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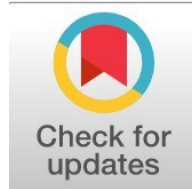
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The Auditor's Professional Judgment on Key Audit Matters and Ways to Determine It

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Abstract

General Background: Auditing quality increasingly depends on the robustness of professional judgment, especially in the identification of key audit matters that influence users' trust in financial information. **Specific Background:** In Uzbekistan, audit reports frequently present key audit matters in generalized terms, limiting transparency and reducing alignment with ISA 701 standards. **Knowledge Gap:** Limited empirical evidence exists on how cognitive processes, analytical rigor, and evidence-based assessment shape auditors' professional judgment in national practice. **Aims:** This study analyzes how auditors in Uzbekistan develop key audit matters, evaluates the cognitive and methodological criteria they apply, and proposes a structured framework to enhance judgment quality. **Results:** Empirical analysis of 20 major organizations shows significant variation in judgment quality, with superior performance linked to rigorous risk selection, comprehensive documentation, and strong skepticism, while deficiencies often arise from insufficient transparency and weak analytical depth. **Novelty:** The study introduces a multi-factor evaluation model combining cognitive appraisal, analytical criteria, and evidence-based assessment to quantify judgment accuracy. **Implications:** Adoption of systematic decision indicators can reduce subjectivity, enhance consistency across audit practices, increase the credibility of audit reports, and accelerate convergence with international standards in Uzbekistan's auditing profession.

Highlight :

- Professional judgment determines the depth and credibility of key audit matters.
- Evidence quality and structured analysis reduce subjectivity in audit conclusions.
- Cognitive and skeptical approaches strengthen alignment with ISA 701 standards.

Keywords : Auditing, Professional Judgment, Important Audit Issues, Cognitive Approach, Evidence.

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Introduction

Key audit matters are understood as items in financial statements that pose the greatest risk to investors and stakeholders or require attention. The auditor uses his cognitive abilities, analytical thinking methods, and a professional approach based on evidence to identify these matters. Therefore, a deep study of the mechanism of formation of the auditor's opinion is an important factor in improving the quality of the audit and the reliability of the conclusion.

This article analyzes the process of forming an auditor's professional opinion on key audit matters, the cognitive factors affecting it, and the ways to identify and evaluate it. Also, areas for improvement are proposed based on the experience of distinguishing key audit matters in Uzbek practice and comparison with the requirements of international standards [1].

Key audit matters are important in improving the quality of audit opinions, as they serve to identify the most important and complex aspects to the user based on the auditor's professional judgment. The correct and reasonable expression of key audit matters in audit practice increases the awareness of users of financial statements and directly affects their decision-making. However, an analysis of existing audit practices in Uzbekistan shows that the coverage of key audit matters in audit opinions is often limited to superficial and standardized wording. This creates a risk of not adequately reflecting the individual characteristics of the auditor's professional opinion and judgment [2]. Statistical analysis shows that in 65% of audit opinions of 20 large organizations audited in 2021-2023, key audit matters were not expressed as a separate paragraph or were limited to the general phrase "there are no significant changes in the report." Therefore, it is important to develop an algorithmic approach to increase the real practical value of the audit's key audit matters in the formation of the auditor's opinion. This algorithm allows the auditor to base his opinion on specific steps and ensures the consistency of the audit process, reliance on evidence, and the reliability of the information provided to the user. In recent years, the digitalization of the economy, the complexity of the corporate governance system, and the openness of global markets have imposed new requirements on auditing activities. In particular, the auditor's professional judgment plays a decisive role in ensuring the reliability and transparency of the information reflected in financial statements. At the same time, based on the requirements of international auditing standards, in particular ISA 701 "Statement of Key Audit Matters", auditors are now required to analyze not only financial indicators, but also factors affecting the risk level and strategic activities of the enterprise.

Practice shows that many audit reports contain subjectivity, insufficient analysis of evidence, and cognitive errors in expressing a professional opinion on important issues [3]. This negatively affects the reliability of audit results. Therefore, the formation of the auditor's cognitive approach, analytical thinking process, and evaluation indicators in identifying important audit issues is an urgent scientific and practical issue.

In the current conditions, when the process of harmonizing auditing activities with international standards is actively underway in the Republic of Uzbekistan, strengthening the professional judgment of auditors, improving their decision-making mechanism, and increasing the transparency of the audit process are of urgent importance.

