

Key Audit Matters and their Impact on the Financial Statements of Listed Entities

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Abstract

This research examines how the implementation of International Auditing Standard 701 – Communicating Key Audit Matters in the Independent Auditor’s Report (ISA 701), introduced by the International Auditing and Assurance Standards Board (IAASB) in 2015 and mandatory since December 2016, affects the transparency and integrity of financial reports of companies listed on the Bucharest Stock Exchange (BSE). ISA 701 encourages more effective communication of key audit matters, emphasizing their importance in strengthening the quality of statutory audit. This study focuses on how these key matters are identified and communicated in the audit reports and on their impact on investor behavior and management decisions. The paper had as starting point 83 entities listed on the Bucharest Stock Exchange, and following the application of strict criteria, in order to ensure the relevance and comparability of information, the sample was reduced to 40 entities for which the trends in presentation of key audit matters between 2020 and 2022 were analyzed. The results suggest a significant link between the clarity and breadth of communication of these matters and strategic management decisions, which are directly reflected in the financial evolution of companies. This analysis contributes to the literature by highlighting the role of effective communication of key audit matters in promoting transparency and accountability within listed entities, highlighting the positive potential for investor confidence and capital market stability.

Key words: key audit matters (KAM); financial statements; transparency; auditor’s opinion; management decisions; investors’ confidence;

JEL Classification: M21, M41, M42, O16

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1. Introduction

In today's financial landscape, the transparency and integrity of statutory audit reports play a key role in maintaining trust between investors and entities listed on capital markets. The adoption of International Auditing Standard 701 – *Communicating Key Audit Matters in the Independent Auditor's Report* (ISA 701) by the International Auditing and Assurance Standards Board (IAASB) in 2015, with applicability from December 2016, marks a paradigm shift in the evolution of communication in financial audit. This standard aims to improve the quality and transparency of the audit reports by highlighting and communicating key audit matters, thus providing a better understanding of the audit process and its findings. The initiative responds to the increased need for clarity and relevance of financial information for all stakeholders, in an economic context where fast and accurate information is becoming increasingly valuable.

In this sense, the purpose of our paper is to investigate the impact of communicating key audit matters, according to ISA 701, on the transparency and quality of financial information presented by entities listed on Bucharest Stock Exchange (BSE). Specific objectives include: O1: Analysis of how key audit matters are selected and communicated in the audit reports of listed entities; O2: Assess the impact of communicating key audit matters on investor and company management decisions. O3: Identify trends and variations in the number and typology of key matters communicated between 2020 and 2022. O4: Examine the relationship between the disclosure of key audit matters and the evolution of the equity of listed entities.

To carry out this study, a quantitative and qualitative approach was adopted, analyzing the audit reports of a representative number of non-financial entities listed on BSE. The analysis included the examination of how key audit matters are reflected in audit reports for the financial periods 2020-2022 and the assessing of their impact on the financial evolution of entities.

This paper contributes to the literature by exploring a relatively new territory in financial audit: the impact of ISA 701 implementation on the transparency and quality of financial reporting for entities listed on an emerging capital market, such as BSE. By focusing on communicating key audit matters and their relationship to companies' financial performance, the study provides innovative insight into the importance of transparency in statutory audit and how it

can influence investor confidence and management decisions. In addition, it provides an up-to-date analysis of the behavior of listed entities in an evolving legislative and regulatory context.

2. Conceptual framework

In 2015, the IAASB (International Auditing and Assurance Standards Board) published International Standard on Auditing 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, with an application deadline of 15 December 2016. The application of the standard is mandatory for listed entities but also applies to situations where the auditor decides to disclose these matters in his report, as well as to situations where legislation requires him to do so.

As defined in the standard, key audit matters are: "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period" (IASB 2020, ISA 701, paragraph 8, p. 787). The purpose of this standard is to increase the quality of reporting in the statutory audit by introducing additional information into the auditor's report. This information leads to a higher degree of transparency and has the particularity that it represents the most significant matters of the audit that the auditor has identified through his professional judgement. Their inclusion in the report provides additional information with aspects that were not provided to users until the entry into force of the standard. They may not replace information which, under management's responsibility, is required to be included in the financial statements, nor may they substitute the auditor's arguments leading to a modified opinion, findings calling into question going concern uncertainty, or references to an individual matter of the financial statements.

Procedurally, the auditor's work on key matters comprises several steps:

A. Determining key matters: Key audit matters are selected from matters communicated with those charged with governance, based on professional judgement, representing those matters that were most important for the audit of financial statements. As a rule, these matters present complex situations that also require significant judgement from the entity's management. Key matters may also be identified among elements in the financial statements that are of interest to users, but only if they are of particular importance for the audit. It is important for the

auditor to determine whether a key matter established for the current audit period has also been selected for the audit of the financial statements of the previous period. If the auditor finds material elements during the planning period that could be identified as key matters, he communicates to those charged with governance how he plans to deal with these elements.

In principle, there is a direct link between a selected key matter and audit risk. The statutory audit, being an intervention based on risk assessment, has as reference the determination of the risk of material misstatement of elements in the financial statements. Thus, the higher the risk of material misstatement of an element (account balance, class of transactions or disclosure), the more auditing that element involves more professional judgement and broadening the area of investigation, which identifies it as a key matter. This situation broadens the auditor's area of investigation in terms of selecting the team, calling on an expert and people with competence in the field of those material elements. However, not every material element involving risks of misstatement comes to the auditor's attention concerning key matters. The risk associated with these elements can be reduced by collecting evidence and applying additional audit procedures.

Disclosure of key matters in the auditor's report is required by ISA 701, but other international auditing standards require the auditor to include in the letter to those charged with governance of the entity all difficult issues encountered during the audit.

The identification of key audit matters is a matter of auditor's professional judgement. Therefore, the key matters that are presented in his report are influenced by the size of the entity, the complexity and nature of its activities. In principle, a large number of key matters identified requires consideration by the auditor and determination of whether all these findings are key matters. The standard points out that a large number of key matters may contradict the idea that all those aspects are very important for auditing.

B. Communicating key matters: In the audit report, the key matters shall be presented under the heading *Key Audit Matters*, using an appropriate subheading for each key aspect. This paragraph shall be inserted after the paragraph setting out the basis for opinion or after the going concern paragraph, if any. The introductory wording is standardized as follows: "Key audit matters are those matters that, in the auditor's professional judgment, were

of most significance in the audit of the financial statements (of the current period). These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters" (IASB 2020, ISA 701).

