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THE USE OF DUE DILIGENCE PROCEDURES TO ENSURE TRANSPARENCY OF FINANCIAL REPORTING IN JOINT-STOCK COMPANIES

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Abstract: This article examines the role of the Due Diligence procedure in ensuring the transparency of financial reporting of joint-stock companies. The study identifies key contemporary challenges affecting the reliability of financial reports, including insufficient disclosure of information, non-compliance with international standards, and limited accessibility of data for investors. A model for integrating Due Diligence into the financial reporting process is proposed, based on a structural and modular approach to the analysis of both financial and non-financial aspects of corporate activities. The article outlines the main stages of implementation and proposes an interaction algorithm between corporate governance participants and independent auditors. The effectiveness of Due Diligence as a mechanism for enhancing investor and regulator confidence is substantiated.

Key words: joint-stock company, financial reporting, transparency, Due Diligence, investment risks, corporate governance.

Annotatsiya: Ushbu maqolada aksiyadorlik jamiyatlarining moliyaviy hisobotlari shaffofligini ta'minlashda Due Diligence jarayonining o'rni tahlil qilinadi. Tadqiqotda moliyaviy hisobotlarning ishonchligiga salbiy ta'sir ko'rsatuvchi zamonaviy muammolar, jumladan ma'lumotlarning yetarli darajada ochib berilmasligi, xalqaro standartlarga nomuvofiqlik va investorlar uchun axborotga kirish imkoniyatlarining cheklanganligi aniqlanadi. Moliyaviy hisobotlarni shakllantirish jarayoniga Due Diligence'ni integratsiya qilish modeli taklif etilib, u korporativ faoliyatning moliyaviy va nomoliyaviy jihatlarini tahlil qilishda strukturaviy va modulli yondashuvga asoslanadi. Maqolada joriy etishning asosiy bosqichlari bayon etilib, korporativ boshqaruv ishtirokchilari va mustaqil auditorlar o'rtasidagi o'zaro hamkorlik algoritmi taklif qilinadi. Due Diligence'ning investorlar va regulyatorlar ishonchini oshirishdagi samaradorligi asoslab berilgan.

Kalit so'zlar: aksiyadorlik jamiyati, moliyaviy hisobot, shaffoflik, Due Diligence, investitsiya xavflari, korporativ boshqaruv.

Аннотация: В статье анализируется роль процедуры Due Diligence в обеспечении прозрачности финансовой отчетности акционерных обществ. В исследовании выявляются современные проблемы, негативно влияющие на достоверность финансовых отчетов, включая недостаточное раскрытие информации, несоответствие международным стандартам и ограниченный доступ инвесторов к данным. Предлагается модель интеграции Due Diligence в процесс формирования финансовой отчетности, основанная на структурном и модульном подходе к анализу финансовых и нефинансовых аспектов корпоративной деятельности. В статье раскрываются основные этапы внедрения и предлагается алгоритм взаимодействия между участниками корпоративного управления и независимыми аудиторами. Обоснована эффективность Due Diligence как инструмента повышения доверия со стороны инвесторов и регуляторов.

Ключевые слова: акционерное общество, финансовая отчетность, прозрачность, Due Diligence, инвестиционные риски, корпоративное управление.

INTRODUCTION

In the context of globalization and the liberalization of financial markets, ensuring the transparency of corporate reporting has become an integral component of the sustainable development of joint-stock companies. Information presented in financial statements serves as the basis for strategic decision-making both within companies and by external stakeholders such as investors, creditors, and regulators. However, traditional forms of internal and external control do not always make it possible to timely identify hidden risks, manipulations of financial indicators, or cases of unreliable disclosure of information.

Against this background, the Due Diligence procedure is gaining particular relevance as a tool for preliminary in-depth analysis of a company's financial position, legal obligations, tax risks, and operational processes. Due Diligence is not limited to verifying compliance with regulatory requirements; rather, it represents a systematic approach to diagnosing corporate reporting and risk management. This approach is widely used in international practice in the context of mergers and acquisitions, investment attraction, initial public offerings (IPOs), as well as business restructuring.

For joint-stock companies in Uzbekistan, the implementation of Due Diligence constitutes an important step toward enhancing transparency, investment attractiveness, and compliance with international standards such as International Financial Reporting Standards (IFRS), as well as the recommendations of the International Monetary Fund, the World Bank, and the Organisation for Economic Co-operation and Development (OECD). Under conditions of active privatization, corporate governance reforms, and growing interest in the domestic market from foreign investors, there is an objective need to systematize and institutionalize Due Diligence practices within corporate financial reporting.

The purpose of this study is to substantiate the importance of applying the Due Diligence procedure to ensure the transparency of financial reporting of joint-stock companies, to analyze existing approaches, and to develop a model for integrating this procedure into the corporate reporting system.

