

# Audit Report and Its Preparation Procedure

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**Abstract:** Today, the integral link between the preparation of financial statements and their audit is of significant importance to business entities and the public administration system. The reliability, transparency, and comparability of financial information are key factors for stakeholders. From this perspective, the role of auditing grows even more significant, and the auditor's final conclusion emerges as a crucial source of information. This article analyzes the content, purpose, main objectives, and procedure for preparing the audit opinion within the framework of international standards.

**Keywords:** International Financial Reporting Standards (IFRS), audit opinion, International Auditing Standards (ISA).

**Introduction:** In Uzbekistan, large-scale reforms are being carried out in the finance and audit sectors with the aim of modernizing the economy, accessing international financial markets, and improving the investment climate. In particular, By the President's decree of February 24, 2020, the transition to international financial reporting standards was accelerated, mandating that joint-stock companies, commercial banks, and large taxpayers prepare reports based on IFRS starting in 2021. This is further increasing the demand for auditing services. Additionally, the "New Uzbekistan Development Strategy" for 2022-2026 sets the task of improving state governance, including the digitization of accounting and the audit sector. For example, strategy documents provide for the informatization of processes in accounting, human resources, and other areas as part of the digitization of state government agencies' activities. These reforms serve to increase the transparency of reports, thereby enhancing the importance of the audit.

## LITERATURE REVIEW

The laws of the Republic of Uzbekistan also play a key role in regulating audit activities. It is noted that the purpose of the Law "On Accounting" is to regulate relations in the field of organizing, maintaining, and preparing accounting reports. Along with this, the

primary document regulating auditing activities in Uzbekistan is the Law "On Auditing Activities" (Law No. O'RQ-677, 02/25/2021). This law emphasizes that in addition to national legal norms, international treaties (if they establish principles that differ from legislation) take precedence. The law regulates matters such as the powers, qualification requirements, duties, and responsibilities of auditors and audit organizations. For example, the law stipulates that the audit conclusion, prepared as a result of mandatory audits, must be submitted to tax authorities in the form of an official extract (these legal provisions emphasize the legally binding nature of the report). The law establishes procedures for the professional services of audit organizations, an internal quality control system, a register of auditors, and control mechanisms (internal and external). An audit opinion is issued only by audit organizations engaged in professional audit activities, and its form, content, and essential elements are regulated by normative legal acts (the law, sub-legislative acts, and national standards).

International standards, in particular the ISA and the International Federation of Accountants (IFAC) Code of Ethics (IESBA Code of Ethics), are mandatory for application in the activities of our country's auditors. Therefore, the form, content, and key expressions to be included in the audit opinion have been incorporated

into the regulatory framework of Uzbekistan's legislation based on these international requirements. These international principles are consistent with national legislation: for example, the Law "On Auditing Activity" emphasizes that if international treaties establish different rules, the provisions of those treaties shall take precedence. Therefore, global auditing standards and our national legislation are regulated in a complementary manner.

## METHODOLOGY

The article was written primarily based on legal-normative and comparative analysis, as well as content-analytic and systematic methods, analyzing national laws, strategic documents, and international standards as the main sources.

## RESULT

A deep study of the nature of the audit report, its preparation procedure, and its basis in national legislation is carried out to accomplish the following tasks:

To determine the concept and functions of the audit report;

Study of laws and regulatory documents in the field of accounting and auditing;

Analysis of regulatory documents that define the content and structure of the audit report;

To examine in-depth the stages and methods of preparing an audit report and their relevance to improving practice;