Key matters cannot replace the situation of expressing a modified opinion. Matters leading to the expression of a modified opinion may not be included and communicated in the paragraph on key matters. Similarly, significant uncertainty about the entity's ability to continue as a going concern should be disclosed in a separate paragraph. If the auditor considers that there are no key matters to be presented or that the key matters are those presented in other paragraphs of the report, he must enter this information in a separate paragraph of the report.

The order of presentation of key matters is a matter of professional judgement of the auditor. For each key matter presented in the audit report, reference to the related presentation in the financial statements shall be indicated. The auditor must also present the reasoning that led to the identification of the matter as a key matter and how that matter was dealt with during the audit. The description of each key matter should be done without the use of overly technical vocabulary, so as to allow the users to understand the auditor's arguments and the information to be useful to them, since the relevance of the information for users is an important element for the auditor's judgement.

C. Communication with those charged with governance: The auditor communicates with those charged with governance those matters the auditor has determined to be the key audit matters or that he does not consider key matters to be included in the audit report. Communication is made already in the planning stage, when the auditor communicates his preliminary findings on the existence and identification of key matters, as well as during the audit procedures and at the completion phase of the engagement. In this way, those charged with governance have the opportunity to provide the auditor with the information they consider necessary and to provide clarifications.

D. Documentation on key matters highlights the auditor's professional judgements in determining these matters, with the presentation of related audit documentation. According to a specialized study conducted by McGeachy & Arnold (McGeachy and Arnold, 2017), the key matters can be identified in the following elements (sections) of the

financial statements: Property; Investments; Valuation; Property, plant, and equipment; Acquisitions; Impairment; Goodwill and other intangible assets; Financial investments; Inventory; Debtors; Financial instruments; Provisions; Employee entitlements; Other liabilities. At the same time as the publication of ISA 701, the IAASB (IAASB's Auditor Reporting Implementation Working Group, 2015) published some explanatory materials. In one of them, there are given examples of elements that can be key matters: Goodwill; Valuation of financial instruments; The effect of applying the new accounting standards; Valuation and definition of assets and liabilities for pension calculation; Revenue recognition; Going concern hypothesis.

In connection with the business going concern hypothesis, presented in this document as a possible key matter, we mention that ISA 701 states in paragraph 4:

"Communicating key audit matters in the auditor's report is not: [...] (c) A substitute for reporting in accordance with ISA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern". Also, in paragraph 15, this provision is repeated and developed: "A matter giving rise to a modified opinion in accordance with ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13-14 do not apply. Rather, the auditor shall: (a) Report on these matter(s) in accordance with the applicable ISA(s); and (b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section" (IASB 2020).

In conclusion, the ISA 701 standard recommends that for going concern matters, a separate paragraph should be used in the audit report, and that reference should be made to that paragraph in the Key Audit Matters paragraph, if appropriate.

3. Literature review

The introduction of the concept Key Audit Matters (KAM) through International Standard on Auditing (ISA) 701 marks a significant evolution in the audit practice, aiming

to increase transparency and understanding of the audit reports for all stakeholders. This initiative responds to the increased need for clarity and relevance in auditors' communication in an ever-changing global economic landscape where the complexity of financial statements and risks associated with companies' operations are constantly increasing. In this context, Petropoulos, Tsipouridou, Boskou, and Spathis (2023) and Ariadi, Jasmine and Oktavia (2023) highlight the positive impact of the implementation of KAMs, demonstrating that these subjects are not chosen arbitrarily, but reflect a number of key variables of the audited company. The size of the company, measured by total assets or revenues, is a determining factor in the number of KAMs reported, suggesting that larger companies with more complex financial operations and structures present a higher degree of risk and therefore a greater need for audit transparency. The leverage effect, i.e. the ratio of total debt to equity, is another relevant indicator. Companies with higher levels of leverage are subject to increased financial risk, which justifies the need for increased attention from auditors and thus a higher probability of identifying KAMs during the audit. This emphasizes the role of KAMs not only as communication tools, but also as reflections of auditors' risk assessment. At the same time, the duration of the audit firm's mandate is highlighted as having a significant influence on the number of KAMs. A long-standing relationship between the company and the audit firm can facilitate a deeper and more nuanced understanding of the business, which can lead to the identification of a greater number of critical matters requiring disclosure. However, this factor could also raise questions about auditor independence, highlighting the importance of balancing familiarity and objectivity. Basically, these findings provide valuable insight into the dynamics between the characteristics of the audited entity and KAMs reporting, highlighting ISA 701's key role in improving audit quality and transparency. At the same time, the lack of specific details on the matters raised highlights the need for further research to better understand how and why certain subjects become KAMs and their impact on stakeholder perceptions. Therefore, the introduction of KAMs is an important step towards increasing the accountability and relevance of audits, but it is clear that deep exploration of the factors influencing their disclosure remains fertile ground for future research.

Research extends to the communicative value and specificity of KAM disclosures. For example, Sotnikova (2021) from Russia analyzed the standardization of KAM

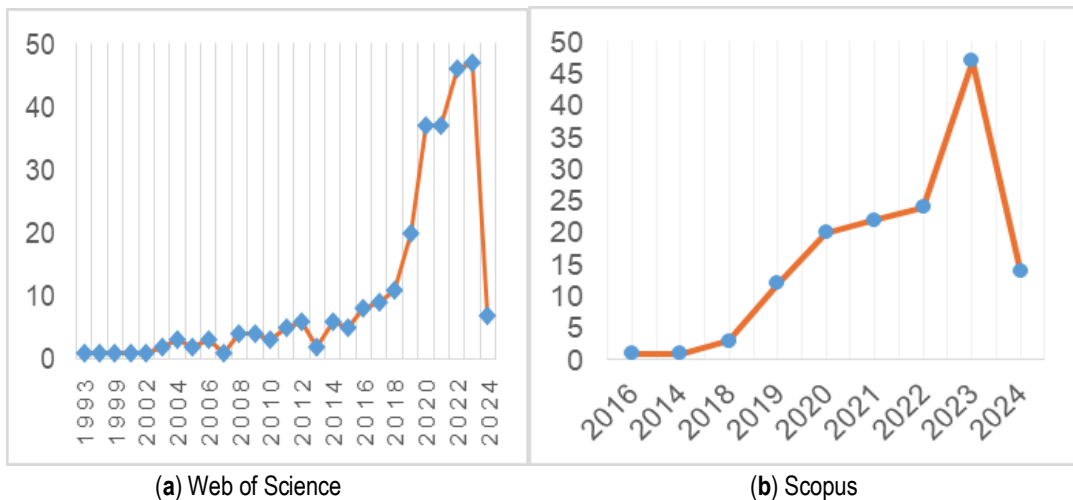
formulation, particularly regarding revenue recognition, and its potential implications for audit quality and transparency. Meanwhile, Ecim, Maroun and Duboise de Ricquebourg (2023) from South Africa identify business combinations and goodwill impairments as common KAM disclosures, highlighting their complexity and readability challenges. In addition, Botes, Low and Sutton (2020) and Segal (2019) deepen the broader implications of KAM's disclosures on the audit environment, highlighting common matters such as goodwill, income recognition, and taxation. Their findings suggest that KAM's disclosures address the lack of audit expectations, but also raise concerns about KAMs real impact on increased transparency and stakeholder engagement.