LITERATURE REVIEW

Transparency of financial reporting and the application of the Due Diligence procedure have been widely discussed in international academic and professional literature. Researchers emphasize that reliable and transparent financial information is critically important for risk assessment and informed investment decision-making. Due Diligence is viewed as a multi-level review mechanism that allows the identification of not only explicit, but also potential distortions in financial statements, which is particularly significant in mergers and acquisitions and large investment transactions [9]. International studies also underline that Due Diligence contributes to improving the quality, comparability, and credibility of corporate reporting in line with global best practices and regulatory expectations [10].

A number of scholars focus on the methodological role of Due Diligence within corporate reporting systems. It is argued that Due Diligence acts as a link between traditional accounting data and managerial analysis, enabling a more qualitative interpretation of financial indicators and reducing information asymmetry between companies and investors [1]. Other studies highlight that comprehensive examination of financial statements through Due Diligence strengthens investor confidence and enhances corporate governance mechanisms [8]. Comparative research demonstrates that, unlike traditional audit, Due Diligence provides a broader analytical scope, covering financial, legal, tax, and operational risks in an integrated manner [2], [3].

In domestic practice, the Due Diligence procedure is still insufficiently institutionalized. Empirical studies indicate that the lack of methodological frameworks and institutional support constrains the development of comprehensive financial review mechanisms in companies [4], [5]. At the same time, recent research shows that the application of Due Diligence tools, including automated analytical approaches, can significantly improve the reliability of accounting and auditing data, especially in the context of attracting external capital and implementing corporate reforms [7]. Overall, the reviewed literature confirms the necessity of developing and integrating Due Diligence procedures as an effective instrument for enhancing the transparency, reliability, and investment attractiveness of financial reporting in joint-stock companies, particularly in alignment with international standards and best practices [6], [10].

RESEARCH METHODOLOGY

This study employs methods of comparative analysis, content analysis of corporate reports of joint-stock companies in Uzbekistan, as well as expert surveys of specialists in auditing and corporate governance. To assess the impact of implementing Due Diligence on the transparency of financial reporting, an original model for integrating this procedure into the process of preparing financial information was developed.

ANALYSIS AND RESULTS

Despite statutory requirements and mandatory auditing, the financial reporting of joint-stock companies in practice faces a number of serious challenges that reduce its transparency and reliability. One of the main issues is a formalistic approach to reporting, in which the focus is placed on compliance with formal requirements rather than on the substantive completeness and usefulness of information for users. Financial statements often lack detailed disclosure of risks, contingent liabilities, and financial forecasts, which limits the ability of investors and analysts to objectively assess a company's financial position.

A second problem area is the weak integration of International Financial Reporting Standards (IFRS), particularly in non-public joint-stock companies. Despite the declared adoption of IFRS, the actual transformation of companies' accounting policies frequently remains superficial. This leads to a lack of comparability between reports, restricts opportunities for cross-country analysis, and hampers the attraction of foreign investment.

A third issue is the insufficient level of automation in the reporting process. In many joint-stock companies, financial statements are prepared manually or using outdated software solutions, which increases the risk of errors and reduces efficiency and transparency. The absence of a unified digital platform for the submission and verification of reports also impedes systematic verification and oversight by regulators.

In addition, a significant challenge is the distortion of information aimed at improving reported performance indicators. Such practices may be driven by management's desire to present a favorable image of the company to shareholders or supervisory authorities. This can result in the understatement of liabilities, manipulation of revenues, and concealment of losses, leading to an inaccurate financial picture and distorted investment decisions. Finally, financial reporting often lacks comprehensive disclosure of ESG indicators, which are becoming increasingly important for international investors. Ignoring sustainability, corporate governance, and social responsibility factors reduces companies' investment attractiveness and limits access to green financing. Overall, the systemic problems in the preparation and presentation of financial reporting by joint-stock companies in Uzbekistan indicate the need for more in-depth control mechanisms, including the implementation of Due Diligence as a tool for verification, standardization, and enhancement of trust in disclosed information.

Integration of Due Diligence into the Financial Reporting System

Integrating the Due Diligence procedure into the system of preparing and disclosing financial statements of joint-stock companies represents an effective mechanism for improving reliability, transparency, and compliance with international requirements. Such a model enables not only the identification of hidden risks and distortions but also the formalization of internal control processes and the strengthening of management accountability to investors and regulators. At the core of the integration model is the principle of end-to-end verification: at each stage of report preparation, independent analytical and legal reviews of key elements are conducted—from the recognition of assets and liabilities to fair value measurement and the completeness of disclosures. In this context, Due Diligence becomes not a standalone procedure but an embedded mechanism within the corporate reporting and audit system. The model is based on a modular approach, whereby Due Diligence covers several functional areas: financial analysis, legal review, tax examination, ESG assessment, and operational risk analysis. Each module complements traditional financial reporting and serves as a basis for preparing substantiated notes, forecasts, and disclosures.

