

Reporting Key Audit Matters: A Review of Literature

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Abstract

This paper presents a review of the literature on issues concerning independent auditors' report involving key audit matters (KAMs). The paper aims to provide an overview of the existing literature, summarize their findings and implications, and give insights into the state of KAMs reporting. The study adopts a structured review of literature on KAMs reporting based on articles published between 2018 to 2022 in SCOPUS-indexed journals. The review shows that not much publication in the SCOPUS-indexed journals related to factors influencing KAMs disclosure, but it is evident that there is an increasing amount of literature on this topic, particularly from 2020 to 2022. Furthermore, it is found that research associated with reporting KAMs primarily uses quantitative methods. Hence, the literature review is useful for researchers to identify areas for further academic research. From a practical point of view, the findings from the study will assist auditors to better understand the issues related to reporting KAMs and obtain insights into the key areas where such reporting is issued.

Keywords: reporting, key audit matters, disclosure

1. INTRODUCTION

The current business environment and financial reporting become more complex due to the financial crisis and technological revolution. The investors demand more informative and comprehensive reports from the auditor. The demand was not only for the qualified report but also the investors request for further elaboration on significant matters discovered by auditors during the audit even for the unqualified report (PwC, 2017). Hence, the International Auditing and Assurance Standard Board (IAASB) has released the new International Standard on Auditing (ISA) 701 on Communicating Key Audit Matters (KAMs) in the Independent Auditor's Report effective from periods ending on or after 15 December 2016.

According to ISA 701, KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements (IAASB, 2016). But there is no details format on how to present the KAMs section and the extensiveness of disclosure under the KAMs section. In an effort to make the audit report more entity-specific, this particular disclosure did not provide standardized content (Abdullatif and Al-Rahahleh, 2020). To some extent, the disclosure may possibly depend on the entity's characteristics or related risks to the entity.

However, ISA 701 provides a guideline that matters reported in KAMs shall include (i) areas of higher assessed risk of material misstatement, (ii) significant auditor judgments related to significant management judgment (iii) audit of a significant event. ISA 701 requires auditors to choose, using their professional judgement, the matters that were of the greatest importance and presented the greatest risks to the audit from those that were communicated to those in charge of governance (IAASB, 2016). It seems that the auditor's professional judgment

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is critical in determining matters to be presented as KAMs (Ozcan, 2021). Therefore, this study aims to discover the existing literature on the factors that determine the extent of reporting KAMs by auditors. The remainder of this paper is divided into three sections. In Section 2, we describe our methodology, which is the process of articles being reviewed and filtered. While Section 3 presents the result and the discussion of the study, and Section 4 provides our conclusions.

2. METHODOLOGY

This study filtered articles through three stages. The first stage involved determining the database for searching the articles, terms or keywords, and year of publication. Because almost all initial literature searches yield a large number of articles, a strategy is required to determine which are actually relevant by including criteria such as year of publication, the language of the article, and the type of article (Snyder 2019). Hence, the study employed the Scopus-indexed journal database as the database to select the related articles. The keywords used in the database are “key audit matters” and the articles were limited to those articles published between 2018 and 2022 only. Based on the search criteria, 146 articles were obtained.

In the second stage, the 146 articles were screened based on the article's title and abstract. This is to ascertain that the articles that discussed only the term “key audit matters” was included in the search. Based on these criteria, this stage generates 70 published articles.

In the final stage, the articles were further screened to limit the study to review articles related to the factors that influence the extent of KAMs disclosure. and obtained a number of 21 articles. Finally, we selected 11 articles representing more than 50% of the total articles related to the factors contributing to the extent of KAMs disclosure.

3. RESULT AND DISCUSSION

Table 1 presents the list of selected articles that were reviewed in this study including the name of the authors, the research settings, and the research design. Based on the table, we can conclude that the study was conducted around Asian, European and South American firms. The research design was primarily using a quantitative method based on secondary data which is the annual report. While only 10% of the research was conducted using the primary data which is the questionnaire as the research instrument. In addition, the majority of the articles were written by at least three or four authors.