Therefore, the integration of KAMs in the audit reports, according to ISA 701, has introduced a new dimension in communication between auditors and stakeholders, aiming to improve audit quality by increasing the transparency and relevance of the information provided. The studies conducted by Fera, Pizzo, Vinciguerra and

Ricciardi (2022) and Tušek and Ježovita (2018) emphasize the relationship between corporate governance and KAM disclosures, suggesting that a robust governance framework can reduce the need for numerous KAMs, which indicates potentially less complex and low-risk audits. This correlation emphasizes the importance of corporate governance in setting standards and expectations for audits, as well as in influencing stakeholders' perception of the integrity and reliability of companies' financial information.

To better understand the current state of research and to anticipate future directions in the field of KAMs, and not least to point out the importance and necessity of analyzing the role of disclosure of key matters, we conducted a detailed bibliometric review of the literature. This methodological approach allows not only to identify the most influential authors, articles, and journals in this field, but also maps the collaborative networks and predominant themes that have captured the attention of the scientific community.

Figure no. 1. Evolution in the number of publications on key matters in audit



Source: developed by authors

According to data in **Figure no. 1**, a significant increase in the number of publications on key matters in audit can be observed in recent years, reflecting the increased interest of researchers and practitioners on this topic, pushed by changes in international regulations on audit reporting. This coincides with the introduction and implementation of ISA 701, which required the disclosure of KAMs in the audit reports with the aim of increasing transparency and

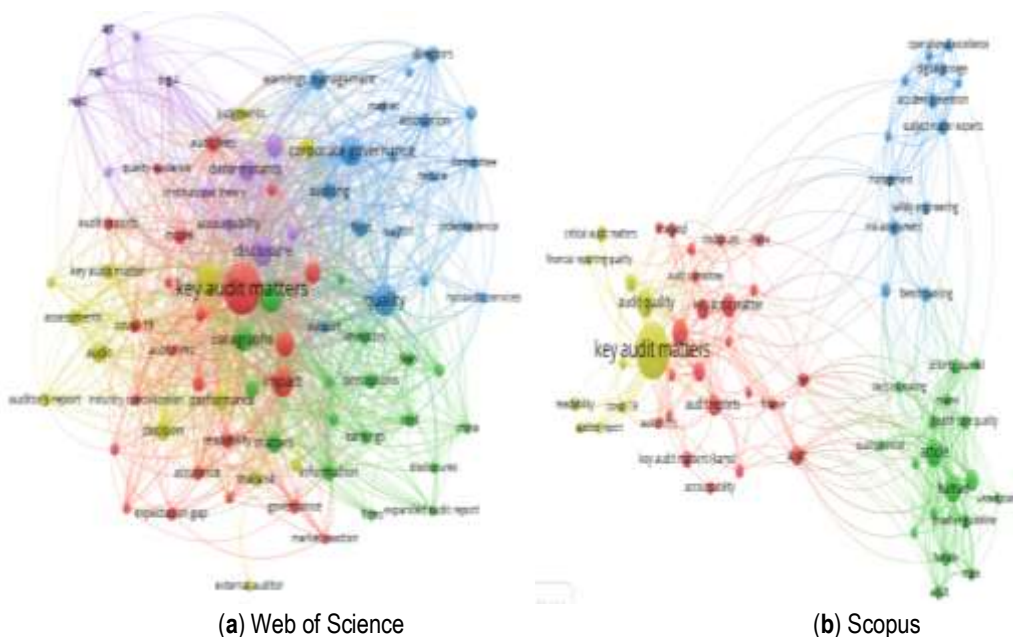
providing stakeholders with more detailed and relevant information about the auditor's key decisions and judgments. Looking at the number of publications on the Web of Science database (**Figure 1a**), can be observed that since 1993, the number of publications has been relatively steady and low until 2003, with an average of about one publication per year, signaling moderate initial interest for this topic. However, since 2004, the number of

publications begins to increase gradually, marking a significant increase, especially since 2016, reaching a peak of 47 publications in 2023. This notable increase coincides with the post-introduction period of ISA 701, suggesting that the standard has had a considerable impact on the academic and professional interest in KAMs. In parallel, analysis of Scopus data (Figure 1b) shows a similar trend, although time coverage starts later, from 2014. Here, growth is more pronounced in recent period, with a visible acceleration from 2019. From 12 publications in 2019, the number rose to 47 in 2023, showing an impressive doubling of interest in just four years. This rapid growth can be interpreted as a direct response to the increased reporting and transparency requirements imposed by ISA 701. Although 2024 shows a decrease

in the number of publications in both databases (7 in Web of Science and 14 in Scopus), this may reflect only a temporary normalization. This decrease does not diminish the overall upward trend, but rather points to natural fluctuations in academic output and continued interest in the field.

In this vein, we support the idea that the significant increase in the number of publications on KAMs reflects an expanding academic and practical interest, driven by changes in national and international auditing regulations. This development highlights the importance of increasing transparency in audit reporting and of the impact of auditor key decisions and judgments on stakeholders, emphasizing the essential role of research in adapting and improving audit practices in the current global context.

