

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;

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