



The Quality of Financial Audit Missions by Reporting the Key Audit Matters

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Abstract

At the level of a regulated capital market, reporting a complete set of financial statements that includes quality financial information is the main user's intention for strategic or operational decision making. Their decisions are influenced, among other things, by the independent and objective opinions of the audit profession, which ensures the fair representation, under the most significant aspects, of the financial position and performance. The major financial scandals have brought into question the role of the audit profession, as well as the adoption of new audit standards or methodologies that contribute to increasing the quality of audit missions and, implicitly, audit reports. Reporting in audit has seen many changes over time, the most recent being those relating to the inclusion of Key Audit Matters (KAM) as separate section in the auditor's report. The purpose of this requirement is to increase the communicative value of the audit report by ensuring greater transparency to support stakeholders. In this context, it is of interest to what extent the audit reports of the entities listed on the Bucharest Stock Exchange issued after the application of the new reporting requirements in audit ensure a higher communicative value and, implicitly, a higher quality of the financial audit missions. This study is based on the analysis of the mandatory audit reports related to the financial years that ended at the end of the years: 2016, 2017 and 2018 of the companies listed on the BSE on the main market, in order to highlight the quality of the financial audit missions as a result of the obligation that the auditors have to include in the published reports Key Audit Matters (KAM) in a separate section.

Key words: audit quality; audit report; key audit matters (KAM); transparency in audit; communication value of the audit report

JEL Classification: C12, M41, M42, M48

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1. Introduction

Audit reporting has undergone significant changes in recent years, with international standards addressing this issue being revised, such as: ISA 700 – *Forming an Opinion and Reporting on Financial Statements*, ISA 705 – *Modifications to the Opinion in the Independent Auditor's Report*, ISA 706 – *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* and ISA 720 – *The Auditor's Responsibilities Relating to Other Information*. The application of the revised standards was imposed starting with the audit of the financial statements for the periods ended at the end of 2016. All these changes to the audit reporting standards were also supported by the academic research (Czerney, K, *et.al.*, 2014; Cordoş, *et.al.*, 2015; Bédard, *et.al.*, 2016) and support development of the audit profession by enhancing the credibility offered by the auditor (Bunget, *et.al.*, 2012).

An important change that deserves to be analyzed concerns the communication of *key audit matters (KAM)* in the independent auditor's report, a new requirement also introduced for the audit of the financial statements for the periods ended at the end of 2016, through ISA 701 – *Communicating Key Audit Matters in the Independent Auditor's Report*. However, there are countries where the implementation of some of the changes mentioned in the audit reports has been made since 2013. An example may be the case of Rolls Royce in the United Kingdom. (Kiss, *et.al.*, 2015).

The studies examined the potential effect of a separate KAM section on the auditor's report on communication value for users and suggested the need for auditor reporting policies to communicate more effectively what was the professional reasoning of the audit professional (Backof, 2015). The reported results revealed that for professional investors, the presentation of KAM in a separate section of the audit report has a great communicative value, while for the unprofessional investors, it seems that the influence is less important (Kohler, *et.al.*, 2016). The general objective of ISA 701 is to highlight *the auditor's responsibility* for communicating the key audit matters in his report, and the purpose is to improve the communicative value of the auditor's report by providing greater transparency regarding the entire audit approach (Dănescu and Spătăcean, 2018; ACCA, 2018).

Thus, the purpose of this study is the analysis of the quality of the audit engagements from the point of view of the key audit matters, at the level of the listed companies. The paper is structured in five sections (including *Introduction* and *Conclusions*), as follows: *Section II* is intended for the literature review, *Section III* is intended to present the research methodology used in the study, and *Section IV* are presented the results of the research and discussions about them.

2. Reviewing the specialized literature and developing the research hypothesis

According to the international audit norm, ISA 701 – *Communicating Key Audit Matters in the Independent Auditor's Report*, "KAMs are those aspects that, based on the auditor's professional reasoning, were of utmost importance for the audit of the financial statements of the current period, and are selected from the matters discussed with the persons responsible for governance" (IAASB, 2016). The auditor's judgment that determines the extent to which a number of matters require significant attention during the audit (Kachelmeier, *et.al.*, 2018).

Studies have shown that there is both a communication gap and an information gap between the users of financial reports and their preparers, where the auditors are also employed. (Mock, *et.al.* 2013). On the other hand, some authors claim that by including the key audit matters in the auditor's report, there is also the risk of disclosing information that could be considered confidential (Segal, 2017).