Figure no. 2. Bibliometric network of main keywords



Source: developed by authors

Analyzing the bibliometric network in the Web of Science and Scopus databases (Figure no. 2), can be observed that the audit research landscape is dominated by a series of interconnected themes that reveal current concerns and developments in this field. KAMs are a core topic in research, reflecting a focused attention to the complexities and inherent challenges in communicating key matters of

audits. This shows a deep exploration of how transparency is embedded in financial reporting. Simultaneously, can be observed that constant attention is paid to the audit quality, emphasizing that the standard of work and accuracy in communicating findings are of primary interest in the academic and professional community. This is reflected in the close links between the

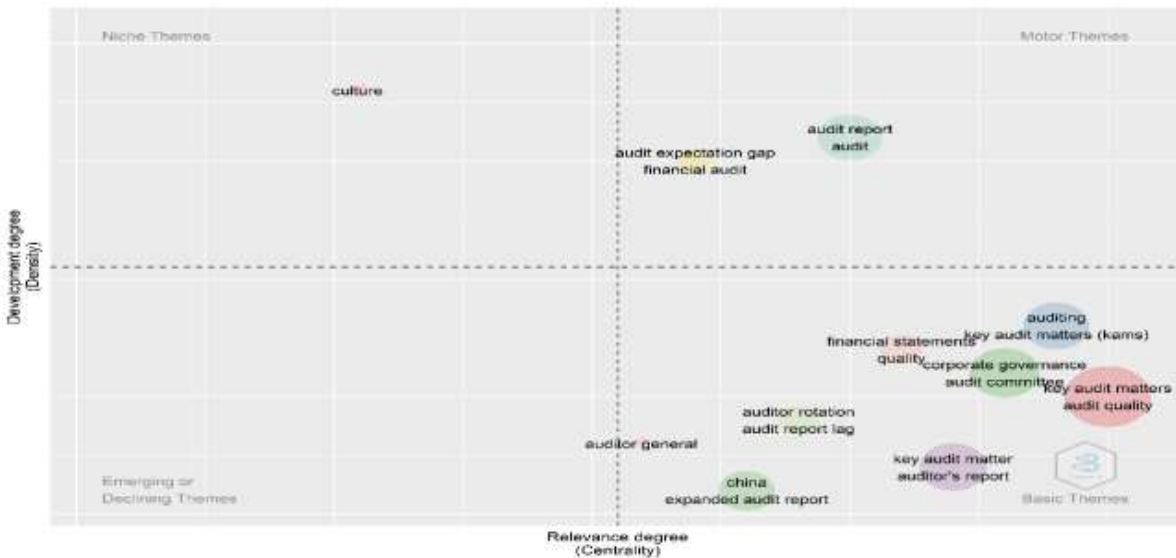
assessment of quality and the impact of the audit practices on financial reporting.

Transparency and disclosure in audit reporting are also central themes, emphasizing stakeholders' desire for access to clear and reliable financial information. Recent research tends to focus on how changes in reporting standards, such as the introduction of ISA 701, influence the presentation of information in audit reports. Obviously, the broader context of business and economy is not neglected, with the COVID-19 pandemic introducing new variables into the audit equation, calling into question the robustness and agility of existing audit practices in the face of such unexpected shocks. Thus, research is driven

by the need for adaptation and innovation in audit methodologies to respond to these challenges.

Meanwhile, the relationship between audit and corporate governance continues to be fertile ground for investigation, with studies debating the influence firms' governance structures have on the integrity and effectiveness of audits. This dialogue across disciplines provides new insights into how auditing can improve transparency and accountability within corporations. In a broader context, research topics branch out to economic and market issues, such as revenues management and their impact on audits, demonstrating that auditing is not only an accounting practice but also one deeply interconnected with economic dynamics.

Figure no. 3. Web of Science and Scopus thematic map



Source: developed by authors with Bibliometrix

The thematic map presented in *Figure no. 3* illustrates the dynamic landscape of audit research, where certain topics underpin current research and significantly influence future research directions. "Audit report", "audit expectation gap" and "financial audit" are identified as research driving topics and represent the backbone of literature. These topics are not only richly explored and fundamental to understanding auditing, but also constitute reference points for other areas of research. Their dominant presence and extensive connections suggest that they are central to the study and practice of auditing,

functioning as central nodes in the network of knowledge that forms this field. On the other hand, "key audit matters", "auditing", "corporate governance" and "audit committee" are categorized as core themes, reflecting their status as topics that underpin the contemporary understanding of audit and corporate governance. However, their positioning indicates that there are significant opportunities for deepening and broadening research. "Key audit matters", for example, is a relatively new concept and its presence in this quadrant emphasizes its unexplored potential to generate new

understanding about transparency and communication in audit reports. "Expanded audit report" represents an area of interest that has not yet reached saturation point in the academic literature and may indicate emerging or specialized trends in audit practices, such as the influence of cultural context and nation-specific regulations on reporting and auditing standards.

Analysis of citations revealed key articles that laid the groundwork for the discussion on KAMs, highlighting concerns about how KAMs are selected and presented,

their impact on users' perception of audit quality, and how they can influence investment decisions. The studies also explored the challenges auditors face in identifying and communicating these matters, highlighting a variety of practices and interpretations in different jurisdictions.

According to the data in **Table no. 1**, which reflects the most cited papers in the Web of Science and Scopus databases, we can observe a trend of increasing interest of the academic and professional community towards the impact of disclosures about key audit matters in the audit reports.

Table no. 1. Analysis of the impact of research in the field of audit key matters by number of citations			
Paper	Total Citations	TC per Year	Normalized TC
GENDRON Y, 2004, AUDITING-J PRACT TH	105	5	1.8421
SIROIS LP, 2018, ACCOUNT HORIZ	96	13.7143	4.8664
SIERRA-GARCA L, 2019, BRIT ACCOUNT REV	64	10.6667	3.3247
BEDARD J, 2019, AUDITING-J PRACT TH	63	10.5	3.2727
PINTO I, 2019, J INT FIN MANAG ACC	58	9.6667	3.013
BOOLAKY PK, 2016, INT J AUDIT	54	6	1.3891
VELTE P, 2018, CORP SOC RESP ENV MA	53	7.5714	2.6866
ZENG YM, 2021, ACCOUNT HORIZ	44	11	4.2927
ABDELFATTAH, 2021, JOURNAL OF BUSINESS ETHICS	44	10	3.8923
MORONEY, 2021, EUROPEAN ACCOUNTING REVIEW	38	8	1.3656

