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Factors Influencing KAM Reporting: A Structured Literature Review

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Abstract

The disclosure of KAMs contribute to the increase of financial-reporting quality, the value of the audit report and implicit interest in it. Moreover, KAM's disclosure has a positive influence over the expectation gap between the auditors and other users of the audit report and financial statements. This study aims to identify relevant drivers influencing the Key Audit Matters (KAMs) disclosed in the audit report, based on a review of the articles published in top accounting journals. Our results reveal the fact that the audited company itself especially influences the disclosure of the KAMs, emphasizing the size of the company, the complexity of the business, the applicable regulation of the industry in which the company operates, all of which impact the overall client-risk level. Other relevant factors are the accounting standards with which the company must comply and on which it must report, the audit company ('Big Four' or not) and the audited company's location.

Keywords: *Key Audit Matters; Audit Report; ISA 701*

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Introduction

The purpose of the audit reports is to facilitate the communication of the auditors' concerns and opinions, regarding the accuracy and completeness of the financial statements, to various categories of stakeholders, such as investors, debtholders, shareholders, standard setters, regulators and other external users (Pratoomsuwan & Yolrabil, 2018).

Prior research raises several concerns regarding the quality of the audit report and the expectation gap between the stakeholders and the auditors (Church et al., 2008), also highlighting situations in which the auditors fail to identify financial statements that do not present a true and fair image of the audited company's actual financial information (Guiral-Contreras et al., 2007). All these aspects generate an overall distrust of the auditor's work and lead to continuous debates on the matter (Vanstraelen et al., 2012).

The International Auditing and Assurance Standards Board (IAASB) adopted International Standard on Auditing (ISA) 701 in response to concerns that stakeholders raise, and in an attempt to reduce the information gap and the information asymmetry between the users of the financial statements and the auditors, as well as to improve transparency, increase audit quality and make the audit reports more relevant for their users.

Consequently, the audit report suffered some modifications and the auditor has an additional objective, namely, to determine key audit matters (KAMs) and communicate those that in the auditor's professional judgement were of most significance in auditing the financial statements of the current period, by describing them in the auditor's report.

Before the implementation of ISA 701, 'the auditor's report structure had been much simpler than it is today, with reports usually comprising of brief paragraphs' (Tiron-Tudor et al., 2018). However, a gap between auditors and users also existed, particularly due to the users' comprehension of a report that had become even more complex and quite difficult to follow.

After the introduction of the KAMs paragraph to the audit report, the fieldwork included performing more audit procedures on the audited financial accounts. Marques et al. (2019) and Moroney et al. (2020) demonstrate that the inclusion of the KAMs paragraph in the audit report improves its perceived value and offers greater credibility only when a Non-Big Four audit company issues it. On a more positive note, Sirois et al. (2017) suggest that particularly due to the high level of the KAMs specificity, users can acquire a better understanding of the disclosures: 'KAMs can improve information search and acquisition efficiency by reducing attention to less relevant disclosures' (Sirois et al., 2018). However, to the authors' best knowledge, the gap in the literature remains; no study performs a rigorous literature review on factors influencing the KAMs disclosure (Sirois et al., 2018).

Thus, this paper aims to identify and discuss the key drivers that influence the disclosure of the Key Audit Matters in the audit report based on a structured literature review.

The study intends to contribute to the development of knowledge as follows. First, performing a comprehensive review of articles published in top accounting journals. Second, this study intends to facilitate better understanding of the KAMs, by explaining how some factors correlate with the matters disclosed, to enable more informed decision-making based on the information the audit report provides.

KAM emergency: role and debates

Nowadays, users' expectations of the financial statements and audit reports have increased tremendously, and so has the implicit pressure on authors to provide as much assurance as possible regarding the financial statements. In an attempt to decrease this expectation gap, to increase the quality of the audit and make the audit reports more relevant for users, the International Auditing and Assurance Standards Board (IAASB) adopted International Standard on Auditing (ISA) 701, 'Communicating key audit matters in the independent auditor's report', which became effective for audits of financial statements for periods ending on or after December 15, 2016.

The purpose of ISA 701 is to improve communication with not only the users but also the regulators, perhaps to continuously improve the audit reporting quality and further diminish the expectation gap.

ISA 701 defines KAMs as "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements". Accordingly, the auditor should refer to areas with high risk of material misstatement (RMM) or significant risks identified as required by ISA 315 (revised); areas that imply significant management judgement, such as accounting estimates that have a high level of uncertainty; and the impact on the audit of significant events or transactions that took place during the audited period (Jermakovicz et al., 2018). Regarding the KAM, the auditor should explain the rationale for selecting the matter and how the audit addressed it. Also, at least one KAM must be disclosed (Jermakovicz, et al., 2018).

The structure of the key audit matters consists of the introduction and the body. Each KAM is individually described, and all are sorted based on their priority, though in some cases, they appear sequentially as the notes to the financial statements. When communicated, these matters require attention to not only their level of completeness and appropriateness but also their wording in the requisite language appropriate to the matter (Hui, 2020).