Table 1. List of Selected Articles Reviewed

No	Article title	Authors	Research settings	Research design
1.	Understanding the determinants of the magnitude of entity-level risk and account-level risk key audit matters: The case of the United Kingdom	Laura Sierra-García, Nicolas Gambetta, María A. García-Benau and Manuel Orta-Perez	70 companies from Financial Time Stock Exchange (FTSE) in the UK during the period 2013 to 2016.	Regression analysis
2.	What matters in disclosures of key audit matters: Evidence from Europe	Inês Pinto and Ana Isabel Morais	UK's FTSE 100, France's CAC 40, or the Netherlands's AEX 25 for year-ended 2016	Regression analysis
3.	Analysis of the relationship between company characteristics and key audit matters disclosed	Catarina Ferreira and Ana Isabel Morais	447 Brazilian companies listed on the São Paulo Securities, Commodities, and Futures Exchange on 31 December 2016	Ordinary least squares (OLS) regression
4.	Determining factors of key audit matter disclosure in Thailand	Suneerat Wuttichindanon and Panya Issarawornrawanich	Stock Exchange of Thailand listed firms for the fiscal year-ends 2016 and 2017	Regression analysis
5.	Female audit partners and extended audit reporting	Tarek Abdelfattah, Mohamed Elmahgoub and Ahmed A. Elamer	312 non-financial UK companies listed on the London Stock Exchange (LSE)	Regression analysis

6.	Sustainable corporate governance and new auditing issues: preliminary empirical evidence on key audit matters	Pietro Fera, Michele Pizzo, Rosa Vinciguerra and Giorgio Ricciardi	118 non-financial companies listed on the Italian Stock Exchange from 2017 to 2019	Regression analysis
7.	Measurement uncertainty and management bias in accounting estimates: the perspective of key audit matters reported by Chinese firms' auditors	Chee Kwong Lau	351 Chinese-listed firms	Content analysis Regression analysis
8.	Matters may matter: The disclosure of key audit matters in the Middle East.	Osama A. Mah'd and Ghassan H. Mardini	281 firms from four countries (Oman, the UAE, Bahrain, and Jordan) for four years (2017–2020)	Disclosure index Regression analysis
9.	Disclosure of key audit matters (KAMs) in financial reporting: evidence from an emerging economy	Md Mustafizur Rahaman, Md Moazzem Hossain and Md. Borhan Uddin Bhuiyan	246 companies listed on the Dhaka Stock Exchange (DSE) from 2018 to 2020.	Content analysis Regression analysis
10.	External auditor and KAMs reporting in the alternative capital market of Thailand	Muttanachai Suttipun	All companies under the market for alternative investment (MAI) in Thailand from 2016 to 2018	Content analysis Multiple regression
11.	Impact of auditor characteristics and Covid-19 Pandemic on KAMs reporting	Mohamed Abdel Aziz Hegazy, Rasha El-Haddad And Noha Mahmoud Kamareldawla	82 auditors from Big4 and non-Big 4 accounting firms in Egypt	Questionnaire Regression analysis

Table 2 provides an overview of the main factors that contributed to the extent of reporting KAMs and the variables adopted in the articles. Based on the literature review conducted, the recent studies on the influence of KAM disclosures can be grouped into three main factors. The first factor influencing the extent of KAMs disclosure is the auditor's characteristics. The auditor's characteristics are measured based on auditor rotation (Sierra-Garcia et al., 2019; Pinto and Morais, 2018; Suttipun, 2022), audit fees (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Ferreira and Morais, 2020; Rahaman et al., 2022; Suttipun, 2022), audit firm type (Sierra-Garcia et al., 2019; Ferreira and Morais, 2020; Wuttichindanon and Issarawornrawanich, 2020; Rahaman et al., 2022; Suttipun, 2022; Hegazy et al., 2022), auditor's gender (Wuttichindanon and Issarawornrawanich, 2020; Abdelfattah. 2021; Hegazy et al., 2022), industry specialization (Hegazy et al., 2022), professional qualification (Hegazy et al., 2022), auditor's position (Hegazy et al., 2022), auditor's expertise (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Lau, 2021) and audit opinion (Ferreira and Morais, 2020).