2.1. Conditions for determining audit matters as key matters

To determine the key audit matters, among the benchmarks that should guide the auditor, are (IFAC, 2015a): areas with high risk of material misstatement, significant auditor's reasoning on different aspects of the financial statements or accounting estimates identified as having high uncertainty. In order to establish the key audit matters, the rules recommend that the current period be considered. However, it may sometimes be useful for the auditor to consider whether an issue that has been reported as a key audit matter in the prior

period continues to be a key audit matter in the current period (IFAC, 2016a).

In general, aspects that require significant attention from the auditor and that will be discussed with those in charge of governance are considered to be key audit matters. It is considered, for example, that the matters that raise the auditor's problems in obtaining sufficient and adequate audit evidence may be relevant when the auditor determines the key audit matters (IFAC, 2015b). In addition, if for a certain aspect communicated to the people responsible for governance, more reasoning can be applied, then the probability of the auditor classifying that aspect as a key audit matter increases (IFAC, 2016b).

What is the stage of the auditor's approach in which the key audit matters are determined? The auditor may form a preliminary opinion on the aspects that may represent key audit matters from the planning stage, but the classification as key audit matters is based on the evidence obtained during the audit, as well as on the final results obtained.

It is worth noting that the users of the financial statements have expressed their interest, especially in the last period, also for the accounting estimates, identified as having a high uncertainty (Sirois, et.al., 2018). These are largely dependent on the reasoning of the management and are often considered the most complex areas of the financial statements (Gimbar, et.al., 2016a), being frequently mentioned by the auditor as key audit matters, as found and from the audit reports related to the entities listed and analyzed in this study. These statements are also reinforced by the fact that the national regulations (OMPF no. 3189/2017) introduced the express obligation that the persons responsible for the management of the assets of the entity are responsible for the estimates made, which are the basis of the accounting records.

The audit rules give indications on the relevant considerations to classify an aspect as a key audit matter by the auditors, namely: the importance of the aspect for understanding the financial statements by users; the subjectivism that was used in the process of selecting by the management of a certain accounting policy; the nature of the difficulties in applying the audit procedures and in collecting relevant and credible evidence on which to base the auditor's opinion; the extent to which the issue involved several separate but still interrelated audit judgments.

For the latter consideration, for example, long-term contracts, which require greater attention from the auditor in terms of revenue recognition, for example.

There are circumstances in which an aspect considered a key audit matter is not disclosed in the auditor's report. This decision is sometimes made due to the fact that the regulations do not allow the publication of information that may prejudice an investigation carried out by a competent authority, which is related, for example, to money laundering. In other words, failure to communicate a key matter in the auditor's report is appropriate only if the negative consequences of the publication outweigh the benefits generated for the entity or the public interest. It may also be information, for example, which, if published, would affect the business negotiations or the competitive position of the entity. However, such cases are considered to be very rare (Bédard et.al., 2014), because the audit report must provide greater transparency for the targeted users.

Starting from the expressed audit opinion, the analysis and evaluation of transparency in financial reporting has also been the subject of other statistical studies (Robu, et.al., 2019), highlighting that only the profitability component has a significant influence on transparency in financial reporting, evaluated on the basis of the audit opinion. In addition, there are studies that aimed to determine the factors that influence the number of KAMs that the auditors reported for the companies audited in the main European countries for the year ended 2016, highlighting that the complex activities of the companies lead to a higher number of KAMs reported, except for banks, where the association is negative. This finding is supported by the fact that financial institutions operate in a highly supervised and regulated industry, which may reduce the need for KAM disclosure (Pinto, et. al., 2019).

2.2. Presentation and description of key audit matters in the auditor's report

The novelty introduced by ISA 701 regarding audit reporting is precisely the fact that the auditor must communicate the key audit matters in his report in a separate section, entitled: "Key Audit Matters", in which for each key aspect presented an appropriate subtitle, as well as a description of it, should be used, arguing for the presentation of the issue in this section of the audit report (IAASB, 2016; Botez, 2018). It is important to note that the auditor does not issue a separate opinion on

these aspects, nor can it be considered that the key audit matters would be a substitute for expressing a modified opinion (IAASB, 2016).

From the description of the key audit matters presented, users of the audit report should understand why the presented issue was considered a key audit matter, and how it was addressed in the audit approach. There are also situations where, although the auditor considers some aspects of the audit to be key elements, however, he may resort to non-communication in the audit report, either because the regulations do not allow the public presentation of those aspects, or because the auditor considers the negative consequences of communication would outweigh the benefits of the public interest. (Brasel, et.al., 2016). This is the case of ISA 705 – Modifications to the opinion of the independent auditor's report, which in principle prohibits the auditor from communicating the key audit matters when he is unable to express an opinion on the financial statements.