According to Hui (2020), the subjects disclosed can fall into two categories: "firstly, areas of significant risk assessed by the auditor and secondly, areas of management's major judgments designed in financial reports". The second category directly connects with two relevant aspects, namely, accounting areas that require more time and a particular level of attention from the auditor and areas that involve professional judgement, such as accounting estimates.

The auditors have a unique perspective on the audited company's activity and prospects, and they should be able to pass this along, so users get an insight into the important identified risks, quality of the internal controls, risk-management systems the company has implemented and the quality of its accounting policies. Also, most users believe that a significant amount of the audit report's credibility comes from the audit firm's prestige and reputation (Vanstraelen et al., 2012).

Some debates in the literature refer to the fact that since the implementation of ISA 701, the audit procedures have become more formalized, including additional documentation of the work performed and the rationale behind the areas that require professional judgement, and more audit procedures are performed, to mitigate the audit risk (Marques et al., 2019).

Moreover, an important objective of a KAM is to increase the usefulness of the audit report. However, this objective carries significant risk if the audit report discloses too many matters, nullifying the initial purposes and leading to its misinterpretation (Milton, 2019).

Others consider that 'disclosing KAMs in the audit report does not affect the audit expectation gap'; moreover, the expectation gap 'actually increases on measures associated with perceptions on the reliability of the audited financial reports when the audit report includes a KAM that follows a precise accounting standard, suggesting some potential unintended consequences of this reporting change' (Coram & Wang, 2020). Also, in line with previous opinions, this process 'increases audit fees, but it does not adversely impact audit quality', and stakeholders question if the disclosure of KAMs 'adds enough, if any, value to justify its costs' (Daugherty, et al., 2020).

Other direct impacts on auditors refer to a more conservative audit approach, higher evaluation of the audit risk and the fact that auditors have greater liability and exposure to litigation risk (In et al., 2020). Pratoomsuwan and Yolrabil (2020) conclude that 'disclosures reduce auditor liability only in cases of fraud and not in cases of errors', putting the focus on a perceived benefit and reduction of liability.

According to Sirois et al. (2018), "KAMs have attention directing impact, in that participants access KAM-related disclosures more rapidly and pay relatively more attention to them when KAMs are communicated in the auditor's report"; however, the users "devote less attention to the remaining parts of the financial statements". The auditors must carefully consider the reporting drivers influencing KAMs and properly disclose them in a manner that avoids information overload in the audit report, which decreases its utility.

As the beginning of this section shows, the wording of the KAM is highly relevant, as nonprofessional investors might encounter difficulties with 'processing the information conveyed with KAM' (Koehler et al., 2020).

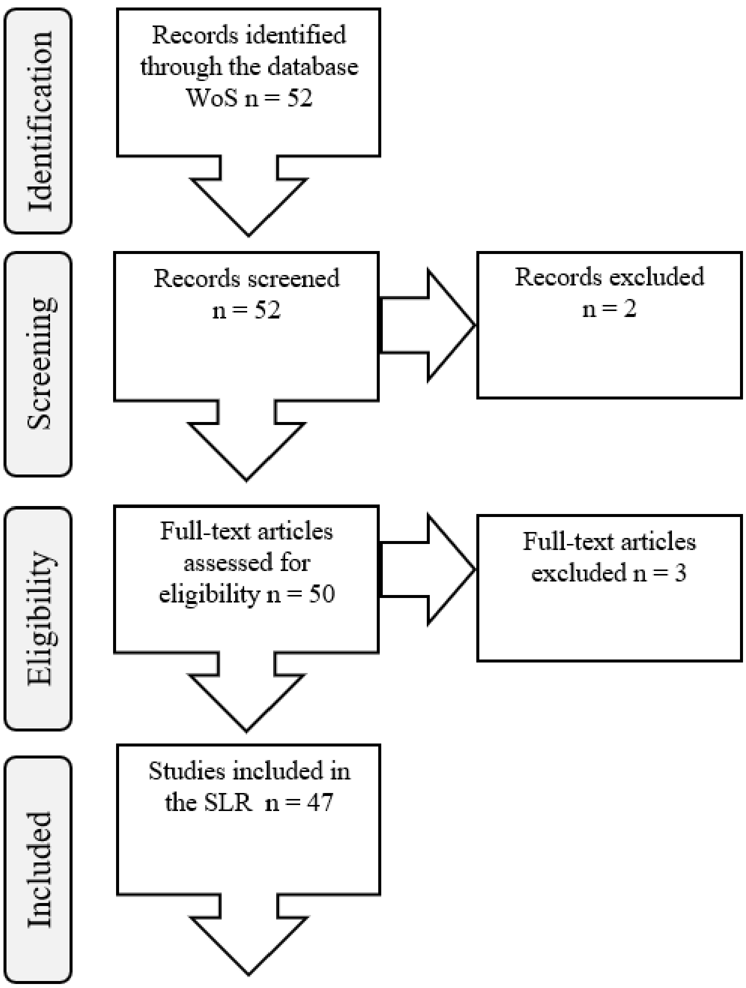
Other researchers do not identify a significant added value and believe that "standard setters should carefully analyze the effect of additional information before making decisions on expanding the content of the audit report" (Boolaky & Quick, 2016). In line with this opinion, no sufficient market reaction to KAMs disclosure and no significant impact on the audit report, audit quality or audit fees were identified (Bedard et al., 2019).