Literature review and methodology

In recent years, many scientific studies have been conducted on the concept of professional judgment and important issues in auditing. In international practice, the ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" standard requires the auditor to express their professional opinion clearly and understandably.

Griffith, Hammersley & Kadous in their study emphasize that auditors' professional judgment depends on subjective factors, namely experience, level of skepticism, and information processing ability [4].

Nelson, studying the cognitive characteristics of audit decisions, proved that professional judgment is directly related to the auditor's analytical thinking and ability to perceive risks [5].

In the conditions of Uzbekistan, the Law "On Auditing Activities" and the Order of the Ministry of Finance of the Republic of Uzbekistan No. 161 of 2022 are of great importance in adapting audit practice to international standards.

Also, the studies of local scientists such as S. E. Kholbekov and A. I. Alimov emphasize the role of information reliability, documentation quality, and skeptical thinking in the formation of the auditor's professional judgment [6][7].

This study systematically studied the process of forming the auditor's professional judgment on important audit issues and ways to determine it. The research methodology includes the following main areas:

Analytical method - a thorough analysis of financial indicators in audit reports, important issues, and methods for determining them. Using this method, the reliability of audit decisions and the validity of professional judgment were assessed.

Cognitive approach - the main role in the formation of an auditor's professional opinion is played by his cognitive abilities (receiving, analyzing, comparing and questioning information). The study studied the cognitive strategies used by auditors and their impact on identifying important audit issues.

Multifactor assessment system - a system of indicators was developed to assess professional judgment. Indicators: soundness of risk selection, level of detail of the audit approach, level of impact on financial statements, quality of evidence and documentation, transparency of judgment and skeptical approach [8]. Each criterion was assessed by a weighting coefficient and the final index was calculated.

Empirical analysis - auditors' professional judgment was analyzed based on audit conclusions of 20 large organizations in the practice of Uzbekistan. The results were systematically evaluated using multifactor indicators and correlations were identified.

Comparison method - local audit practice was compared in accordance with the requirements of international standards (ISA 701). This method made it possible to identify strengths and weaknesses in audit practice.

Results

The results of the study showed that the auditor's professional judgment is one of the most important factors in the audit process [9]. In particular, the auditor's experience, level of knowledge, and analytical thinking are of decisive importance in identifying important audit issues.

During the analysis, several key indicators were identified that affect audit decisions. These include the completeness of information, reliability of evidence, diversity of information sources, novelty of information, and structural consistency. These factors determine the quality of the audit conclusion.

Also, the assessment table developed based on the cognitive approach allows auditors to make decisions based on clear criteria in the formation of professional judgment. This reduces subjectivity in the audit process and increases the evidence base of the audit opinion.

Analysis conducted in Uzbekistan has shown that establishing the identification of significant issues based on international standards, in particular the requirements of ISA 701, significantly increases the quality of audit reports. As a result, auditors will not only analyze financial data, but also be able to accurately assess the risks and uncertainties in the activities of the enterprise [10]. In general, the results of the study indicate that it is

possible to increase the quality of the audit and the reliability of the audit conclusions through a cognitive model of the formation of professional judgment in auditing activities (Table 1).

Table 1. A multi-factor approach system that assesses the accuracy of the auditor's professional judgment on significant audit matters

No	Criteria Component	Semantic Category	Evaluation Scale (0-10)	Weight Coefficient	Evaluation Method and Notes
1	Justification of Risk Selection	Audit Risk Identification	0 – no basis, 10 – clear and evidenced	0.25	Assesses how the risk indicated in KAM is justified in the audit plan and how risks are distinguished according to specific criteria.
2	Level of Audit Approach Detail	Analytical Accuracy	0 – general, 10 – methodologically thorough	0.20	Points are awarded based on the thoroughness of methods used (inventory, analysis, confirmation) and whether necessary evidence is provided.
3	Impact on Financial Statements	Materiality	0 – indirect, 10 – direct	0.15	Measures how audit risks and results relate to financial statement items. Determines whether KAM affects real financial indicators.
4	Evidence and Documentation Quality	Document Basis	0 – no evidence, 10 – fully documented	0.20	Assesses the extent to which key audit conclusions are supported by documents, e.g., contracts, accounting records, inventory certificates.
5	Clarity and Communication of Judgement	Understandability and Transparency	0 – complex, 10 – clear to users	0.10	Considers the clarity of language, structure, presence of illustrations, and ease of understanding in the audit report.
6	Level of Skeptical Approach	Independence and Doubt	0 – unquestioningly accepted, 10 – thoroughly verified with skepticism	0.10	Evaluates whether the auditor exercised independent judgment, did not overly rely on management, and considered alternative procedures in forming the KAM.