When an interaction between the key audit elements and other elements to be presented separately in the auditor's report is noted, the separate presentation will prevail, and the Section: "Key Audit Matters" will only refer to the other sections. Matters that generate modified opinions, which will be reported in accordance with ISA 705 – Modifications to the Opinion in the Independent Auditor's Report, or matters relating to significant doubts about the entity's ability to continue its business, which fall under the scope, may be discussed here ISA 570 – Going concern. ISA 701 also makes it clear that when the auditor considers that there are no key audit matters to be communicated, this must also be stated in writing in the Section: "Key Audit Matters". Both international auditing standards and specialized literature (Cordoş and Fülöp, 2015) believe that auditors' obligation to include key matters in a separate section in audit reports will increase not only the communicative value of the audit report, in general, but it will also improve communication with those responsible for governance, as long as the key audit matters presented are selected from the aspects discussed with those responsible for governance. In addition, this requirement may also lead to an increase in the attention that management and the persons responsible for governance give in the future to the information presentations in the financial statements referred to in the auditor's report at a given time (IAASB, 2016).

The number of key audit matters that should be communicated by the auditor in its report is a matter of

professional reasoning and is certainly influenced by the size and complexity of the entity, the nature of its activity, but also the circumstances of the audit mission (IAASB, 2016). If the auditor finds a high number of key audit matters in the planning stage, it is important that they are re-analyzed to determine if all of the key audit matters remain and will be communicated in the auditor's report. Too extensive a list of key audit matters might raise question marks from users, not necessarily being a strong point of the auditor's approach.

Regarding the presentation of the key audit matters, the audit rules state that the section related to them should be placed immediately after the opinion is expressed, which confirms the informational value of these aspects. Within the Section "Key Audit Matters", the order of presentation is a matter of professional reasoning. These may be presented in the order of their relative importance or in the order in which they are presented in the financial statements. It is important to enter subtitles to be easy to differentiate. Original information that has not been made public by the entity is desirable not to be presented within the key audit matters by the auditor. It may be, for example, about preliminary information only for investors who have not been published in any other report. It will be considered that the description of audit considered key misalignment may not only be a repetition of the disclosures in the financial statements, but a reference to any disclosures in the financial statements might be useful to those interested. For example, when the entity includes detailed justifications for accounting estimates, the auditor may make a reference to presenting those assumptions for a clear understanding of the key aspect.

There are also cases, considered very rare, in which the audit report does not contain any key matters. In this situation, in ISA 701 – Communicating Key Audit Matters in the Independent Auditor's Report, it is specified that the auditor should refer to the matters mentioned in the Opinion Base or those mentioned in the section related to the significant uncertainties regarding the continuity of the activity, stating that outside other aspects mentioned in the aforementioned sections are no longer considered key.

All aspects considered key by the auditor based on his professional reasoning and intended to be included in the audit report should be brought to the attention and discussed with the persons responsible for governance of the entity. To this end, the auditor may provide the

persons in charge of governance with an intermediate version of the audit report.

2.3. Developing the research hypothesis: the influence of the Key Audit Matters (KAM) in the audit report from current year on the quality of future audit engagements

A clear distinction needs to be made between the matters that generate an amended opinion and which must be presented in the Section “Basis for the modified opinion” and the matters considered by the auditor as key audit matters. The idea of introducing the Section’s audit report “Key Audit Matters” should enhance the communicative value of the report for its users, but presenting the matters that generate a modified opinion in the Section “The modified opinion basis” helps users better identify and understand the report the circumstances according to which such an opinion was reached (Christensen, et.al., 2014).

The manner in which the key audit matters were communicated by the auditors in their reports, both qualitatively (form and content) and quantitatively (the number of KAMs), is of interest to users (Fülöp, 2018). There are authors who have shown that about 75% of the KAMs presented in one financial year are repeated in the following exercise, an important aspect that influences the decision making by the investors (Lennox, et.al., 2019).

In this regard, some authors have studied the effect of reporting key audit matters on the auditor’s responsibility and have emphasized that, depending on the key audit matters reported, the auditor’s responsibility can be amplified or reduced (Gimbar, et.al., 2016a; Gimbar, et.al., 2016b; Kachelmeier, et.al., 2014, Weirich, et.al., 2014). Presenting the key audit matters in the report may diminish the auditors’ exposure to various litigation, as well as the reasonable assurance that it gives regarding the accurate picture presented by the annual financial statements (Bakcof, et.al., 2014).