From a more positive perspective, Cordos and Fulop (2014) conclude that "KAMs are an important concept and that it will have a positive effect in the audit profession". Also, Gold, et al. (2020) point out that "KAMs serve as a beneficial mechanism for enhancing financial reporting quality by attenuating aggressive financial reporting behavior, regardless of the precision employed by auditors". For now, the question of whether the initial purpose of ISA 701 is achieved remains unanswered (Christofferson & Gronberg, 2018).

Methodology

The purpose of this literature review is to critically analyze the relevant literature in the field, to identify the key drivers that directly or indirectly impact the disclosure of the audit matters in the audit report. Accordingly, a structured literature review was performed. The search was conducted in Web of Science database using the keywords: KAM or Key Audit Matter and Audit or Auditing. The preliminary result of this research was 52 articles, of which 47 were considered representative for the study, based on an analysis of the abstract. No period filters were applied because the requirement for KAMs disclosure began in 2016. *Figure no. 1* illustrates the filtration and selection method that the authors applied, based on the study's purpose.

Figure no. 1. SLR flowchart



Source: Authors' projection

Then, analytical criteria were used such as: location, sector focus, focus of the article, measurable and non-measurable KAM disclosure factors.

Applying the manual coding procedure structured the data, and both qualitative and quantitative analysis ensued. The quantitative analysis was performed using software solutions VOSviewer and Bibexcel. VOSviewer visualises results in a compacted manner and is "widely used because of its easy use and beautiful graphics in co-occurrence analysis of keywords, topic words, and authors" (Xiyang, 2020). Bibexcel, designed for bibliographic analysis, "provides additional data statistics including author, affiliation and keyword statistics" and is also used to "prepare the input data for a detailed network analysis" (Fahimnia et al., 2015).

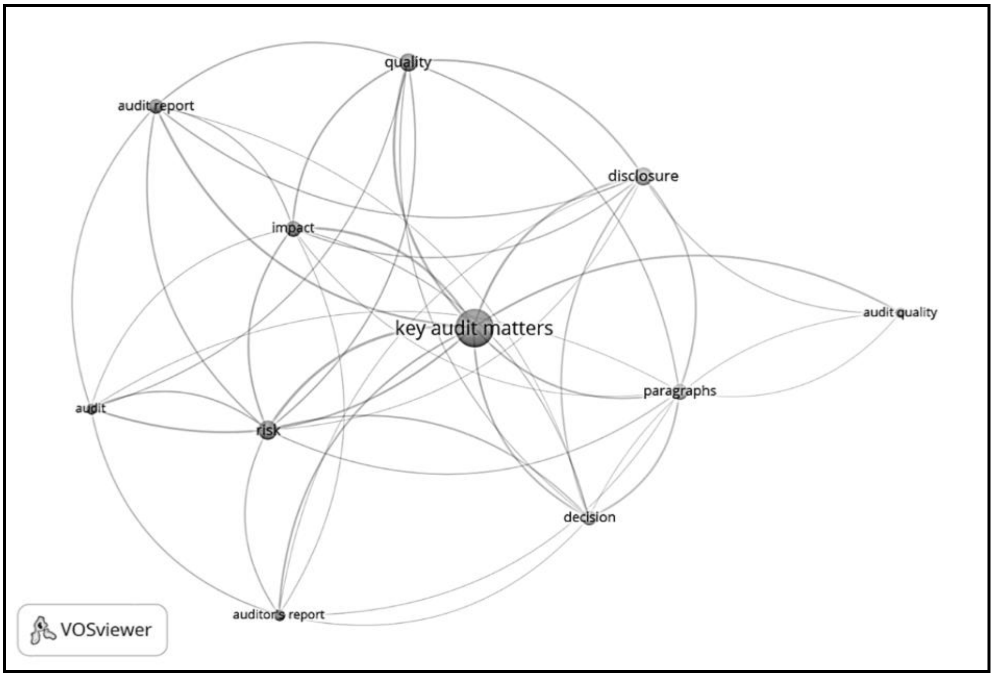
The qualitative analysis used NVivo software, useful for unstructured and qualitative data and helping the researcher to classify, arrange, sort and examine the data (Woods et al., 2015). Once the articles were properly segregated, the authors performed the synthesis of the relevant data, by categorizing the findings of each paper and grouping similar results into relevant categories.

Sample description

The generated sample is composed by 41 articles and 6 proceedings papers. Only two articles were published before the implementation of ISA 701, but they focus on the topic by assessing the expectations and assumptions when the standard was still in the implementation-proposal stage. The remaining 45 articles were published between 2017 and 2020.