While the second factor is related to the firm's characteristics. The variables examined in the literature are leverage (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Ferreira and Morais, 2020; Mah'd and Mardini, 2022), firm's complexity (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Ferreira and Morais, 2020), profitability (Ferreira and Morais, 2020), industry type (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Mah'd and Mardini, 2022; Rahaman et al., 2022), size (Sierra-Garcia et al., 2019; Rahaman et al., 2022), firm's age (Rahaman et al., 2022) and environmentally sensitive industry (Rahaman et al., 2022).

Finally, the review found that corporate governance mechanisms are the third factor influencing the extent of KAMs disclosure. The literature measured the corporate governance mechanisms using the audit committee size (Mah'd and Mardini, 2022), number of audit committee meetings (Wuttichindanon and Issarawornrawanich, 2020; Mah'd and Mardini, 2022), number of the audit committee with financial expertise (Wuttichindanon and Issarawornrawanich, 2020; Mah'd and Mardini, 2022), number of independent directors (Wuttichindanon and Issarawornrawanich, 2020), female representation in the audit committee (Mah'd and Mardini, 2022) and the quality of corporate governance system (governance score) (Fera et al. 2021).

Table 2. Main Determinants and the Variables

Main determinants	Independent Variables	Dependent variables
1. Auditor's characteristics	1. Auditor rotation/ tenure	KAMs disclosure
	2. Audit fees	
	3. Audit firm type	
	4. Auditor's gender	
	5. Industry specialization	
	6. Professional qualification	
	7. Auditor's position	
	8. Expertise/ Judgment	
	9. Audit opinion	
2. Firm's characteristics	1. Leverage	KAMs disclosure
	2. Complexity	
	3. Profit	
	4. Industry type/ regulation	
	5. Size	
	6. Age	
	7. Environmentally sensitive industry	
3. Corporate governance mechanisms	1. Audit committee size	KAMs disclosure
	2. Number of audit committee meetings	
	3. Number of the audit committee with financial expertise	
	4. Number of independent directors	
	5. Quality of corporate governance system (governance score)	
	6. Gender of the audit committee	

Table 3 represents the main findings on the determinants of the extent of reporting KAMs. It describes the relationship between the independent variables adopted in the literature against the dependent variable which is the extent of KAMs disclosure.

Table 3. The Main Findings - Determinants of the Extent of Reporting Key Audit Matters

Main determinants	Variables	Research settings	Main findings	
Auditor's characteristics	Auditor rotation/ tenure	UK FTSE	Auditor rotation/tenure does not influence the extent of KAMs disclosure	
		UK, France, Netherlands		
		MAI in Thailand		
	Audit fees	UK FTSE	No association	
		UK, France, Netherlands	Positive influence over the extent of KAMs disclosure	
		Brazilian firms	Lower audit fees is associated with more KAMs disclosure	
		MAI in Thailand	Positive influence over the extent of KAMs disclosure	
		Auditor type	Dhaka Stock Exchange (DSE)	No association
			UK FTSE	Deloitte, EY and KPMG disclose lesser KAM as compared to PwC.
	DSE		No association	
	Gender	MAI in Thailand	Questionnaire to Egyptian auditors	Big 4 firms tend to disclose more KAMs
			Thai listed firm	Big 4 firms tend to disclose more KAMs
Brazilian firms			Big 4 firms tend to disclose more KAMs	
UK LSE		Questionnaire to Egyptian auditors	Female partners disclose more KAMs	
		Thai listed firm	No association	
		Thai listed firm	No association	