Based on the results identified in the specialized literature consulted, the following research hypothesis is proposed for testing and validation:

Research hypothesis: *At the level of the Romanian companies listed on the BSE and subject to the mandatory audit, the presentation of the key audit*

matters in the audit report of the current year may lead to an increase in the quality of future audit missions.

3. Research methodology: population, sample, variables, data source, data analysis methods

For testing and validating the proposed research hypothesis, the study follows a statistical approach (Jaba, 2002), which involves identifying the analyzed population and selecting the sample, choosing variables, establishing data analysis methods and proposing econometric models to analyze, collecting and data processing, and in the end obtaining research results and interpreting them.

3.1. The population studied and the sample analyzed

In the study, the studied population is represented by all the companies listed on the Bucharest Stock Exchange – BVB subject to the statutory financial audit, according to Law no. 162/2017 regarding the mandatory audit of the annual financial statements and the consolidated annual financial statements and amending some normative acts, published in the Official Gazette of Romania no. 548/12 July 2017.

At BVB level, three major segments can be identified: the regulated market (comprising 84 listed companies, subject to the statutory audit), the AeRO market (which comprises 288 listed companies, for which the listing rules are not as strict as compared to the firms. listed on the regulated market and not subject to statutory audit) and the ATS – International market (which includes 15 international companies that chose to be listed on the Romanian capital market).

The selected sample includes only the companies on the regulated market. Out of the 84 identified companies, a number of 16 companies (represented by companies in the financial-banking, insurance or financial intermediation sectors were excluded, as they must meet other criteria in financial reporting, and the audit reports are based on the requirements of these reporting frameworks and are not comparable with the audit reports of the other companies), but also a company that was listed in 2018. Thus, the sample analyzed

comprises 67 listed companies, studied in the period 2016-2018. 2016 is the first year for which the revised international audit standards are applied, with reference to the obligation to communicate the key audit matters. Depending on the object of activity, the sample analyzed comprises 46 companies from the production field, 18 companies from the services field and 3 companies from the trade field.

3.2. The variables analyzed, the models proposed for testing and the data source

In order to test and validate the proposed research hypotheses, the study aims to analyze the influence of the key audit matters currently reported on the audit opinion in the audit reports of the following year. We believe that reporting key audit matters in the current period can guide the auditor in planning future missions, but can also help reduce audit risk and increase the quality of audit missions in the coming years.

Thus, the main models of logistic regression (Bourbonnais, 2011) proposed for testing, which analyzes the influence of the key audit aspects on the quality of the audit missions, are the following:

$$\ln[p/(1-p)] = \beta_0 + \beta_1 Auditor_i + \beta_2 Auditor_i \cdot KAM_exist_i + \beta_3 Auditor_i \cdot Total_KAM_i + \beta_4 Audit_Op_i \cdot KAM_exist_i + \beta_5 Audit_Op_i \cdot Total_KAM_i + \varepsilon_i \quad (1)$$

$$\ln[p/(1-p)] = \gamma_0 + \gamma_1 KAM1_i + \dots + \gamma_j KAMj_i + \dots + \gamma_{34} KAM34_i + \varepsilon_i \quad (2)$$

Where:

- p_i represents the estimated probability that in the year following the KAM reporting for a company i , the auditor will issue an unqualified opinion, with $p_i \in [0, 1]$, and $i = 1, \dots, 67$;
- *Auditor* represents a dummy variable, which takes the value 1 if the firm's auditor belongs to the Big 4 group and the value 0, otherwise;
- *KAM_exist* represents a dummy variable, which takes the value 1 if for the company i key audit matters are recorded in the audit report of the current year and the value 0, otherwise;
- *Total_KAM* represents the total number of key audit matters reported by the auditor in the current period for firm i ;
- *Audit_Op* represents a dummy variable, which takes the value 1 if for the company i is issued in the current period an unqualified opinion and the value 0, otherwise;
- *KAMj* represents a dummy variable, which takes the value 1 if a specific audit key type (j) is reported for a firm i (the list of audit key matters is presented below);
- $\beta_{j=0, \dots, 5}$ and $\gamma_{j=0, \dots, 34}$ represents the parameters of the regression models;
- ε_i represents the error component, $\varepsilon \sim N(0, 1)$.