Source: developed by authors with Bibliometrix

The focus is on how these disclosures influence audit quality, investor decision-making, and different stakeholders' perceptions on the value of the audit and financial reporting. For example, Gendron, Bédard and Gosselin (2004) explore the relatively unexplored territory of effective audit committee practices in their meetings. Conducted as a field study in three Canadian public corporations, the research reveals how audit committees, which largely comply with Toronto Stock Exchange guidelines and Blue Ribbon Committee's voluntary recommendations on audit committee effectiveness, conduct their activities. The committees examined are considered effective by meeting participants, providing valuable insight into their practices. The authors identify key matters that audit committee members emphasize during meetings, including accuracy of financial statements, adequacy of expression used in financial reports, effectiveness of internal controls, and quality of work performed by auditors. The paper also emphasizes the evaluation criteria used by the members of the committee to judge written and verbal information presented by managers and auditors, as well as the importance of asking challenging questions and evaluating

responses given by managers and auditors. This paper, with its 105 citations, not only provides deep insight into the internal dynamics of effective audit committees, but also contributes to a broader understanding of the role these committees play in corporate governance. By opening the "black box" of audit committees, Gendron, Bédard and Gosselin (2004) bring a significant contribution to literature, providing valuable direction for future research and for improving audit committee practices. Also, the study conducted by Sirois, Bédard and Bera (2018) which used eye-tracking technology to examine how key audit matters influence the process of information acquisition by users, attracted attention with its number of citations, with 96 references in the literature. This research emphasizes that key audit matters direct researchers' attention to the matters raised, thus demonstrating the added value of including KAMs in the audit reports. Another important contribution comes from Zeng, Zhang, J. H. and Zhang, M.Y. (2021), which, focusing on data from China, assessed whether the KAM rule improves audit quality. With 44 citations, their study provides evidence that key audit matters implementation has had a positive impact on audit quality, while

highlighting that the details specified in KAM are critical to understanding this effect. Investigating the influence of gender diversity in audit committees on the legibility of KAM, Velte (2018) study highlighted that firms with a higher percentage of women in audit committees show increased legibility of KAM. With 53 citations, this research contributes to the discussion of how diversity can improve the quality and accessibility of audit information. On the other hand, Sierra-García, Gambetta and Orta-Pérez (2019), analyzing data from the UK, explored how auditor and client characteristics influence the magnitude and type of KAMs disclosed. Their study, with 64 citations, shows that both the characteristics of the audit firm and those of the client are decisive for the number and type of KAMs included in audit reports. Bédard, Gonthier-Besacier and Schatt (2019) investigated the consequences of implementing valuation justifications in France, similar to KAMs, finding that they did not have the anticipated effects on investors or audit. This paper collected 63 citations, contributing to understanding the impact of expanding audit reports on various stakeholders. Boolaky and Quick (2016) also examined the impact of extensive audit reports, focusing on bank managers' perceptions. With 54 citations, their study suggests that certain extensions, such as disclosing assurance level, can have a positive impact, while other additions may be perceived as of limited utility.

Therefore, the bibliometric analysis highlights an upward trend in the interest of the academic and professional community in studying the impact of these KAMs on the behavior and decisions of various stakeholders, such as investors, lenders, and audited companies. This growing interest is a clear signal of recognition of the role that KAMs play in ensuring greater clarity and relevance of information presented in financial statements. Moreover, as our society becomes increasingly digitalized, academic curiosity also extends to exploring the potential of new technologies, such as artificial intelligence (AI) and big data analysis, in revolutionizing the way KAMs are identified, analyzed, and reported. This direction of research not only highlights the continuous technological progress in accounting and auditing, but also indicates a paradigm shift in how these processes can adapt to improve their efficiency and effectiveness. Therefore, the bibliometric analysis carried out outlines the need for an assessment of the impact of key audit matters on the financial statements of audited entities. This need derives from the recognition that key audit matters provide valuable information on areas of significant risk and critical

judgments of auditors in the audit process. Thus, understanding how these elements influence stakeholders' perceptions and decisions can help improve audit practices and develop more robust reporting standards.

4. Research methodology

The study had as starting point 83 entities listed on Bucharest Stock Exchange (BSE) in the category of Regulated Market. We have adopted strict criteria for sample selection to ensure the relevance and comparability of information. Thus, we excluded financial entities, such as banks, financial investment companies and insurance companies, due to the accounting peculiarities specific to these entities. We also excluded entities under judicial reorganization or liquidation, as well as those entities for which the necessary information was not publicly accessible or could not be easily identified on their official websites. After applying the selection criteria, the sample studied by us was reduced to 54 entities. Of these, we additionally excluded nine entities due to lack of access to necessary information and another five for not presenting key matters in their 2022 audit reports, thus reducing the sample to 40 active companies eligible for analysis.

We analyzed the audit reports of the selected sample for the financial years 2020, 2021 and 2022. The focus was on the number and typology of key audit matters communicated in these reports, as required by ISA 701. We documented both the presence and absence of communication of key audit matters, as well as cases where audit reports did not include this information, although inserting it is mandatory under ISA 701.

For data analysis, SPSS 21 was used, and we built a model incorporating the evolution of equity of the sampled companies, thus reflecting the potential impact of communicating key audit matters on investor decisions and management decisions. The model included variables such as the increase or decrease in equity (E) between consecutive years and the number of key matters communicated. Thus, the proposed model is outlined as follows:

Model

$$\frac{E_{t_i}}{E_{t-1_i}} = \beta \times \text{No. KAM}_{t-1_i} + \varepsilon$$

To highlight which key matters had an impact on changes in equity, we built the following expanded model:

$$\frac{E_{t_i}}{E_{t-1_i}} = \beta_1 \times \text{NO. RR}_{t-1_i} + \beta_2 \times \text{NO. PPE}_{t-1_i} + \beta_3 \times \text{NO. CA}_{t-1_i} + \beta_4 \times \text{NO. R}_{t-1_i} + \beta_5 \times \text{NO. PFS}_{t-1_i} + \beta_6 \times \text{NO. L}_{t-1_i} + \beta_7 \times \text{NO. FFA}_{t-1_i} + \beta_8 \times \text{NO. GCU}_{t-1_i} + \beta_9 \times \text{NO. T}_{t-1_i} + \beta_{10} \times \text{NO. QOPA}_{t-1_i} + \varepsilon$$

$$\text{NO. KAM}_{t_i} = \text{NO. RR}_{t_i} + \text{NO. PPE}_{t_i} + \text{NO. CA}_{t_i} + \text{NO. R}_{t_i} + \text{NO. PFS}_{t_i} + \text{NO. L}_{t_i} + \text{NO. FFA}_{t_i} + \text{NO. GCU}_{t_i} + \text{NO. T}_{t_i} + \text{NO. QOPA}_{t_i}$$

where,

RR – Revenue recognition; PPE – Property, plant and equipment; CA – Current assets; R – Receivables; PFS – Preparation of financial statements; L – Liabilities; FFA – Financial fixed assets; GCU – Going concern uncertainty; T – Taxes; QOPA – Qualified opinion of previous auditor.