	Industry specialization	Questionnaire to Egyptian auditors	Auditor with industry specialization, especially in manufacturing, has significant influence over reporting KAMs
	Professional qualification	Questionnaire to Egyptian auditors	Auditors with prof certificates, such as CPA, ACCA, has significant influence over reporting KAMs
	Auditor's position	Questionnaire to Egyptian auditors	Auditor with higher position has a significant influence on KAMs disclosure
	Expertise/ Judgment	UK FTSE	Negative influence over the extent of KAMs disclosure
		UK, France, Netherlands	Information that requires the auditor's expertise/judgment was disclosed more in KAMs
		China	Information that requires the auditor's expertise/judgment was disclosed more in KAMs
Firm's characteristics	Audit opinion	Brazilian firm	Firms with modified audit opinions present fewer KAMs.
	Leverage	UK FTSE	Auditor of low leverage firms disclose more KAMs
		UK, France, Netherlands	No association
		Oman, the UAE, Bahrain, and Jordan Brazilian firms	Auditor of high leverage firms disclose more KAMs No association
	Complexity	UK FTSE	The firm's complexity has a negative influence on reporting KAMs by the auditor
		UK, France, Netherlands	The firm's complexity has a direct influence over reporting KAMs by the auditor
		Brazilian firms	The firm's complexity has a direct influence over reporting KAMs by the auditor
Profit Industry type/regulation	Brazilian firms	No association	
	Oman, the UAE, Bahrain, and Jordan DSE	Auditors of regulated firms disclose more KAMs. Auditors of regulated firms disclose more KAMs.	
Size	UK, France, Netherlands	Fewer KAMs for the banking industry	
	UK FTSE	Larger firms have more KAMs disclosure	
	DSE	Larger firms have more KAMs disclosure	
Age	DSE	Auditors of older firms disclose more KAMs	
Environmentally sensitive industry (e.g. oil, gas and coal exploration)	DSE	Auditors of firms within an environmentally sensitive industry disclose more KAMs	
Corporate governance mechanisms	Audit committee size	Oman, the UAE, Bahrain, and Jordan	No association
	Number of audit committee meetings	Thai listed firms Oman, the UAE, Bahrain, and Jordan	No association
	Number of the audit committee with financial expertise	Thai listed firms Oman, the UAE, Bahrain, and Jordan	No association Positive influence on the extent of KAMs disclosure
	Number of independent directors	Thai listed firms	Positive influence on the extent of KAMs disclosure

Female representation in the audit committee	Oman, the UAE, Bahrain, and Jordan	Female representation in audit committee influences more KAMs disclosure
Quality of corporate governance system (governance score)	Italian firms	Good corporate governance system is directly associated with more KAMs disclosure

The first main determinant of the extent of reporting KAMs is the auditor's characteristics. The analysis shows that auditor rotation or tenure does not influence the extent of KAMs disclosure (Sierra-Garcia et al., 2019; Pinto and Morais, 2018; Suttipun, 2022). Mixed results were found for audit fees. Sierra-Garcia et al. (2019) and Rahaman et al. (2022) found no relationship between audit fees and the extent of KAMs disclosure, but the study conducted in the UK, France, Netherlands and market for alternative investment (MAI) in Thailand indicated a positive influence over the extent of reporting KAMs by the auditor (Pinto and Morais, 2019; Suttipun, 2022), and audit fees also have a significant negative influence over the extent of reporting KAMs within the Brazilian firms (Ferreira and Morais, 2020). In terms of the influence of auditor type over the extent of KAMs reporting, Big 4 accounting firms disclose more KAMs within Thailand and Brazilian firms (Ferreira and Morais, 2020; Suttipun, 2022), but no relations were found between Dhaka and Egypt capital market (Rahaman et al., 2022; Hegazy et al., 2022).

In addition, the research was also conducted employing auditor gender as a proxied. Particularly, the auditor's gender did not have an influence over the KAMs disclosure (Hegazy et al., 2022; Suttipun, 2022), except for the sample of UK London Stock Exchange (LSE) firms, where the evidence discovered that female partners disclose more KAMs (Abdelfattah. 2021). Furthermore, the literature found that auditor with industry specialization, especially in manufacturing, has a significant influence over reporting KAMs, while auditors with professional certificates, such as CPA, and ACCA, and auditor with higher position has also a significant influence over the extent of KAMs disclosure (Hegazy et al., 2022). Information that requires the auditor's expertise or judgment was disclosed more in KAMs (Pinto and Morais, 2019; Lau, 2021), whereas firms with modified audit opinions present fewer KAMs (Ferreira and Morais, 2020)