Develop recommendations for measures to improve the quality of audit services and ensure their compliance with international standards in the context of Uzbekistan. The concept of an audit report and its legal status are primarily defined in Uzbekistan's legislation by the Law "On Audit Activity." According to this law, an audit opinion is a document containing the audit organization's written opinion on the reliability of an entity's financial statements and their compliance with accounting legislation. The law stipulates that only an audit conclusion is issued at the end of an audit, meaning the report documents the results of the investigation and reflects the opinions expressed in it. An audit opinion is a document formalized, numbered, and signed by the auditor, to which a copy of the financial statement on which the auditor expressed an opinion is attached. The form and content of the audit opinion are determined by the standards for independent auditing activities (national or international). An audit report (opinion) is a document prepared at the conclusion of an audit, in which the auditor expresses a written opinion on the reliability of the financial statements and their compliance with

legal requirements. According to Uzbek legislation, "the auditor's written opinion on the reliability of the financial statements and their compliance with accounting legislation" is considered an audit opinion. Auditing standards emphasize that preparing the audit report is a significant final stage of the audit process and the result of the auditor's work—that is, from the users' perspective, the auditor's conclusion is considered the "product of the audit activity."

The audit report is required to be structured in a clearly defined format. The International Standard ISA 700 (Rev. 2015) requires the audit report to be divided into the following main sections: title, addressee, introductory paragraph, management's responsibility, auditor's responsibility, auditor's opinion, auditor's signature, and date. These elements constitute the basic structure of the audit conclusion. Below is an explanation of each section of the audit report and its purpose in its formation.

### The main components of an audit report are:

**Header and Addressee:** The top of the audit report indicates its formal title (e.g., "Audit Opinion") and to whom the report is addressed. Often, the recipients are specified as the company's management, users of the financial statements (such as the board of directors, tax authorities), etc. In national practice, the report also includes the audit firm's and auditors' contact information, the name of the entity audited, and the scope of the audit (organizational form, address) (an example is provided below).

**Introduction:** In this section, the auditor provides information on the date the financial statements are as of, whether the audit was mandatory or voluntary, and the scope of the audit (which financial statements were audited – balance sheet, income statement, statement of cash flows, etc.). For example: "We have audited the financial statements of the organization 'XXX' as of \_\_\_\_\_ 20XX." This section also briefly highlights the international or national standard under which the audit was conducted and the audit methodology.

**Auditor's Responsibility:** The next section emphasizes the legal responsibility of the audit firm (or auditor): to express a professional opinion (conclusion) on these financial statements based on the audit conducted. For example: "The audit entity's responsibility is to express an opinion on these financial statements based on the audit conducted." This paragraph defines the term "audit": the auditor plans and performs the audit in accordance with international or national auditing standards, gathers sufficient evidence, and obtains assurance that there are no material misstatements in the financial statements.

**Auditor's Opinion:** The central part of the audit report

is the auditor's opinion, in which the auditor states whether the financial statements are fair or unfair based on the audit results. If the financial statements are presented in full accordance with the basic requirements, the auditor expresses an "unqualified opinion" (fully positive). Otherwise, he may issue a "modified opinion" (with an explanation, adverse, or an opinion refusal). For example, in an adverse opinion the auditor: "In our opinion, due to the significance of the noted circumstances that would constitute a basis for a negative opinion, the financial statements of 'XXX' as of 20XX have been presented unfairly in all material respects." In a positive (unqualified) opinion, the opposite is stated: "in our opinion, these financial statements present fairly, in all material respects, the financial position and results of financial activities of the entity."

**Basis for Opinion:** In the modified opinion, the auditor provides the reasons for the change in opinion. For example, in the qualification section, there are clauses such as: "In our opinion, due to the uncertainties (or limitations) noted in the explanatory notes, sufficient evidence has not been gathered to express a positive audit opinion." This section provides information about the significant misstatements, limitations, or other conditions identified and explains what led the auditor to reach their conclusion.

**Key Audit Matters (KAM):** Over the last decade, International Auditing Standards (ISA 701) have made it mandatory to present key audit matters in the audit report. KAM are "matters that, in the auditor's professional judgment, were the most important in the audit" (e.g., complex calculations, disputes over alternative accounting methods). They are described in a separate section of the auditor's conclusion after the auditor's decision has been formed. So far, in Uzbekistan the KAM requirement is not directly provided for in legislation, but it may be introduced to ensure compliance with international standards.