For the subject matter of our study, the key aspects included:

1. RR – Revenue Recognition
2. PPE – Property, plant and equipment: Fixed assets depreciation testing + Revaluation of land and construction + Recognition of non-current tangible assets + Goodwill depreciation testing + Real estate investments
3. CA – Current assets: Stocks + Ongoing production + Assets for sale
4. R – Receivables: Customer receivables + State receivables
5. PFS – Preparation of financial statements: Preparation of financial statements + Opening balances + Internal control
6. L – Liabilities: Provisions + Payables
7. FFA – Financial fixed assets: Financial assets valuation + Leasing contracts + Company acquisitions
8. GCU – Going concern uncertainty
9. T – Taxes: Reinvested profit exemption + Deferred tax receivables
10. QOPA – Qualified opinion of previous auditor.

In addition to the quantitative analysis, we also included a qualitative component by assessing the impact of communicating key audit matters on the transparency and quality of reported financial information. This involved a detailed review of the content and manner in which key audit matters were presented in reports, as well as their impact in management and investment decisions.

All data used in the study comes from public sources, respecting the ethical principles of research. The study acknowledges its limitations, including small sample size

and exclusion of certain categories of entities, which could influence the generalization of conclusions.

The formulation of research hypotheses aims to explore the practical and value impact of KAMs on stakeholder behavior and decisions, seeking to balance the potential benefits of increased transparency with the challenges of effective and uniform implementation of these reporting standards.

Hypothesis 1 (H1). *Presenting key matters in the audit report provides valuable information for managers or owners, determining them to take actions that can lead to the improvement of the capital structure and increase the market value of the company.*

Hypothesis 2 (H2). *The disclosure of KAMs in the audit reports draws potential investors' attention to key matters and risks associated with a particular company, thereby influencing them to allocate capital within that entity.*

Basically, hypothesis 1 is based on the idea that the transparency brought by KAMs in the audit report can provide a solid basis for informed strategic decisions, thus contributing to the optimization of the financial performance and consolidation of the investors' confidence in the integrity of financial reporting. At the same time, hypothesis 2 is based on the idea that the clarity and specificity of KAM information plays a leading role in investment decisions, providing investors with a higher level of understanding of risks and opportunities, which can contribute to a more efficient allocation of resources in the capital market.

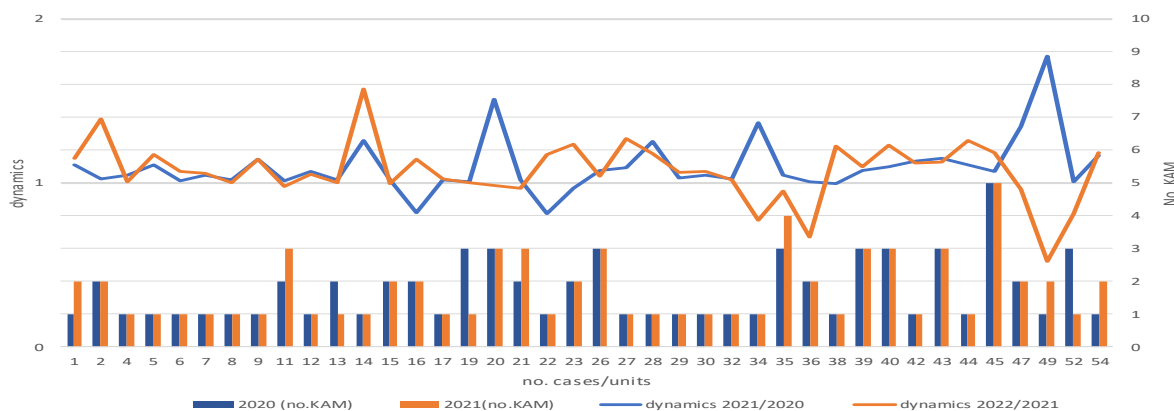
5. Results and discussion

According to *Figures no. 4 and 5*, it is noted that in the audit report for 2020, 5 key matters were presented for one entity, 3 key matters were presented for 8 entities, 2 key matters were presented for 9 entities and 1 key matter was presented for 22 entities. As regards the audit report for 2021, it is noted that for 2 entities 5, respectively 4, key matters were presented, for 7 entities 3 key matters were presented, for 9 entities 2 key matters were presented and for 22 entities 1 key matter was presented.

This distribution of entities according to the number of KAMs highlights the fact that most entities, 55.0% of them, submitted only one KAM in the audit report and 22.5%

submitted two KAMs. Therefore, it can be stated that most companies analyzed (approximately 80% of them) present in the audit reports 1 or maximum 2 key matters.