Wiley published the largest number of articles – 9 out of 47, followed by Emerald – with 7 and Taylor and Francis – with 4; thus, listed publishers published 43% of the total sample population. The total population of sample articles was published by 22 publishing houses. The majority, specifically 13% of the articles, were published in the *International Journal of Auditing*, not a surprise, considering the research field.

Figure no. 2. Analysis of the co-occurrence of the keywords

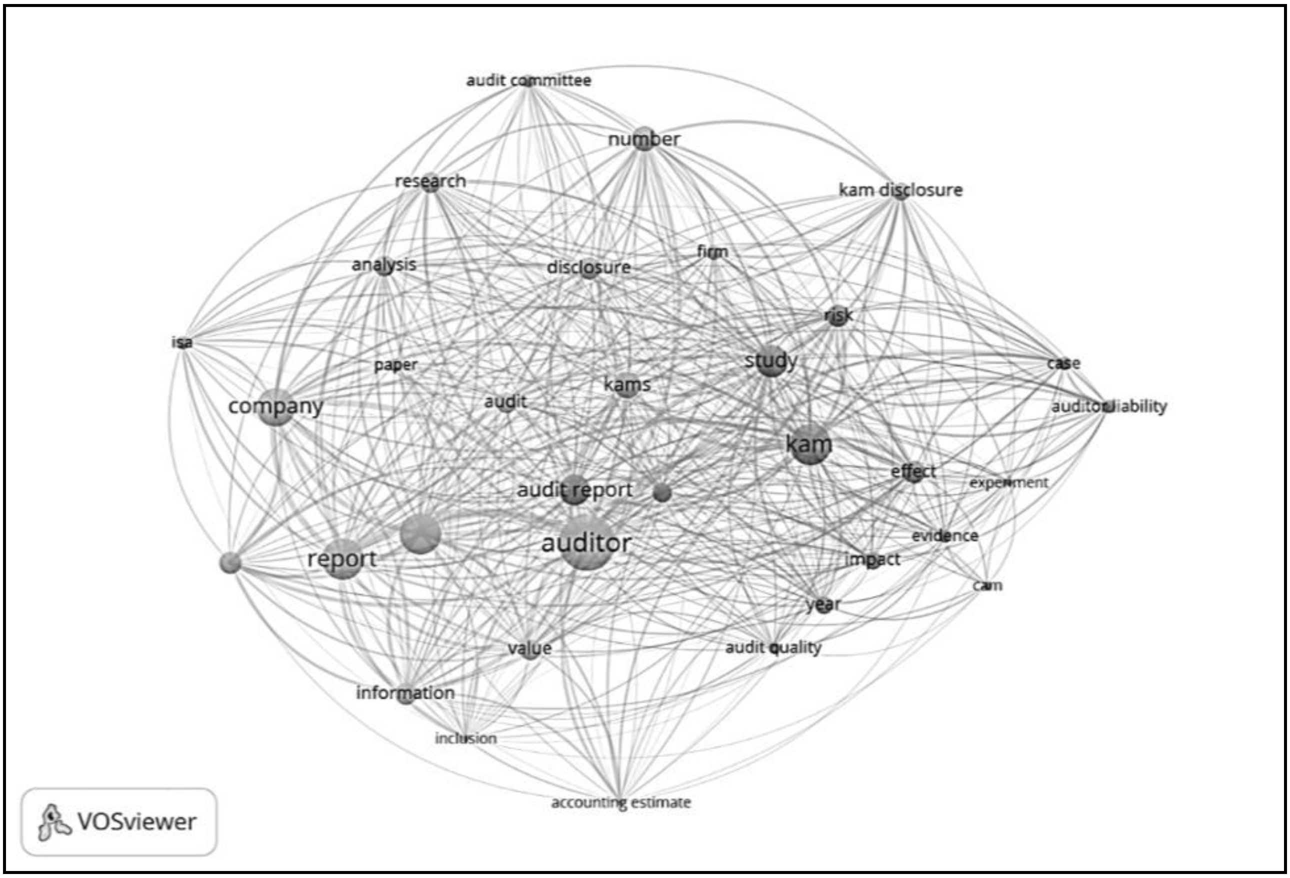


Source: Authors analysis, VOSviewer

An additional analysis based on the bibliographic data shows the co-occurrence of keywords in the selected articles. A significant occurrence threshold was set at 5 keyword occurrences. Therefore, out of 250 available keywords, only 11 keywords met the specified threshold. The most frequently used keyword is 'key audit matters', with a 62-link strength and 32 occurrences. ***Figure no. 2*** presents link strength as concern correlation of the keyword with others used in the articles.

The third data analysis is a mapping of the text data, co-occurrence of terms from the abstract and the title. The minimum occurrence threshold was established at 10 times. Of the 1,125 terms, 34 met the criteria, and the top three keywords identified are: *auditor*, with link strength of 3,461 and 105 occurrences; *report*, with a 2,226-link strength and 70 occurrences; *KAM*, with a 1,178-link strength and 67 occurrences, presented in ***Figure no. 3*** which shows the clusters formed from the corpus of scientific literature in the field.

