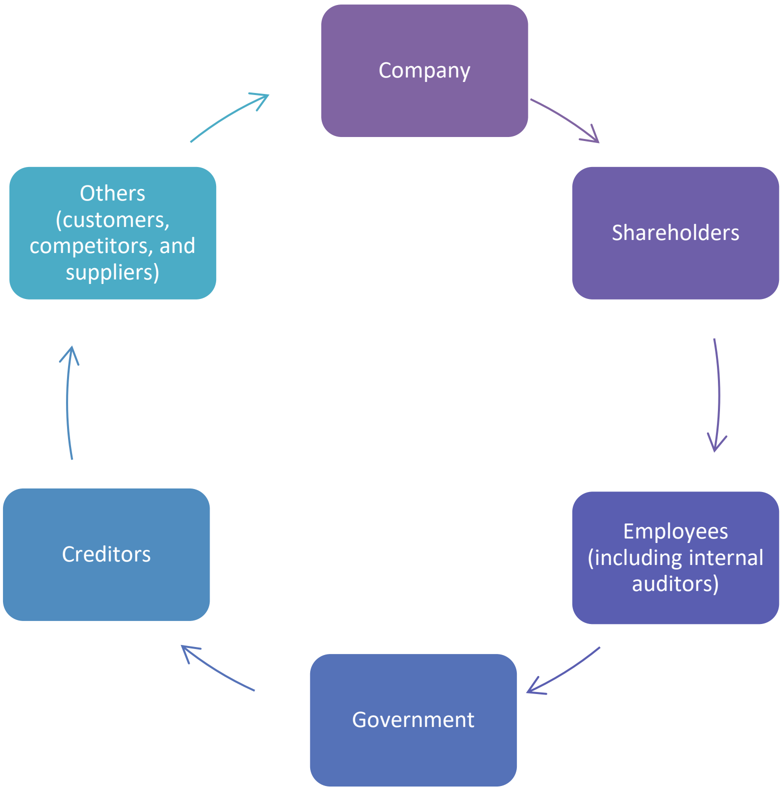

Figure 1. Participants of Corporate Governance”

The participants mentioned above form the foundation of corporate governance. These participants organize the management process and must work together effectively. Only through mutual agreement, proper organization, and coordinated actions can the company achieve positive performance and reach its objectives.

From the information above, the tables, the definitions of corporate governance, the perspectives on these various definitions, and the participants of corporate governance, we have examined and analyzed their interrelations and connections to the different models.

In ensuring the effective organization of corporate governance, its principles play a crucial role. These principles comprise eight key elements, which are as follows:

Table 2 Principles of Corporate Governance

No.	Principle Name	Principle Description
1	Maximizing Shareholder Value	The company sets as its primary goal to ensure that shareholders receive maximum profit.
2	Transparency of Financial Information	The company's accounts must be prepared in accordance with international standards, and information verified by auditors should be disclosed.
3	Clarity of Shareholders	The identity of the company's shareholders and owners must be clearly defined.
4	One Share, One Vote	Each share confers one vote to its owner.
5	Rights and Responsibilities of the Executive Body	The executive body is elected by shareholders through voting and is accountable to them.
6	Incentive System within the Company	Compensation, bonuses, and similar incentives should be properly implemented within the company.
7	Compliance with Legislation	Companies must operate in accordance with the laws of the country in which they conduct business.
8	Relationship between Government and Companies	The government and companies should always work in harmony.

If a management system is established based on the principles mentioned above and these principles are followed, the company's operations can be considered well-organized and effective.

Among the principles of corporate governance discussed above, special attention is given to compliance with legislation. The seventh principle specifically addresses the importance of legal compliance. Therefore, in order to further properly organize corporate governance and improve the performance of companies in the Republic of Uzbekistan, several regulatory documents have been adopted:

Resolution No. 176 of the Cabinet of Ministers of the Republic of Uzbekistan dated July 2, 2014, "On Measures to Further Improve the Corporate Governance System in Joint-Stock Companies";

Law No. O'RQ-370 of the Republic of Uzbekistan dated May 6, 2014, "On Amendments and Additions to the Law of the Republic of Uzbekistan on Joint-Stock Companies and Protection of Shareholders' Rights";

Resolution No. 189 of the Cabinet of Ministers of the Republic of Uzbekistan dated April 19, 2003, "On Measures to Improve Corporate Governance in Privatized Enterprises";

Resolution No. 3366 of the President of the Republic of Uzbekistan dated December 22, 2003, "On Improving the System of Economic Management Bodies";

Decree No. 3202 of the President of the Republic of Uzbekistan dated January 24, 2003, "On Measures to Significantly Increase the Role and Importance of the Private Sector in the Economy of Uzbekistan," regarding its implementation and future introduction of corporate governance principles in privatized enterprises, approved by the Cabinet of Ministers of the Republic of Uzbekistan:

Model Charter of the Supervisory Board of a Joint-Stock Company;

Draft Employment Contract for Hiring the Head of the Executive Body of a Joint-Stock Company.

