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**INTERNAL STANDARDIZATION OF DUE DILIGENCE REPORTING  
AS A TOOL FOR IMPROVING INVESTMENT ATTRACTIVENESS  
AND FINANCIAL TRANSPARENCY**

***Abstract:*** *this paper substantiates the need to develop and implement an internal standard for preparing due diligence final reports within audit organizations. The study argues that standardized reporting increases the analytical value, comparability, and practical usefulness of due diligence results for investors, creditors, owners, and corporate managers. The proposed approach is especially relevant under contemporary economic challenges, when investment decisions require timely, structured, and risk-sensitive information. The paper systematizes the purpose of the report, its users, structural sections, information sources, formats for presenting risk assessment outcomes, and the procedure for formulating conclusions and recommendations. As a result, an internal reporting standard is presented as an instrument for improving financial transparency, supporting investment attractiveness, strengthening audit-related services, and reducing information asymmetry in the decision-making process.*

***Keywords:*** *due diligence, audit services, internal standard, investment attractiveness, financial transparency.*

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## **ВНУТРЕННЯЯ СТАНДАРТИЗАЦИЯ ОТЧЕТНОСТИ DUE DILIGENCE КАК ИНСТРУМЕНТ ПОВЫШЕНИЯ ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ И ФИНАНСОВОЙ ПРОЗРАЧНОСТИ**

***Аннотация:** в статье обосновывается необходимость разработки и внедрения внутреннего стандарта подготовки итоговых отчетов по due diligence в аудиторских организациях. В исследовании утверждается, что стандартизированная отчетность повышает аналитическую ценность, сопоставимость и практическую полезность результатов due diligence для инвесторов, кредиторов, собственников и корпоративных менеджеров. Предлагаемый подход особенно актуален в условиях современных экономических вызовов, когда для принятия инвестиционных решений требуется своевременная, структурированная и чувствительная к рискам информация. Авторами систематизированы цель отчета, его пользователи, структурные разделы, источники информации, форматы представления результатов оценки рисков и процедура формулирования выводов и рекомендаций. В результате стандарт внутренней отчетности представлен как инструмент повышения финансовой прозрачности, поддержки инвестиционной привлекательности, усиления услуг, связанных с аудитом, и снижения информационной асимметрии в процессе принятия решений.*

***Ключевые слова:** due diligence, аудиторские услуги, внутренний стандарт, инвестиционная привлекательность, финансовая прозрачность.*

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*Introduction.*

Under conditions of economic uncertainty, higher financing costs, and tougher competition for capital, the quality of analytical information becomes a decisive factor in investment decision-making. Investors and creditors increasingly need integrated, risk-oriented, and decision-ready reports that reveal the true condition of a target company, project, or transaction. In this context, due diligence has become one of the most demanded professional services accompanying investment, merger, financing, restructuring, and strategic partnership decisions.

In many audit organizations, however, the final due diligence report is still prepared in a fragmented manner. Its structure often depends on the individual style of the engagement team or the client's immediate request. Such practice produces recurring problems. Reports differ in logic and terminology; risks are not always linked to their economic consequences; and recommendations are often descriptive rather than managerial. The absence of a unified internal reporting standard makes quality control difficult and weakens the comparability of engagements across clients and sectors.

These shortcomings directly affect financial sustainability and investment attractiveness. An investor assesses not only profitability but also the reliability of information, the visibility of risk factors, and the quality of analytical communication. Therefore, improving the organization of due diligence reporting inside audit firms is not a purely technical task; it is a strategic issue connected with transparency, confidence, and the reduction of information asymmetry.

The purpose of this paper is to justify the development of an internal standard for preparing due diligence final reports in audit organizations and to show how such a standard can improve the consistency, analytical value, and practical effectiveness of due diligence services.

*Literature and conceptual background.*

The professional basis of due diligence reporting is connected with the evolution of related services and assurance practices in international auditing. ISRS 4400 (Revised) emphasizes clearly agreed procedures, transparent communication of work

performed, and precise presentation of factual findings [1]. Although due diligence is broader than agreed-upon procedures, the standard highlights a key principle: users of professional reports need clarity regarding scope, information sources, and the meaning of reported findings.