Figure no. 3. Analysis of co-occurrence based on text data



Source: Authors analysis, VOSviewer

The purpose of the corpus of scholarly literature analysis, using the text mining functionality of VOSviewer, is to provide a better understanding and visualization of the research data, offer insights about the most frequently used keywords and validate the presumption that the selected data is relevant for this research (Van Eck, 2010).

Of the 47 selected academic papers, 87% are in the field of Business and Economics, while those remaining are from business and affiliated fields: Chemistry, Engineering, Agriculture, Environmental Sciences and Ecology, International Relations and Social Sciences.

Concerning the location, more than half of the studies concern companies located in Europe (55%), the most-studied region, followed by a significant distribution in Asia (23%), and the remaining regions have a total distribution of 21%. The analysis of the location is significantly important, showing the areas of most interest to the researchers and drawing attention to the regions that might require additional research.

Within Europe, the dominating country is by far the United Kingdom, where the audit report has integrated the KAMs paragraph since 2013 (Gambetta, et al., 2019). By far, the least represented locations are Australia (4%) and Africa (2%). In the case of Africa, the low involvement relates to the incipient phase of the audit-standards implementation (Dumay et al., 2015). In Australia, the auditing regulations around Key Audit Matters (KAMs) were fully adopted, as in the majority of the European countries, in 2016 (Kend & Nguyen, 2020), a short time span that would allow the collection of representative data.

North and South America's share of the distribution of studies is about 15%, quite a low sample size in this respect. The applicable similar disclosure requirement, introduced in 2017, is Critical Audit Matters (CAM) in the USA, part of the Public Company Accounting Oversight Board (PCAOB) regulations. As the research focused on KAM, the results mostly focused on ISA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', in the International Auditing and Assurance Standards Board (IAASB) regulations.

However, the justification of the large percentage of papers concerning European companies lies with the "progressive spread of value co-creation that starting from the first years of the new millennium and has involved an increasing number of scholars operating within the European continent" (Tommasetti, et al., 2020).

KAM Disclosure factors measurable

The first criterion used in this SLR is KAM Disclosure Factors Measurable (A), to address the first study research question. These factors were split into 'measurable' and 'non-measurable' types, to provide insight into factors for use in certain research models for further study and development of the topic. By applying the criterion of measurable factors, 16 subcategories were identified, as shown in **Table no. 1**.

Table no. 1. KAM Disclosure factors measurable

Factor	Reference
A1. Gender of the auditor/audit partner (male/female)	Abdelfattah et al., 2020
A2. Cultural/ Other external factors	Velte, 2018
A3. Industry of the audited company	Abdullatif & Al-Rahahleh, 2020 Pinto & Morais, 2019 Sierra-Garcia et al., 2019 Velte, 2020 Wuttichindanon & Issarawornrawanich, 2020
A4. Presence of significant accounting estimates and uncertainty directly related	Asbahr & Ruhnke, 2019 Lau, 2020
A5. Country of the audited company	Ciger et al., 2019 Lau 2020 Wuttichindanon & Issarawornrawanich, 2020
A6. Existence of an Audit Committee in the company	Abu & Jaffar, 2020 Vasconcelos et al., 2020 Wuttichindanon & Issarawornrawanich, 2020

Factor	Reference
A7. Type of audit company (Big Four/Non-Big Four)	Abdullatif & Al-Rahahleh, 2020 Filipovic et al., 2019 Kend & Nguyen, 2020 Moroney et al., 2020 Sierra-Garcia et al., 2019
A8. Audit market structure	Gambetta et al., 2019
A9. Accounting standards applied on particular accounting item/financial statement line item	Cortes de Vasconcellos et al., 2019 Kend & Nguyen, 2020 Pereira et al., 2020 Pinto & Morais, 2019 Warzocha, 2018
A10. Audit fee	Mamcarczyk et al., 2020 Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A11. Number of business segments (complexity of the company's business)	Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A12. Level of regulation of the market	Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A13. Client risk level	Pinto & Morais, 2019
A14. Existence of directors and officers (D&O) liability insurance at the company	Lin et al., 2020

Source: Authors' projection

In addition to these factors, two other subcategories were created to also map articles that do not present measurable disclosure factors (A15) and the papers that contain multiple factors (A16), under which category four articles fall. The most common drivers within the papers were "Type of audit company (Big Four/Non-Big Four)" (A7) and "Accounting standards applied on particular accounting item/financial line item" (A9), both emphasized in five articles.

The audit companies are split into two relevant categories: Big Four and non-Big Four. This status also influences the nature of the KAMs because Big Four companies have a more standardized approach, to mitigate the auditor's liability. Studies show that 'Deloitte, EY and KPMG tend to report fewer entity-level-risk KAM (ELRKAM) than PwC, while KPMG and BDO report fewer account-level-risk KAM (ALRKAM) than PwC' (Sierra-Garcia et al., 2019).