Discussion

If we focus on the essence of internal audit, it consists of the following components:

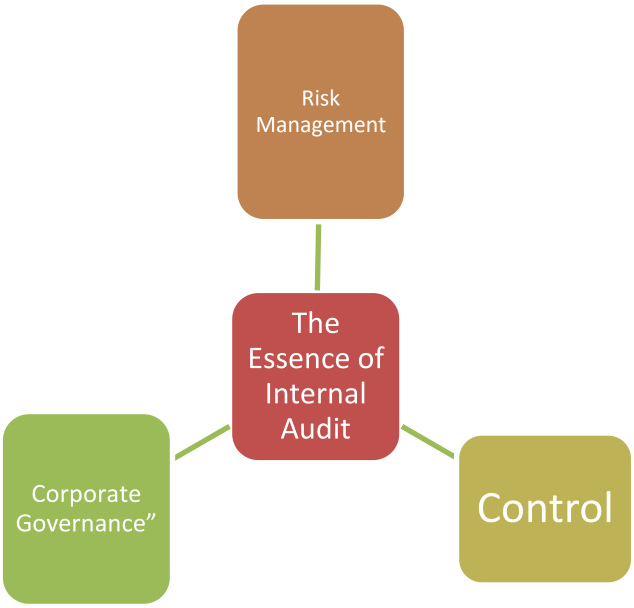

Figure 2. The Essence of Internal Audit

Risk Management – This involves all stages related to identifying, preventing, analyzing risks, and making decisions, which are carried out by internal auditors. These processes are outlined in the International Standards for the Professional Practice of Internal Auditing (IPPF), Standard 2120 "Risk Management."

Control – Control is one of the most essential activities of business entities, and internal auditors carry it out with great diligence and thoroughness.

Corporate Governance – This is a critical component closely linked to internal audit. Maintaining corporate governance and internal audit in parallel ensures that the company achieves a high level of efficiency. Numerous evidence and practical examples presented above support this assertion.

Conclusion

In conclusion, it can be stated that internal audit cannot be conceived without corporate governance. Both concepts-corporate governance and internal audit-are fundamental to the effective operation of business entities. They are complementary components: where corporate governance exists, internal audit is inherently present. Even in cases where a formal internal audit unit is not established, its functions may be performed by the chief accountant, manager, or other personnel involved in related activities.

We have observed that internal audit is an integral part of corporate governance. Historically, the emergence of internal audit has been driven by the development of corporate governance itself. The English translation of corporate governance also highlights the importance of internal audit, and various scholars' definitions consistently link internal audit to corporate governance. The classification of internal audit models demonstrates their dependence on corporate governance structures. We analyzed the role of internal auditors among the participants of corporate governance, studied the principles of corporate governance according to international standards, and examined how internal audit is embedded in each principle. Furthermore, we reviewed the main regulatory documents adopted in Uzbekistan and emphasized the importance of the corporate ethics code, which remains a pressing issue today. Drawing on international best practices, it is evident that further improvements in corporate governance are necessary.

Our analyses and studies indicate that internal audit is the foundation, backbone, and inseparable component of corporate governance. To illustrate its essential role, examples, scholarly opinions, and tables were provided.

Recommendations:

Strengthen the integration of internal audit within corporate governance structures to ensure comprehensive risk management and operational efficiency.

Regularly update corporate governance and internal audit regulations in line with international standards to enhance transparency and accountability.

Promote corporate ethics codes as an integral part of corporate governance to foster a culture of integrity and responsibility.

Provide continuous training and development for internal auditors to enhance their effectiveness in monitoring and improving organizational performance.

Encourage collaboration among corporate governance participants, ensuring that shareholders, executives, and internal auditors work in alignment toward the company's strategic objectives.

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