Table no. 1. List of key audit matters identified in 2016-2017

KAM Type	Description of the key audit matter	Number of apparitions
KAM1	Impairment of intangible assets	12
KAM2	Impairment of property, plant and equipment	36
KAM3	Impairment of financial assets	9
KAM4	Inventories depreciation	29
KAM5	Depreciation of receivables	37
KAM6	Oil and gas reserves estimation	2
KAM7	Provisions for decommissioning and the environment	2
KAM8	Litigation and related provisions	17
KAM9	Tax liabilities and related provisions	6
KAM10	Provisions for guarantees given to customers	3
KAM11	Provisions for unused vacation leave	1
KAM12	Provisions for post-employment obligations	7

KAM Type	Description of the key audit matter	Number of apparitions
KAM12	Recognition of deferred tax, receivables / debts	22
KAM14	Revenue recognition	57
KAM15	Revaluation of tangible assets	15
KAM16	Capitalization of research and development expenses	3
KAM17	Capitalization of the costs of modernizing the tangible assets	5
KAM18	Valuation of real estate investments at fair value	3
KAM19	Applying the fiscal facility by exempting the tax on reinvested profit in technological equipment	2
KAM20	Evaluation of production in progress	9
KAM21	Increase of the share capital	1
KAM22	(Not) Going concern	35
KAM23	Significance threshold	3
KAM24	Classification of financial assets and transactions with related parties	8
KAM25	Redemption of own shares	1
KAM26	Non-repayable loans with a subsidy character for investments	2
KAM27	Inefficient internal control system	4
KAM28	Non-participation in inventories – appointment of the auditor after the closing date of the financial year	7
KAM29	The reorganization plan	3
KAM30	Changes in the financial accounting department during the audited year	1
KAM31	Negative equity	4
KAM32	Changing accounting policies and correcting significant errors	2
KAM33	Limit access to information / Non-confirmations	1
KAM34	Contingent debts	0

Source: Own processing

The data were collected manually from the audit reports of the companies included in the analyzed sample, and the data analysis was performed with SPSS 22.0 software.

4. Results and discussions

It is known that the implementation of ISA 701 – *Communication of key audit matters in the independent auditor's report*, began with the audit of the financial statements prepared for the financial year that ended at the end of 2016.

At a first analysis of the audit reports for the companies listed on the BSE on the main market, it was found that the audit reports issued for the financial year ended at

the end of 2016 are *much more extensive*. If prior to introducing the obligation to include separate key matters in the audit reports, they had about four pages, once published in a separate section of the KAMs, it can be seen that their size reaches ten pages.

Specifically, following the data analysis, the main results consider: the presentation of descriptive statistics for the variables used in the proposed models, the identification of the associations between the reporting of the key audit aspects in the current financial year and the type of audit opinion formulated by the auditor in the following financial year; finally, the parameter estimates of the two logistic regression models.

Table no. 2. Descriptive statistics on the analyzed variables		
Variable	Value	Frequency of occurrence
Auditor	It belongs to Big 4 (B4)	32,80%
	It does not belong Big 4 (NB4)	67,20%
Audit opinion in the current financial year (Audit_Op)	Op1: unqualified opinion	78,40%
	Op2: qualified opinion	16,40%
	Op3: disclaimer of opinion	3,70%
	Op4: contrary opinion	1,50%
Audit opinion in the following exercise (Audit_Op _{t+1})	Op1: unqualified opinion	78,40%
	Op2: qualified opinion	16,40%
	Op3: disclaimer of opinion	3,70%
	Op4: contrary opinion	1,50%
Existence KAM (KAM_exist)	Not	12,70%
	Yes	87,30%
Total number of key audit matters identified in an audit report (Total_KAM)	0 matters	15,70%
	1 matter	26,90%
	2 matters	11,20%
	3 matters	17,90%
	4 matters	8,20%
	5 matters	11,90%
	6 matters	3,00%
	7 matters	3,00%
	8 matters	0,70%
	9 matters	0,00%
	10 matters	0,00%
	11 matters	0,00%
	12 matters	0,00%
	13 matters	0,70%
14 matters	0,70%	

Source: Own processing in SPSS 22.0)