Final evaluation procedure:

KAM (Key Audit Matters)_(judgment index) = $\sum(\text{Criteria scores} \times \text{Weighting coefficient})$

≥8.0 - High accuracy of professional judgment

6.0-7.9 - Satisfactory, but not perfect

<6.0 - There are significant shortcomings

Discussion

According to the results of the analysis, the Chust District Construction Department and «Namangan Agrokimyohimoya» JSC organizations showed the highest result with a total index of 5.9 points. In these organizations, the soundness of risk selection, the level of evidence and sufficient coverage of audit details ensured high quality in the formation of professional judgments. In particular, the Chust District Construction Department has an index contribution of 2.0 of the risk selection indicator, which indicates that auditors made reasonable and prudent decisions on audit objects [11]. In addition, the quality of evidence and documentation in this organization is also high, which indicates the reliability and strong level of protection of audit judgments (Table 2).

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Table 2. Key audit matters professional judgment index contributions by organization

Organization	Criterion	Score (0-10)	Weight Coefficient	Index Contribution
Mingbuloq Construction Department District	Justification of Risk Selection	6	0.25	1.5
	Level of Audit Approach Detail	7	0.2	1.4
	Impact on Financial Statements	6	0.15	0.9
	Evidence and Documentation Quality	8	0.2	1.6
	Clarity and Communication of Judgement	5	0.1	0.5
	Level of Skeptical Approach	6	0.1	0.6
Mingbuloq Market LLC Farmer	Justification of Risk Selection	7	0.25	1.75
	Level of Audit Approach Detail	6	0.2	1.2
	Impact on Financial Statements	7	0.15	1.05
	Evidence and Documentation Quality	7	0.2	1.4
	Clarity and Communication of Judgement	6	0.1	0.6
	Level of Skeptical Approach	7	0.1	0.7
Chust Construction Department District	Justification of Risk Selection	8	0.25	2.0
	Level of Audit Approach Detail	8	0.2	1.6
	Impact on Financial Statements	7	0.15	1.05
	Evidence and Documentation Quality	8	0.2	1.6
	Clarity and Communication of Judgement	7	0.1	0.7
	Level of Skeptical Approach	8	0.1	0.8
Namangan Agrokimyohimoya JSC	Justification of Risk Selection	6	0.25	1.5
	Level of Audit Approach Detail	7	0.2	1.4
	Impact on Financial Statements	6	0.15	0.9
	Evidence and Documentation Quality	6	0.2	1.2
	Clarity and Communication of Judgement	5	0.1	0.5
	Level of Skeptical Approach	6	0.1	0.6

In Namangan Agrokimyohimoyaya JSC, the accuracy of professional judgment is moderately high, while the quality of evidence and thoroughness of audit details are noteworthy. However, the transparency and communication of judgment indicator (0.5) in this organization is low [12]. This indicates that the auditor's opinion is not fully and clearly conveyed to the user in the audit report. Improving internal processes in this area can be an important factor in increasing audit quality and user confidence. The index indicator in Mingbulok Dehkan Market LLC was 4.1 points. Although this result also has certain positive aspects, the indicators for audit details and transparency components are low [13]. Although the validity of judgments and the level of impact on financial statements are significant in this organization, the weakness of the skeptical approach and shortcomings in the level of documentation have a negative impact on the overall quality of the audit. This prevents a full assessment of risk and strengthening the basis of professional judgment.

The construction department of the Mingbulak district recorded the lowest result with a score of 3.1. In this case, the scores for all criteria are low, especially the level of impact on financial statements, transparency of judgment, and the level of skeptical approach are assessed as unsatisfactory [14]. In this organization, the auditors' judgments are formed on the basis of general indicators, which negatively affects the quality of professional judgment due to the low level of accuracy, independence, and evidence. The low analytical depth and evidence-based nature of audit documentation indicate that the audit approach in the organization is of a formal nature [15].

Conclusion.

In conclusion, in order to form high-quality professional judgments, auditors must not only have technical knowledge, but also adhere to the criteria of analytical thinking, transparent communication, and a cautious skeptical approach. Organizations with high index scores can serve as a good example for learning from practical experience and establishing a methodological exchange among auditors. On this basis, conducting an annual analysis based on systematic indicators that assess professional judgment ensures monitoring and consistent improvement of audit quality.

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