Figure no. 4. Equity dynamics and number of KAMs in 2020 and 2021 for the units under analysis

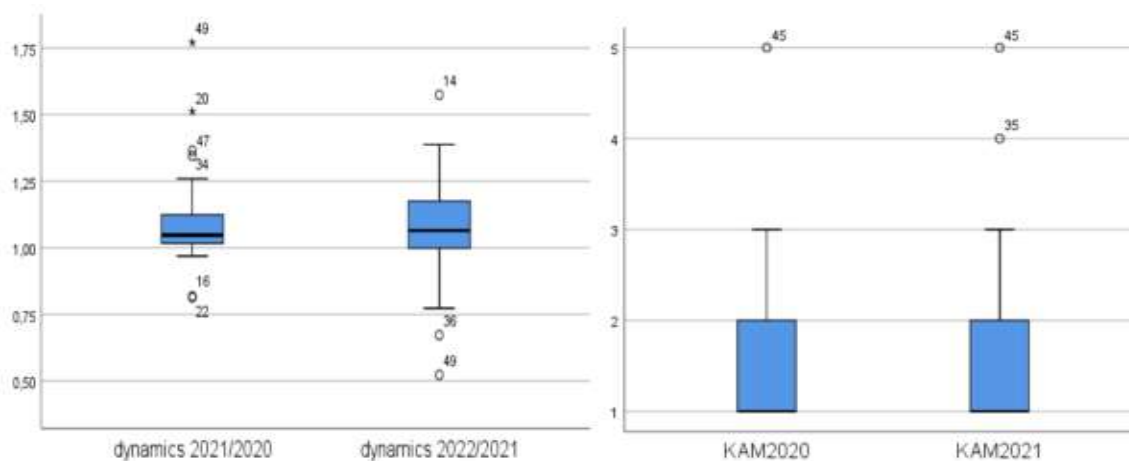


Source: developed by authors

The equity dynamics for the 40 entities analyzed recorded negative values, between [-18.2%; -0.6%], for 4 entities in 2021 compared to 2020, respectively between [-47.4%; -0.3%] for 9 entities in 2022 compared to 2021. The largest increases in equity, of over 30%, are found in 4 entities in 2021 compared to 2020 and 2 entities in 2022 compared to the 2021.

If we compare the dynamics of equity and the number of KAMs for the analyzed periods, we notice that 77.5% of entities do not show changes in the number of KAMs in 2020 and 2021, and 60.0% of entities do not show significant changes in terms of equity dynamics, the differences between the two indicators being in the range of [-0.1; 0.1].

Figure no. 5. Distribution of units according to equity dynamics and number of KAMs



Source: developed by authors

Regarding the distribution of units according to capital dynamics, it can be seen in **Figure no. 5**, that it shows an asymmetry, with an agglomeration towards small values in the first period under analysis (CSkewness=2.06), respectively a slight asymmetry, with agglomeration towards high values in the second period (CSkewness=-0.40). As we can observe, five units are outliers at high values and four at low values, recording values of dynamics that make a discordant note with the analyzed series. The distribution of units according to the number of KAMs is asymmetric, with an agglomeration towards low values (CSkewness=1.33), in both analyzed periods. Also,

we can see that two units are outliers at high values, respectively presented in the audit report over 4 KAMs.

Considering the conclusions mentioned above, and in order to verify whether there are significant differences between the two periods analyzed, we applied the General Linear Model – Repeated Measures, and the results are presented in **Table no. 2**. Analysis of variance for paired samples is an appropriate study when it is desired to analyze the changes over time of some variables to which various stimulus have been applied (Howitt, D. and Cramer, D., 2005).

Table no. 2. Analysis of the existence of significant differences between the two analyzed periods for equity dynamics and the number of KAMs (General Linear Model – Repeated Measures)

	N	Mean	Std. Deviation	Tests of Within-Subjects Effects- Sphericity Assumed	
				Sig.	Partial Eta Squared
dynamics 2021/2020	40	1.098	0.168	0.567	0.008
dynamics 2022/2021	40	1.072	0.181		
KAM2020	40	1.725	0.960	0.800	0.001
KAM2021	40	1.750	1.006		

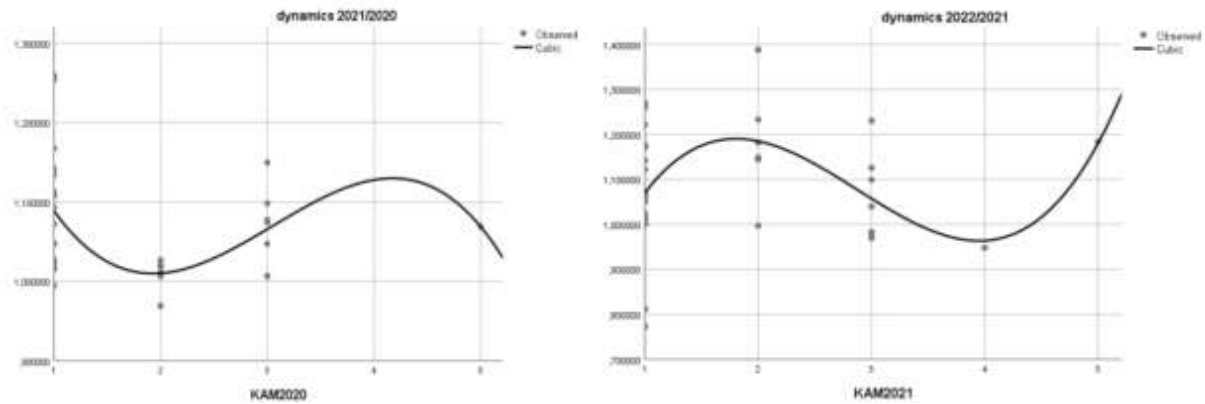
Source: developed by authors

According to the results of the analysis, it is certified that there are no significant differences ($p > 0.005$) between the data series related to the dynamics 2021/2020 and dynamics 2022/2021 ($p = 0.567$) indicators and between the number of KAMs 2020 and KAMs 2021 ($p = 0.800$). In other words, it can be stated that, on average, the units in the sample maintained during the analyzed period (2020-2022) their equity dynamics and the number of KAMs, with greater stability in the indicator number of KAMs.

To analyze the existence of a link between equity dynamics and the number of KAMs, respectively whether the number of critical matters presented in the audit reports led to a change in equity, we built two econometric models from which entities that were considered outliers were eliminated, according to **Figure no. 5**. Thus, for model I, 34 entities were considered, and, for model II, 37 entities. The results are presented in **Table no. 3**.