ISAE 3000 (Revised) reflects a wider expectation for structured reporting, evidence-based conclusions, and disciplined documentation in engagements other than audits or reviews of historical financial information [2]. ISQM 1 additionally requires firms to operate a system of quality management that supports consistency and engagement quality [3]. Together, these documents do not provide a ready-made due diligence template, but they clearly support internal standardization, documentation discipline, and user-oriented presentation of results.

From an economic perspective, due diligence helps reduce information asymmetry between sellers and buyers, managers and investors, or borrowers and lenders. Information asymmetry distorts valuation, raises transaction costs, and may lead to inefficient capital allocation [4,5]. A well-structured due diligence report therefore functions as an analytical bridge between raw evidence and managerial judgment. It transforms fragmented financial, tax, legal, operational, and governance data into a decision-ready format.

In practice, one of the persistent weaknesses of due diligence engagements is the insufficient standardization of the final report. Some reports are overloaded with descriptive facts but provide limited prioritization of risks. Others contain broad conclusions without enough traceability to documents or analytical procedures. This fragmentation reduces usability for investors who need concise but substantiated answers to several questions: What are the main risks? How material are they? Which issues affect valuation, transaction structure, or financing terms? These questions justify the development of an internal standard for preparing due diligence final reports in audit organizations.

#### *Research approach.*

The study is based on a systemic and practice-oriented approach to the organization of due diligence services. It combines comparative analysis of

professional reporting requirements, logical structuring of the due diligence process, and synthesis of methodological elements necessary for a unified reporting model.

First, the main users of due diligence reports were identified. They include potential investors, lenders, owners, boards of directors, top managers, transaction advisors, and, in some cases, regulators. Each of these users requires reliable and comparable information, but their decisions differ in purpose. Therefore, the report must satisfy both analytical depth and managerial usability.

Second, the main functions of the final report were systematized. The report should not merely record facts; it should perform informational, evaluative, communicative, and decision-support functions. It must summarize verified evidence, rank risks and weaknesses, translate technical findings into understandable business implications, and provide conclusions relevant to pricing, negotiation, transaction structure, risk mitigation, and post-investment control.

Third, the internal architecture of the report was designed to ensure both consistency and flexibility. Consistency is necessary for quality control and comparability. Flexibility is necessary because due diligence engagements vary by sector, transaction type, client objective, and depth of requested procedures.

*Proposed internal standard for due diligence final reporting.*

The central scientific result of this paper is the proposal of an internal standard for preparing due diligence final reports in audit organizations. The standard systematizes six interconnected elements: report purpose, user orientation, structural sections, information sources, risk presentation formats, and the procedure for formulating conclusions and recommendations.

The first element is report purpose. The standard defines the purpose of the due diligence report as the structured presentation of verified and analytically processed findings regarding a company, project, transaction, or asset, with the aim of supporting an informed economic decision. This shifts the report from a passive descriptive document to an active decision-support instrument.

The second element is identification of report users. The internal standard requires explicit identification of primary and secondary users. Primary users are the parties

directly making the decision, such as an investor, buyer, creditor, or owner. Secondary users may include legal advisors, top managers, or supervisory board members. The intended user group determines the language of materiality, risk prioritization, and the level of detail required in appendices.

The third element is structural sections. The proposed structure includes: title page and engagement identification; executive summary; objectives and scope of the engagement; methodological note and limitations; overview of information sources; analysis by key areas; risk matrix and material findings; integrated conclusion; recommendations and possible management actions; and appendices. This structure ensures readability for decision-makers while preserving evidence-based depth.

The fourth element is information sources. The standard classifies sources into documentary, analytical, interview-based, and external verification sources. Documentary sources include contracts, accounting records, tax files, corporate documents, and internal reports. Analytical sources include ratio analysis, trend analysis, cash flow diagnostics, and comparative indicators. Interview-based sources include explanations from management and responsible employees. External sources may include public registries, market information, court records, and counterpart verification. Such classification improves transparency regarding the evidence base of conclusions.

The fifth element is the form of presenting risk assessment results. One of the major weaknesses of many reports is the unstructured presentation of risk. The internal standard therefore requires the use of standardized forms: a risk register, a materiality scale, a probability-impact matrix, and, where appropriate, a summary rating by business area. This approach allows the report user to understand not only the existence of a problem, but also its severity, likely consequences, and urgency.