The type of audit company plays a significant role, due to the subjectivity and skepticism level of each auditor and each company's methodology. Thus, it comes as no surprise that variations in judgement and different interpretation methods surrounding ISA 701 arise from one company to another, 'differences between large and small audit practitioners related to the average number of KAMs disclosed and the average number of audit procedures undertaken per KAM' (Kend and Nguyen, 2020).

Abdullatif and Al-Rahahleh (2020) also demonstrate that "audit firms generally disagree on the nature and content of KAMs, overwhelmingly tend to report industry-specific KAMs rather than entity-specific KAMs and avoid reporting KAMs related to governance or internal controls".

Multiple studies assess which accounting standards apply to a particular accounting item or financial statement line item (A9), most impacting the content disclosed in the

KAMs paragraph. De Vasconcellos et al. (2019) report that ‘the main KAM[s] observed were assessment of the recovery value of non-current assets, revenues, provisions and contingent liabilities, investments in directly or indirect subsidiaries and realization of deferred taxes and taxes recovering’.

Additionally, ‘KAM disclosures are related to impairments of goodwill and intangible assets, asset valuation’ (Kend and Nguyen, 2020). These facts directly correlate with the company’s business and the risk of material misstatement, depending on the most vulnerable and uncertain audited areas. Accordingly, ‘it was tentatively assumed that risks relating to revenue recognition will in general be regarded as significant and therefore be identified and communicated in the key audit matters by the auditors’ (Warzocha, 2018).

Pinto and Morais (2019) conclude that the difference between rule-based and principle-based accounting also influences the position of the auditors with respect to KAMs. In the first situation, the auditor’s tendency is to disclose more KAMs, in the second case disclosing a lower number of KAMs. This relates to the fact that ‘under a less precise accounting standard, auditors might find it easier to justify not disclosing a KAM’ (Pinto & Morais, 2019).

Directly connected with the audit procedures is the complexity of the audited company (A11); ‘a higher number of business segments (complexity) and more precise accounting standards lead to the disclosure of a higher number of KAMs’ (Pinto and Morais, 2019) – quite an expected outcome since ‘the more complex a client, the riskier auditing the firm is’ (Pinto and Morais, 2019).

Directly correlating with the complexity of the business and the approach of the auditor is the risk to which the auditors are exposed. Therefore, they ‘aim to reduce their liability and maintain their reputation, thus they tend to disclose more KAMs in firms with a higher number of business segments’ (Pinto and Morais, 2019).

In addition to the complexity of the business, the studies also reveal that the industry of the audited company (A3) influences the disclosed KAMs. From one angle, Abdullatif and Al-Rahahleh (2020) observed “a tendency to avoid entity-specific matters and a preference to concentrate on industry-specific matters”.

Even though ISA 701 emphasizes its intention to disclose KAMs that are as entity-specific as possible, ‘using overly standardized wording is to be avoided by audit firms’. In some instances, particular matters could appear in multiple companies from the same industry, but it seems that ‘auditors resorted to reporting industry-specific KAMs that do not harm the clients because they did not want to annoy them in fear of losing them or causing problems with them that may affect the audit firm's reputation and its fees’ (Abdullatif & Al-Rahahleh, 2020).

In addition, Abdullatif and Al-Rahahleh (2020) also suggest that ‘the tendency of auditors to report industry-specific KAMs can be seen as a response to the need to apply ISA 701’. From a different angle, Velte (2020) shows that a good understanding of the industry and the existence of “financial experts, industry experts and the combination of financial and industry experts on the audit committee increase readability of KAM disclosure”.

Wuttichindanon and Issarawornrawanich (2020) demonstrate that ‘firms with many subsidiaries and firms in the technology, property and construction and finance have higher numbers of KAMs’, a conclusion that is quite in opposition to Pinto and Morais’s (2019) findings, which show that ‘auditors disclose less KAMs for financial institutions; although auditors may disclose more KAMs in banks due to the complexity and opacity of this industry, the fact that the industry is very well regulated and supervised may lead them to find less areas of risk’.

This could be due to regulated industries (A12) already having a good level of monitorization and supervision, leaving less space for possible errors and implicitly needing to disclose KAMs.

Another crucial factor directly linked with those above is the audit fee that also varies with the size of the company and the risk associated with that business. Thus, ‘a positive association exists between the audit fee and the number of KAMs disclosed’ (Pinto and Morais, 2019) Also, ‘the higher number of reported KAM was connected with the amount of an audit fee’ (Mamcarczyk et al., 2020).

The correlation itself is quite controversial; ‘as audit fees are the main source of income for auditors, the level of relevance of a client can determine the incentive that auditors have to compromise their independence’ (Pinto and Morais, 2019).

The audit fee correlates with the number of KAMs disclosed, one again due to the size and complexity of the audited company, considering multiple variables and the type of the company, i.e., a public interest entity (PIE) or non-PIE client. The disclosure of KAMs is required only for listed companies; therefore, from the very beginning, no insignificant fees can be charged for these types of companies (Pinto & Morais, 2018).