Table no. 3. Analysis of the link between the number of KAMs and equity dynamics

	N. of cases	Model Summary R/R Square	ANOVA -Sig.	Coefficients	
				β	Sig.
Model I dynamics 2021/2020 – KAM2020	34	0.450/0.202	0.076	-0.513	0.029
				0.195	0.041
				-0.021	0.055
Model II dynamics 2022/2021 – KAM2021	37	0.412/0.170	0.110	0.982	0.016
				-0.397	0.016
				0.046	0.017

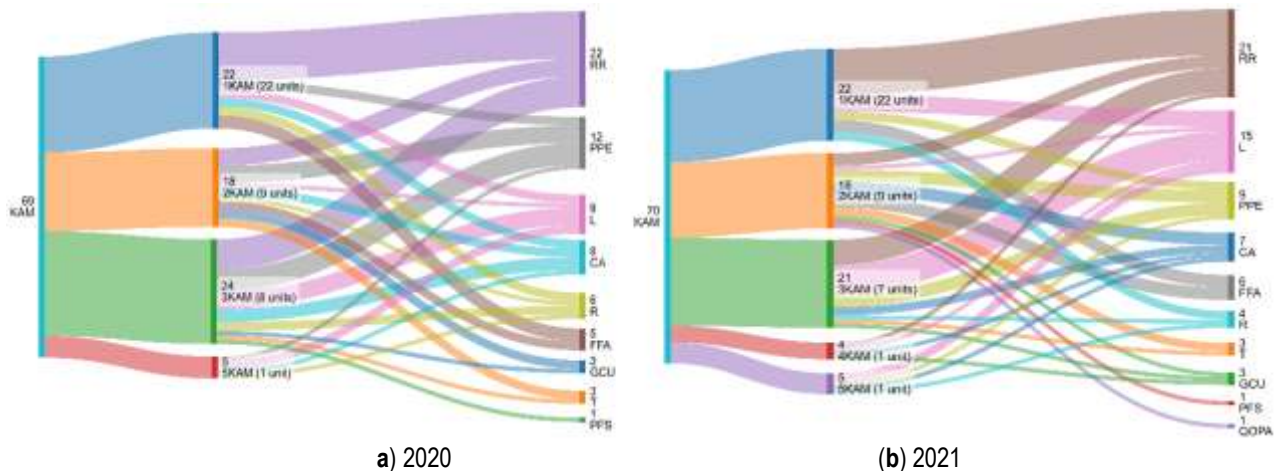


Source: developed by authors

It can be seen that there is a very slight relation of polynomial equation degree III (cubic) between the number of KAMs and the dynamics of equity, which confirms the hypotheses formulated. In other words, about 20% of equity dynamics is influenced by the number of KAMs previously presented in the audit reports, at a probability of about 10%. Given that in the analyzed database the independent variable (number

of KAMs) is a numerical variable of category form (values between 1 and 5 which belong to the set of natural numbers), we consider that a value of the significance test of approximately 0.10 for ANOVA and values of the significance tests related to the coefficients of the equation less than 0.05 can say that, on average, there is a slight connection between variables.

Figure no. 6. Distribution by category of KAMs for the units analyzed



Source: developed by authors

According to Figure no. 6, of the approximately 70 KAMs presented in the audit reports, approximately 30% are RR

and 30% add up to PPE and L. Around 10% of key matters are CA, between 5% and 10% R and FFA

matters, around 4% GCU and T matters, and key matters such as PFS, QOPA appear only once in audit reports.

To determine which of the critical aspects presented in the audit reports influenced the changes in equity, we built two econometric models for each period and tested both databases, the one in which we find all entities (40) and the one from which outliers were

removed, according to **Figure no. 5**. In order to find the best combination of independent variables that explains the variation of the dependency and because there is no collinearity between the independent variables (Jaba, E. and Grama, A. 2004), the Linear Regression analysis was applied – Backward type, and the results are presented in **Table no. 4**.

Table no. 4. Analysis of the link between equity dynamics (dependent variable) and categories of KAMs (independent variables)

Dependent	No. of cases	Model Summary R Square	ANOVA -Sig.	The order of removing the variables from the model Standardized Coefficients – β(Sig.)									
				RR	PPE	CA	R	PFS	L	FFA	GCU	T	QOPA
Dynamics 2021/2020	40	0.264 0.070	0.100	9	5	7	4	2	3	8	1	6	-
				-0.264 (0.100)									
Dynamics 2021/2020	34	0.200 0.040	0.257	8	5	3	7	2	4	1	9	6	-
										-0.200 (0.257)			
Dynamics 2022/2021	40	0.517 0.267	0.001	9	5	4	7	1	6	10	3	8	2
										-0.517 (0.001)			
Dynamics 2022/2021	37	0.494 0.244	0.002	8	10	3	6	1	2	9	5	7	4
					0.494 (0.002)								

Source: developed by authors

As can be seen, the factor influencing the dynamics of equity in 2022/2021 in a proportion of 24.4% (p=0.002) is PPE, when the outliers presented before are removed from the analysis, and if all units (N=40) are considered, the factor influencing the dynamics in a proportion of 26.7% is FFA. Other key matters that would have slight influences on equity dynamics would be RR and T, being among the last variables removed from the model.

6. Conclusions

We believe that our study has achieved its objective, which is to identify a link between equity dynamics and the number and typology of key matters presented by the statutory auditor in his report. The results of the analysis confirm the hypotheses formulated, certifying that there were no significant differences between the two analyzed periods in terms of equity dynamics and the number of KAMs, that there is a very slight link between the number of KAMs in audit reports and equity dynamics. The key

matters that influenced equity dynamics more strongly were PPE and FFA.

The limitations of the study were determined by the exclusion of entities for which the necessary information was not identified or the statutory auditor did not comply with the requirements of the International Standard on Auditing ISA 701 – Communicating Key Audit Matters in the Independent Auditor’s Report.

Thus, for the financial year 2020, in the case of entities other than those covered by the sample, it was found that for two entities the paragraph on key matters was inserted, but it was presented that, in the auditor’s opinion, there are no key matters or that they are considered to have been presented in the previous paragraphs. For three other entities, the paragraph on key audit matters was not included in the auditor’s report, even though the introduction of this paragraph is mandatory in accordance with the provisions of ISA 701.

For the financial year 2021, for entities other than those covered by the sample, the situation previously presented

remains. Also, four other entities did not publish the annual report for 2021. Referring to the issues for which key audit matters have been identified and presented, the situation is relatively similar to that in 2020.

In what concerns the financial year 2022, for eight non-sampled entities we could not collect equity information, four entities did not present key matters paragraph and eight entities did not identify key matters. Regarding the issues for

which key audit matters have been identified and presented, the situation is relatively similar to that in 2021.

These situations lead us to conclude that, after a reasonable period from the appearance of ISA 701, there are still cases where the statutory auditor does not properly apply the provisions of this standard. Slippages in the application of the standard are found in both national and multinational audit firms.

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