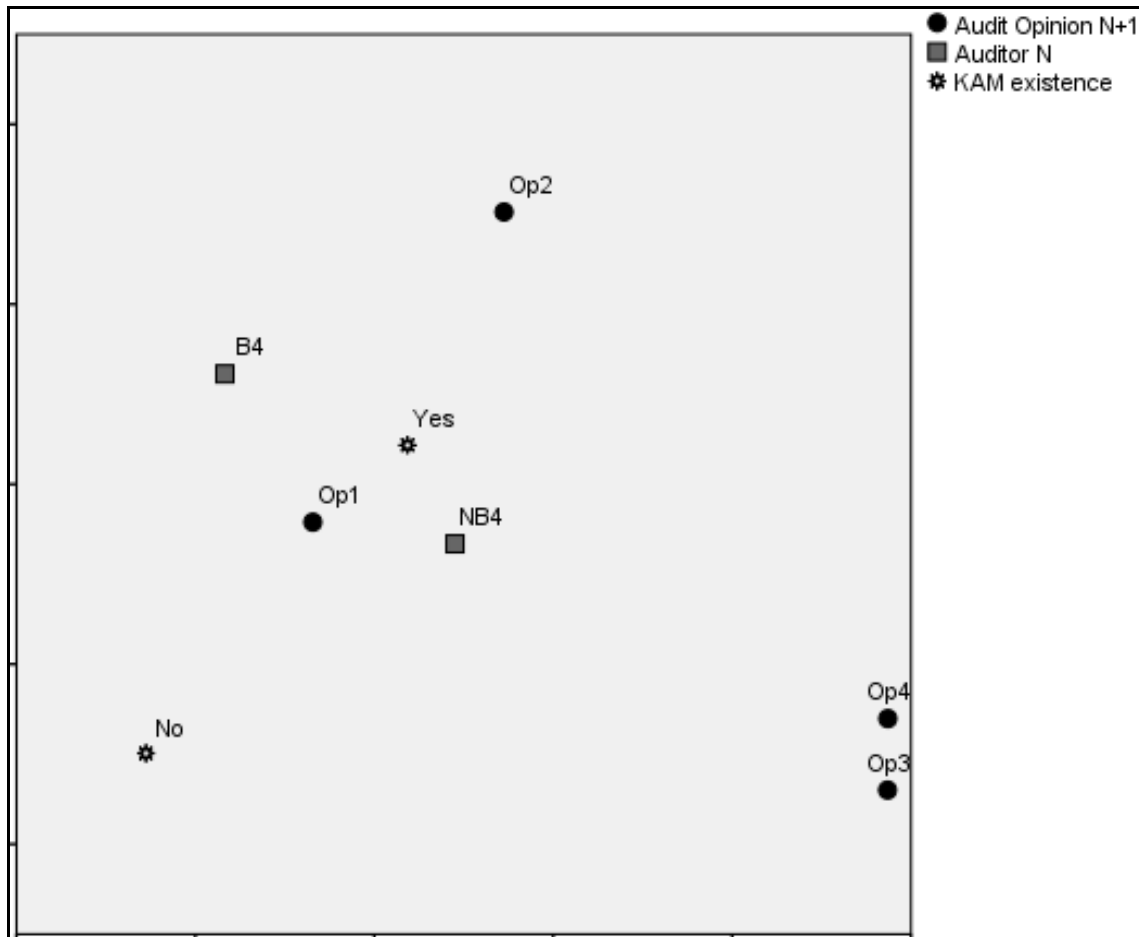
From the **Table no. 2**, it can be observed that for the sample analyzed during the period considered, *the auditor* belongs to entities in Big4 in a percentage that exceeds by little 30%, the rest, about 70%, being auditors who are not part of Big4. At the level of *the type of audit opinion*, it can be noted that there are no apparent changes from one period to another, the percentages on the four types of opinion being unchanged. It is important to note that although data collection changes of the type of opinion from one period to another were taken, as a whole, these changes were “compensated” which led to identical

results. It is worth noting that in about 80% of cases, the opinion was unqualified. Regarding *the existence of KAMs*, there were also sample entities (approximately 13%) for which the auditors did not report any KAM in the audit reports for the financial years analyzed, although the rules recommend that at least one key audit aspect be presented in the auditor's report. Regarding *the total number of key audit matters* identified in an analyzed audit report, it is found that in 27% of cases there is at least one key audit matter presented.

The associations between the type of auditor from the current period and the existence of the KAMs from this period with the type of audit

opinion from the following financial year are presented in the diagram in *Figure no. 1*.

Figure no. 1. The associations between the reporting of key audit matters in the current financial year and the type of audit opinion formulated by the auditor in the following financial year



Source: Own processing in SPSS 22.0, using factorial analysis of multiple correspondences

From the diagram in *Figure no. 1*, it can be observed that, regardless of the auditor's affiliation with B4 or NB 4, the existence of the KAMs reported during the current period leads the auditor to obtain an unqualified audit opinion for the next financial year. This fact can be motivated and supported by the diminution of the audit risk in the following financial year, as a result of identifying the sensitive areas that have already been reported in the previous period and which

contribute to the improvement of the audit approach (including, in the planning of the mission) in the following periods.