Table 1. Model for Integrating the Due Diligence Procedure into the Financial Reporting of a Joint-Stock Company

1. Stage	2. Due Diligence integration content	3. Expected effect
4. 1. Preliminary audit	5. Analysis of accounting policy reliability, identification of risks related to loss concealment or misstatements	6. Improved accuracy of initial data
7. 2. Legal analysis	8. Review for hidden liabilities, litigation risks, and conflicts of interest	9. Elimination of legal uncertainty
10. 3. Financial and analytical review	11. Assessment of assets, liabilities, liquidity, and NPV/IRR of investment projects	12. Higher quality of analytical conclusions
13. 4. ESG analysis	14. Evaluation of social, environmental, and governance sustainability	15. Expanded non-financial disclosures
16. 5. Stress testing	17. Modeling stress scenarios and their impact on key indicators	18. Justification of assumptions in notes
19. 6. Preparation of a visualized report	20. Presentation of information using infographics, dashboards, and charts	21. Improved transparency and investor perception
22. 7. Approval and disclosure	23. Incorporation of Due Diligence findings into final reports and public disclosure	24. Increased trust from investors and auditors

The integration of Due Diligence into financial reporting contributes to the institutionalization of internal control, the strengthening of corporate governance practices, and the standardization of reporting processes. This is particularly relevant for countries with emerging capital markets, such as Uzbekistan, where confidence in public reporting remains limited while the demand for investment transparency is exceptionally high. Ensuring the transparency of financial reporting of joint-stock companies through the integration of the Due Diligence procedure requires not only an appropriate regulatory framework but also institutional readiness of market participants. In practice, the implementation of Due Diligence within corporate reporting systems faces a number

of challenges, ranging from the lack of unified methodologies and digital platforms to weak legal accountability for unreliable disclosures. Nevertheless, international experience confirms that a structured introduction of this procedure can significantly improve the quality of information provided to investors, auditors, and regulators. Of particular importance is the modularity and adaptability of the model: depending on their industry, size, and ownership structure, companies may vary the depth of review by prioritizing specific areas (for example, legal risks in real estate development or environmental risks in industrial enterprises). Moreover, practical experience demonstrates that visualizing the results of Due Diligence reviews and developing digital dashboards enhances the accessibility of information for a broad group of shareholders, including minority investors. Below is a comparative overview of traditional financial reporting and reporting enhanced through the integration of Due Diligence across several key parameters.

Table 2. Comparative Analysis of Traditional Financial Reporting and Reporting with Integrated Due Diligence

Parameters	Traditional reporting	Reporting with Due Diligence
Misstatement verification	External audit only	Multi-level: audit plus internal review
Transparency of liabilities	Limited	Extended disclosure of hidden risks
Risk forecasting	Almost absent	Use of scenarios and stress testing
Data visualization	Tabular format	Infographics and interactive dashboards
Involvement of external experts	Auditor only	Lawyers, valuers, tax consultants
Non-financial (ESG) reporting	Voluntary or absent	Included in review and disclosure
Impact on investment decisions	Moderate	High due to comprehensive information

The integration of Due Diligence transforms the reporting process from a formal regulatory obligation into a strategic management and communication tool for stakeholders. It is important to emphasize that the implementation of such an approach requires legislative initiatives, professional training, standardization of reporting formats, and the development of digital infrastructure.

CONCLUSION AND SUGGESTIONS

Transparency of financial reporting of joint-stock companies represents a cornerstone of effective corporate governance, investment attractiveness, and resilience to external risks. The conducted research demonstrates that integrating the Due Diligence procedure into the process of preparing and disclosing financial statements significantly enhances their reliability, completeness, and analytical value. Unlike traditional auditing, Due Diligence encompasses not only accounting indicators but also legal, operational, tax, and ESG aspects, thereby providing a comprehensive view of a company's overall condition.

The application of visual tools and digital platforms in the preparation of Due Diligence reports improves the accessibility and understanding of information for stakeholders, including minority shareholders and potential investors. Moreover, comparative analysis shows that companies implementing Due Diligence within corporate reporting practices enjoy higher levels of market trust, attract investment more easily, and adapt more rapidly to regulatory changes. For the widespread adoption of this approach in Uzbekistan, it is necessary to establish regulatory standards for Due Diligence, enhance professional competencies, and develop digital infrastructure. Consequently, the use of Due Diligence as a tool for ensuring transparency in financial reporting becomes an integral element of modern corporate practice.

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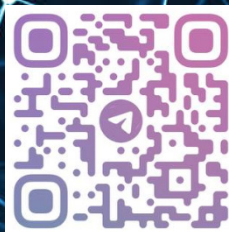
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