After all, the choice of disclosing a certain KAM or a particular number of KAMs is purely the auditor's. ISA 701 points out that the auditor should explain the rationale for selecting the matter and how the audit addressed it. Disclosing at least one KAM is expected; however, there is no imposed limit. There might be cases when no KAM was identified, but in such circumstances, the auditor must issue a statement in the audit report to address this aspect (Jermakovicz et al., 2018).

Another key factor relevant to the number of disclosed KAMs is the existence of an audit committee (F6), a factor brought up in three of the assessed papers. Abu and Jaffar (2020) propose testing the correlation between the presence of the audit committee and disclosed KAMs. However, their statistical model indicates a 'negative association between independent of audit committee with the number of KAMs'.

From a slightly different angle, Velte (2018) manages to demonstrate that 'KAM readability is positively associated with the proportions of female audit committee members and with the financial and industry expertise of the audit committee'. Wuttichindanon and Issarawornrawanich (2020) show the existence of such correlation only to a limited extent, without obtaining very conclusive results; thus, the matter is still open to investigation and provides a future research path.

Continuing with the importance to KAMs of the gender of the auditor/audit partner (A1), the study's findings reveal that 'female audit partners are more likely than male audit partners to disclose more KAMs with more details after controlling for both client and audit firm attributes' (Abdelfattah et al., 2020).

From a geographic perspective, the country of the audited company (A5) could also correlate with the KAMs disclosure. Ciger et al. (2019) identify some countries from CEE, namely Poland, Romania, and Turkey, that see up to six KAM subheadings reported. However, on the opposite side, the Czech Republic is 'the only country in which all auditor reports include a KAMs section', whereas 'Romania has the highest percentage of audit reports that do not include a KAMs section'. The results are purely statistical; no hypothesis was tested respecting this factor, but further research might benefit from investigating possible differences between the regions of Europe.

KAM disclosure factors non-measurable

The second criterion applied is 'KAM disclosure factors non-measurable' (B), which mainly refers to aspects influencing the disclosure of KAMs. However, no measurement can be performed on these. The most discussed (9%) non-measurable factor within the analysed papers is the complexity and subjectivity involved in accounting treatment (B2), followed by auditor's litigation risk (B3) at 4%, while the uncertainty level of understanding of ISA 701 (B1) was identified in only one paper. The remaining 85% is papers that do not refer to any non-measurable factors (B4) – **Table no. 2**.

Table no. 2. KAM disclosure factors non-measurable

Factor	Reference
B1. Uncertainty level of understanding of ISA 701	Abdullatif & Al-Rahahleh, 2020
B2. Complexity and subjectivity involved in accounting treatment	Asbahr & Ruhnke, 2019 Lau, 2020 Pereira et al., 2020 Pinto & Morais, 2019
B3. Auditor's litigation risk	In et al., 2020 Wuttichindanon & Issarawornrawanich, 2020

Source: Authors' projection

The measurement uncertainty refers to ‘uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated’ (IASB, 2018). Thus, ‘accounting estimates such as fair valuation and impairment loss estimation require management judgment and assumptions and hence are subject to measurement uncertainty and estimation errors’ (Lau, 2020).

With the introduction of ISA 701, ‘one of the most important changes in the report is the expanded information on key audit matters (KAMs) that are areas identified as significant risks, significant transactions or events, or significant judgments by auditors (including the audit of accounting estimates)’ (Pinto & Morais, 2019).

Lau (2020) argues that “despite pervasive recent debate, fair value estimation represents only a small proportion, while impairment review and loss estimation makes up the major portion of the total KAMs related to accounting estimates”, also explaining that “measurement uncertainty is the determinant of auditors reporting KAMs related to accounting estimates”.

Some accounting classes are more difficult to audit than others. As mentioned above, in almost all cases, difficulties arise respecting financial line items that refer to accounting estimates. Hence, the higher the uncertainty level, the higher the risk of management bias. According to Lau (2020), “measurement uncertainty is the major determinant of auditors reporting KAMs related to accounting estimates and impairment of assets”.

In a direct correlation with the previous section describing the measurable factors, Pinto and Morais (2019) state that ‘a higher number of business segments (complexity) and more precise accounting standards lead to the disclosure of a higher number of KAMs’.

The complexity involved in the accounting treatment is also likened to the regulations applicable in specific industries. Hence, ‘auditors may disclose more KAMs in banks due to the complexity and opacity of this industry’ (Pinto & Morais, 2019). Arguably, perhaps a complex industry comes by default with complex accounting treatments of fact that indeed influence KAMs disclosure.

Once introduced, a standard could be interpreted in various ways from different perspectives; much subjectivity undoubtedly exists when discussing audits at all, but especially when focusing on KAMs. According to Abdullatif and Al-Rahahleh (2020), “audit firms generally disagree on the nature and content of KAMs, overwhelmingly tend to report industry-specific KAMs rather than entity-specific KAMs and avoid reporting KAMs related to governance or internal controls”. With such reflection, this subsection was introduced in the analytical framework, to address the level of understanding respecting ISA 701’s requirements that also affect KAMs disclosure.