The influence of the existence of the KAMs, but also of their number in the current period on the probability of obtaining an unqualified opinion in the next financial year is analyzed using a logistic regression model, and the results obtained from the statistical processing are presented in *Table no. 3*.

Table no. 3. Parameter estimates of the first regression model

Variables included in the model	β	S.E.	Wald	df	Sig.	Exp(β)
<i>Auditor</i>	2.471	1.476	2.800	1	.094 ^a	11.830
<i>Auditor</i> · <i>KAM_exist</i>	-2.203	1.489	2.189	1	.139 ^b	.111
<i>Auditor</i> · <i>Total_KAM</i>	-.308	.284	1.177	1	.278 ^e	.735
<i>Audit_Op</i> · <i>Total_KAM</i>	.739	.597	1.535	1	.215 ^d	2.094
<i>Audit_Op</i> · <i>KAM_exist</i>	2.696	1.886	2.043	1	.153 ^c	14.820
<i>Constant</i>	-.511	1.473	.120	1	.729	.600

Model 1: $\ln[p_i/(1-p_i)] = \beta_0 + \beta_1 \text{Auditor}_i + \beta_2 \text{Auditor}_i \cdot \text{KAM_exist}_i + \beta_3 \text{Auditor}_i \cdot \text{Total_KAM}_i + \beta_4 \text{Audit_Op}_i \cdot \text{KAM_exist}_i + \beta_5 \text{Audit_Op}_i \cdot \text{Total_KAM}_i + \varepsilon_i$
 Confidence level (a: 90%; b: 85%; c: 80%; d: 75%; e: 70%)

Source: Own processing in SPSS 22.0

From the data presented in the **Table no. 3**, it can be observed that the auditor's membership of the Big4 Group of Companies can lead to the issuance of an unqualified opinion starting from the KAMs identified in the previous financial year. However, based on professional scepticism, the reporting of KAMs, as well as their number, may guide the Big4 auditor to further audit tests on the previously identified areas to detect any inconsistencies depending on the applicable reporting framework. This can lead to a decrease in the probability of obtaining an unqualified opinion. In this way, the auditor may be in

a position to overlook other previously unidentified sensitive areas.

If the auditor in Big4 or NonBig4 takes into account the unreserved opinion issued in the previous period, the existence of the KAMs identified above, but also their number can facilitate the planning of the auditor's mission in the next period with a direct impact on the reduction of the audit risk and, implicitly, to increase the quality of the audit.

The influence of a certain type of KAM on the probability of issuing an unqualified opinion in the next financial year is presented on the basis of the results summarized in the **Table no. 4**.

Table no. 4. Parameter estimates of the second regression model

Variables included in the model	β	S.E.	Wald	df	Sig.	Exp(β)
KAM1	211.205	11593.529	.000	1	.985	5.313E+91
KAM2	72.349	4463.965	.000	1	.987	26347631219163340000000000000000.000
KAM3	240.199	16612.543	.000	1	.988	2.076E+104
KAM4	33.175	6232.698	.000	1	.996	255792104530369.900
KAM5	14.047	1728.970	.000	1	.994	1259953.949
KAM6	-278.616	32426.597	.000	1	.993	.000
KAM8	136.694	8333.901	.000	1	.987	2.321E+59
KAM9	17.187	11567.681	.000	1	.999	29115321.416
KAM10	-30.266	15755.979	.000	1	.998	.000
KAM11	-24.022	40301.997	.000	1	1.000	.000
KAM12	-197.051	13076.426	.000	1	.988	.000
KAM13	42.077	2962.464	.000	1	.989	1877918400054368770.000
KAM14	.930	1.248	.555	1	.456	2.535