The second main determinant of KAMs reporting is the firm's characteristics. The firm's leverage or indebtedness was utilized as the determinant of the extent of reporting KAMs. However, no association was found using the sample of UK, France, Netherlands, and Brazilian firms (Pinto and Morais, 2019; Ferreira and Morais, 2020), but a positive association was found within the middle east firms (Mah'd and Mardini, 2022) and a negative association in the UK FTSE firms (Sierra-Garcia et al., 2019). Based on the study, mainly, the firm's complexity has an influence over reporting KAMs by the auditor (Sierra-Garcia et al., 2019; Pinto and Morais, 2019; Ferreira and Morais, 2020). Furthermore, it was found that the firm's profitability did not have any influence over the extent of KAMs disclosure (Ferreira and Morais, 2020).

Pinto and Morais (2019) discovered that fewer KAMs in the banking industry which is the most regulated industry. This is in contrast to research done by Mah'd and Mardini (2022) and Rahaman et al. (2022), where the auditors of regulated firms disclose more KAMs. This is probably because the auditors of highly regulated firms feel more pressure to disclose more information in KAMs. Moreover, larger firms were found to have more KAMs disclosure (Sierra-Garcia et al., 2019; Rahaman et al., 2022). Likewise, auditors of older firms and firms within an environmentally sensitive industry disclose more KAMs (Rahaman et al., 2022).

Finally, the main determinant is the corporate governance mechanisms. No association was uncovered related to audit committee size and the number of audit committee meetings towards the extent of reporting KAMs (Wuttichindanon and Issarawornrawanich, 2020; Mah'd and Mardini, 2022). In another study, the number of audit committees with financial expertise has a positive influence on the extent of reporting KAMs (Mah'd and Mardini, 2022). Additionally, the higher number of independent directors on the board is related to more KAMs disclosure (Wuttichindanon and Issarawornrawanich, 2020). While female representation on the audit committee board has a significant positive influence on the extent of reporting KAMs (Mah'd and Mardini, 2022). Finally, a good corporate governance system which is measured through the governance score is associated with more KAMs disclosure (Fera et al., 2021).

4. CONCLUSION

Being one of the most significant audit changes, the main objective of the paper is to discover the emerging paper related to factors influencing the extent of KAMs disclosures. The review employed the articles published in the

Scopus-indexed database from 2018 to 2022. Not much study was found in the Scopus database regarding the determinants of reporting KAMs by the auditor between 2018 to 2022. However, the result indicates a growing body of academic literature was found related to reporting KAMs in the auditor's report, especially from 2021 to 2022. There is no doubt that research on KAMs will increase significantly in the future based on past publication rates and the increasing interest in this area.

Mix results were found from the reviewed articles regarding the contributed factors for auditors to report KAMs in the independent auditor's report. Three main determinants or factors influencing the extent of KAMs disclosure in the auditor's report are the auditor's characteristics, the firm's characteristics, and corporate governance mechanisms. The review depicted that the audit fee, the firm's profitability, audit committee size, and the number of audit committee meetings have no association with the extent of KAMs disclosure by the auditors. However, the auditor's characteristics which are audit fees, auditor type, auditor gender, industry specialization, professional qualification, auditor's position, auditor's expertise and audit opinion do have an influence over the extent of reporting KAMs in the auditor's report. Whereas the firm's characteristics consist of leverage, complexity, industry type, size, age and firms within environmentally sensitive industries such as oil and gas have an association with the extent of disclosure. The final determinant is the corporate governance mechanisms, where the number of audit committee with financial expertise, the number of independent directors, female representation in the audit committee and the quality of corporate governance provides an influence over the extent of reporting KAMs.

Therefore, the review of those papers is very important to suggest new possibilities to study. The analysis of the articles found that all the research was conducted using the quantitative method, giving an avenue for the researchers to explore the area using the qualitative method or mixed method to further explore the area of KAMs in depth using the real phenomenon in real settings, for instance by conducting an interview with the auditors to gain information on the actual process undertaken by them to determinants items included in KAMs. From a practical point of view, the findings from the study will assist auditors in better understanding the issues related to reporting KAMs and obtain insights into the key areas where such reporting is issued.

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