**Drawing Attention to Items (Explanatory Section):** If your auditor deems it necessary to draw special attention to certain matters in the financial statements, they will include a "drawing attention to items" or "explanatory paragraph." In this section (if included in the report summary), the auditor highlights certain important matters without altering the report. For example, the auditor may separately highlight an uncertainty regarding business continuity or a significant event described in the documentation in the form of an "explanatory letter." In the example provided, the auditor, stating "Without modifying our opinion on the fairness of the financial statements, we draw attention to the following information...", has highlighted an issue worthy of management's

attention.

**Auditor's signature and date:** At the end of the report, the auditor (or a representative of the audit team) and, if the team is reporting, the leader of the audit firm, are shown with their signatures and full names. The official date of the conclusion and, if necessary, a seal are also included. According to the legislation of Uzbekistan, each page of the conclusion must be signed by the auditor(s) who conducted the audit and the head of the audit firm, and the conclusion must be accompanied by the financial report pertaining to this audit. Thus, the signatures and dates confirm the formality of the report.

International Standards on Auditing (ISA) specify in detail the structure and content of the audit report. For example, Standard ISA 700 recommends dividing the audit opinion into the sections mentioned above. ISA 705 (Modified Conclusions) governs the structure when the auditor's opinion is modified, ISA 706 (Emphasis Paragraphs) regulates the inclusion of an explanatory paragraph and (ISA) 720 (Revised), The Auditor's Responsibilities Relating to Other Information.

In the international format, the KAM and explanatory paragraphs are presented in separate sections, which makes the audit report more transparent and understandable for users.

Under the new 2021 Law, the form and content of the report are determined by auditing standards. In other words, the format of the audit opinion can now be officially determined based on both international standards (ISA 700-720) and national regulations. Under Uzbek legislation, the audit opinion must be numbered, each page must be signed by the auditor and the management, and it must be accompanied by the audited set of financial statements.

## CONCLUSIONS

The results of the analysis conducted on the topic "Audit Report and Its Preparation Procedure" during the writing of this article can be summarized as follows. The study conducted an in-depth examination of the concept of an audit report, its primary objectives, its legal and regulatory foundation, as well as its content and form (in accordance with international and national requirements). The strategic reforms being implemented in Uzbekistan—particularly the "New Uzbekistan" strategy for 2022-2026 and "Uzbekistan - 2030" strategy, the priority directions set for enhancing financial management, transparency, and accountability have been found to further strengthen the socio-economic significance of auditing activities.

First, the audit report, as the final product of the audit process, is an independent confirmation of the fairness

of the financial statements and their compliance with laws and standards. It not only increases confidence among users of financial information (management, owners, investors, lending institutions, tax and regulatory authorities) but also contributes to the effective functioning of government administration and market mechanisms.

Secondly, the analysis of the legal and regulatory framework shows that the Laws of the Republic of Uzbekistan “On Auditing Activities” and “On Accounting” form the foundation of auditing activities. These laws define the auditor's powers, the formal structure of the conclusion, the signing of pages, the attachment of a copy of the financial statements to the report, quality control mechanisms in auditing firms, and other procedures. Additionally, the technical aspects of the report (templates, appendices, and the reporting form) are regulated through decisions of the Ministry of Finance and national auditing standards (AFMS). International Auditing Standards (ISA 700, 705, 706, 720 and the KAM requirements via ISA 701) ensure that the content and presentation of the report comply with international norms. Therefore, harmonizing national and international requirements is a key factor in improving the quality of audit reports.

Third, a comparative analysis of the content and form of the audit report highlights the following aspects: the international format seeks to clearly communicate the report's content to the user (introduction, management's responsibility, auditor's responsibility, auditor's opinion, basis for opinion, KAM, emphasis of matter, signature, and date).

Fourth, the main practical problems and shortcomings identified are: the need to update national standards in some cases, the necessity of strengthening the professional competence level of auditors and audit organizations and their continuing education system, the need to increase the effectiveness of internal and external quality control mechanisms, as well as questions related to the transparency and public availability of the reports.

Fifth, a key strategic outcome is that the digitization, transparency, and international integration measures outlined in the state's 2022-2026 and 2030 strategies will increase the priority of the audit sector.

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