The last subsection refers to the auditor's litigation risk (G3), which, according to In et al. (2020), is quite high when key audit matters apply. Thus, ‘in the case of companies being audited to which key audit matters are applied, the conservatism of the auditors will increase to lower the risk of litigation’ (In et al., 2020).

Additionally, Wuttichindanon and Issarawornrawanich (2020) argue that “KAM disclosures safeguard the auditors against litigation in connection with undetected misstatements”; therefore, “the number of KAM disclosures is associated with the auditor’s litigation risk and firm characteristics”. Considering this, the tendency of the auditors, when perhaps in doubt about the treatment of an accounting situation, such as a significant transaction, re-evaluations, accounting estimates, is to be covered. Thus, according to Wuttichindanon and Issarawornrawanich (2020), a greater number of KAMs is disclosed in such situations, to mitigate the audit risk.

Discussions and Further Research Paths

Contouring the research path to compute the foundation for predicting future directions of literature is the final essential step of any literature review.

In response to our research purpose, we conclude that there are multiple drivers that correlate with an increase/decrease of key audit matters that the audit report discloses. The study splits them into two subcategories – measurable and non-measurable, to facilitate understanding the factors and the quantification possibilities.

The audited company itself especially influences KAMs disclosure, emphasizing the company's size, the complexity of the business and the regulation of the industry in which the company operates, all of which impact the overall client risk level. Both applicable regulations and the accounting standards with which the company must comply play a significantly important role.

From this perspective, some classes of accounts and/or financial-statement line items require a deeper understanding and estimation from the management, such as accounting estimates, revaluations and impairment. In such circumstances, the accounting treatment is quite sensitive and the subjectivity level increases, along with the level of uncertainty and the likelihood of such matters being disclosed as KAMs, based on the auditor's judgement. Another relevant cluster of factors are those related to the audit company, identified mostly with respect to how Big Four companies disclose and the content disclosed as KAM, the standardization level, the readability of the matter and the impact of the audit partner.

Finally, not to be neglected are the location of the audited company and the fact that it also can impact the number of the disclosed KAMs. However, some relatively small amount of research has taken this direction, perhaps also due to time limitations; ISA 701 applies in almost all countries, starting with 2017. A relevant path for further research could outline this relationship.

Conclusions

As our study reveals, there are multiple challenges for the audit respecting KAMs disclosure. The impact of ISA 701 is significant and directly influences the reduction of information asymmetry between investors and auditors. Therefore, the auditor's responsibility is to provide a clear and informative report, to decrease the information gap and diminish the risk of risk-averse investors misinterpreting the information and reconsidering investment decisions.

Today's uncertain and complex business environment brings new challenges for auditors regarding corporate reporting and the necessity of meeting user demands. The paper provides some key drivers that influence the disclosure of KAMs in the audit report. The most common drivers that influence KAMs are the higher number of business segments that correlate with precise accounting standards, particularly because a company with such attributions is a big corporation that frequently brings to the auditor's attention specific and complex issues that increase audit risk.

Additionally, the audit fee correlates with the number of KAMs disclosed, once again reflecting the size and complexity of the audited company. The audit fee takes account of multiple variables and the type of company (i.e., PIE or non-PIE client). The disclosure of KAMs is required only for listed companies; therefore, from the very beginning, such companies pay no insignificant fees (Pinto & Morais, 2019).

Auditors from larger firms make more specific disclosures to maintain their company's reputation. An analysis of the Big Four companies shows that auditors from Deloitte and EY are more focused on numerical information, with respect to KAM reporting, than PwC. Also, judging by the structure and format of the information, each Big Four audit company will likely have a slightly different internal guideline with respect to KAM reporting (Christofferson & Gronberg, 2018).

Regarding the shareholders, the disclosure of KAMs may lead to a greater expectation gap. Hence, the auditors must carefully consider the reporting drivers influencing KAMs and properly disclose them, in a manner that avoids information overload in the audit report, which decreases the utility of KAMs.

With regard to KAMs disclosure and informativeness level, the opinions in the literature are various and contradictable. They have been realized only to a limited extent, and ISA 701 has not met its initial purpose, considering that KAM disclosures do not hold a high level of specificity that would increase the quality of the audit report. as intended (Christofferson & Gronberg, 2018).

The limitation of this research refers to the time frame; the Key Audit Matters disclosure (ISA 701) became mandatory in most of the countries starting with 2017. Prior research on KAMs focuses on the United Kingdom, where the audit report has integrated the KAM paragraph since 2013. Considering the limited research period, the literature available for compiling the SLR was also quite limited and, implicitly, that impacted the article analysis. Second, subjective observation, understanding and experience are the basis for arguments regarding KAMs in the analysis as well as the interpretation of the findings and further research path development. In this respect, other researchers having the same data available may reach different interpretations and results. Finally, the authors take responsibility for any possible errors and/or omissions.

Further research developments target the correlation of the geographic location of the audited company with the disclosure of the Key Audit Matter, but also and an in-depth analysis of the additional benefits brought since the implementation of this audit standard and the identification of methods for optimizing ISA 701.

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