The sixth element concerns the formalization of conclusions and recommendations. The standard proposes that every major conclusion should be linked to four analytical components: identified issue, supporting evidence, potential economic implication, and recommended action. Recommendations should be

specific, feasible, prioritized, and, if possible, linked to time horizons: immediate, medium-term, and strategic.

The general logic of the internal standard is summarized in Table 1.

Table 1

*Core elements of the proposed internal standard for due diligence final reports*

<i>Element</i>	<i>Standardized content</i>	<i>Practical value</i>
Purpose	Decision-oriented presentation of verified findings	Reduces ambiguity and improves usability
Users	Identification of primary and secondary users	Aligns the report with managerial needs
Structure	Unified section sequence	Increases comparability and quality control
Sources	Classification of evidence and analytical inputs	Improves transparency and traceability
Risk presentation	Risk matrix, materiality scale, and ratings	Makes findings measurable and comparable
Conclusions and recommendations	Link issue – evidence – implication – action	Supports practical decisions and follow-up

*Practical significance under modern economic challenges.*

The relevance of the proposed standard becomes stronger in the context of investment uncertainty. When capital becomes more selective, the analytical quality of pre-investment examination directly affects business competitiveness. A company or project evaluated through a well-structured due diligence report becomes easier to understand, compare, and negotiate.

First, the standard strengthens financial transparency. When report sections, evidence sources, and risk formats are standardized, users gain a clearer view of the target's actual condition. This is especially important where historical statements alone do not fully reflect contingent liabilities, governance weaknesses, tax disputes, operational vulnerabilities, or reputational exposures.

Second, the standard improves investment attractiveness. Investors prefer decision materials that are coherent, comparable, and focused on economically material issues. A standardized report shortens the analytical distance between data and decision. It allows the investor to identify whether risks require price adjustment, contractual safeguards, staged financing, or withdrawal from the transaction.

Third, it increases the internal efficiency of audit organizations. A unified standard reduces time spent on ad hoc report design, simplifies methodological supervision, facilitates onboarding of new team members, and strengthens quality review procedures. In a competitive professional services market, such internal standardization becomes a source of organizational competence.

Fourth, it supports the development of audit-related services in economies seeking stronger confidence in corporate information. Due diligence occupies an important place between accounting verification, strategic analysis, risk diagnostics, and transactional advisory. Therefore, better reporting standards help strengthen the market position of audit organizations as providers of integrated analytical services.

#### *Discussion.*

The proposed scientific novelty is not limited to formal report formatting. Its deeper significance lies in the systematization of knowledge transfer inside the due diligence process. In many engagements, the analytical effort is performed during document review, interviews, calculations, and expert discussions; however, if the final report does not communicate that effort in a structured and comparable way, much of its value is lost. The internal standard addresses this problem by converting professional judgment into a reproducible reporting framework.

Importantly, the standard does not eliminate expert judgment. On the contrary, it creates conditions for more disciplined judgment. Analysts still assess materiality, identify interconnections between risks, and formulate tailored recommendations. Yet they do so within a stable architecture that preserves logic, evidence, and managerial relevance.

The proposal also has institutional value. It can serve as a basis for internal firm methodologies, staff training, engagement quality monitoring, and future digitalization of due diligence procedures. Once report architecture is standardized, it becomes easier to automate parts of the workflow, create templates, and accumulate comparable engagement data over time.

#### *Conclusion.*

The study substantiates that the preparation of due diligence final reports in audit organizations requires internal standardization. The absence of a unified reporting approach reduces comparability, weakens quality control, and limits the practical usefulness of findings for investors and managers. In response, the paper proposes an internal standard that systematizes the purpose of the report, its intended users, structural sections, information sources, formats for presenting risk assessment results, and the procedure for formalizing conclusions and recommendations.

The scientific value of the proposal lies in linking due diligence reporting with broader economic objectives such as transparency, investment attractiveness, and informed decision-making. The practical value lies in improving report consistency, analytical depth, and usability within audit organizations. Under modern economic challenges, such internal standardization can strengthen both the quality of professional services and the reliability of investment-related information.

Thus, the development and implementation of an internal standard for due diligence final reporting should be considered an important direction in improving the organization of due diligence services and in enhancing the contribution of audit organizations to sustainable and transparent economic development.

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