Variables included in the model	β	S.E.	Wald	df	Sig.	Exp(β)
KAM16	-25.382	107143.363	.000	1	1.000	.000
KAM17	-.206	3711.186	.000	1	1.000	.814
KAM18	15.901	13696.591	.000	1	.999	8051381.562
KAM19	-23.092	28574.702	.000	1	.999	.000
KAM20	-122.719	7469.228	.000	1	.987	.000
KAM21	154.261	41033.325	.000	1	.997	9.881E+66
KAM22	-.796	1.704	.218	1	.640	.451
KAM23	-32.564	4863.295	.000	1	.995	.000
KAM24	-1.279	1.718	.554	1	.457	.278
KAM25	337.627	43442.874	.000	1	.994	4.262E+146
KAM26	4.008	28473.264	.000	1	1.000	55.029
KAM27	99.934	28342.336	.000	1	.997	2.517E+43
KAM28	-30.355	2429.838	.000	1	.990	.000
KAM29	-245.444	27822.340	.000	1	.993	.000
KAM30	18.985	40192.969	.000	1	1.000	175751547.388
KAM31	242.721	21288.619	.000	1	.991	2.584E+105
KAM32	-169.357	27392.350	.000	1	.995	.000
KAM33	-3.067	41118.017	.000	1	1.000	.047
Constant	2.218	.692	10.271	1	.001	9.192

Model: $\ln[p/(1-p)] = \gamma_0 + \gamma_1 KAM1_i + \dots + \gamma_j KAMj_i + \dots + \gamma_{34} KAM34_i + \epsilon_i$

Source: Own processing in SPSS 22.0

Based on the results from **Table no. 4**, it can be observed that the existence of a certain type of KAM from the current period does not have a significant (defining) influence on the type of opinion issued in the next financial year. However, it should be noted that the auditor must take into account, in particular, three key matters that may influence his audit approach in the following period, namely: the recognition of revenues, whether or not the principle of business continuity, as well as transactions with related parties. The reason why *revenue recognition* is a key issue in this model lies in the fact that it is most commonly encountered, probably because auditors believe that the principles an entity should apply regarding the nature, value, timing and uncertainty the revenues generated by a contract with a client are quite complex, according to IFRS 15 and important for understanding the financial statements by the users. Regarding to *going concern*, reports analyzed

it was found that the auditors are frequent references in this regard when they suspect that this principle can be respected in order to provide users with all the information required subsequent decision making. Transactions with related parties are a sensitive matter, as they are part of a rather complex field and often impose difficulties in applying the audit procedures and in collecting relevant evidence.

5. Conclusions

In recent years, the role of the audit profession has been reconsidered and new standards in the field have been issued with the aim of increasing the quality and transparency regarding the audit reporting, precisely in order to support the present and potential investors. One of the latest changes to audit reporting is the inclusion of key matters as a separate section in the auditor's report.

In the present study we aimed, first of all, starting from the specialized literature, to clarify what are the conditions for certain audit aspects to be considered key and what is the manner of presentation and description in the audit report of these aspects. Secondly, it was tracked to what extent the audit reports of the entities listed on the Bucharest Stock Exchange issued after the application of the new reporting requirements in the audit ensure an increased communication value and, implicitly, a higher quality of the financial audit missions. The sample studied comprises 67 companies listed on the regulated market, and the period subject to analysis is 2016-2018, the financial year ending at the end of 2016 being the first exercise for which the revised international audit standards are applied, with reference to the obligation to communicate the key matters of audit. The research hypothesis aimed *to test the influence of the key audit matters reported by the auditor in the current year on the quality of future audit missions*, and for its validation a statistical approach was followed.

Prior to the estimation of the parameters of the logistic regression models, descriptive statistics were presented for the variables used and the associations between the reporting of key audit matters in the current financial year and the type of audit opinion issued by the auditor in the following financial year were identified. The results of the descriptive statistics present the company profile as being audited by an auditor who is not part of Big4,

the opinion formulated in the audit report is the one without reservations, and the audit report contains at least one key audit matter. Regarding the association between the reporting of key audit matters in the current financial year and the type of audit opinion formulated by the auditor in the following financial year, the conclusion is that regardless of the type of auditor (Big4 or NonBig 4), the existence of the KAMs reported during the period current leads the auditor to obtain an unqualified audit opinion for the next financial year, because sensitive areas were identified in a previous period, the audit risk in the immediate period may be diminished and the assurance given by the auditor may increase.

The influence of the existence of KAMs, but also of their number in the current period on the probability of obtaining an unqualified opinion in the next financial year was analyzed using a logistic regression model, and the results revealed that the auditor's membership of the Big4 Group of companies may lead to the issuance of an unqualified opinion from the KAMs identified in the previous financial year. However, both the number of KAMs and their type in the current period could guide the auditor in the next period that, from the planning stage of the audit, to establish in-depth audit tests for the significant areas and systems, precisely for to contribute to enhancing the credibility of the audit approach and, implicitly, to improving the quality of the audit.

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