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Impact of Corporate Governance Structure On the Disclosure of Key Audit Matters: Evidence from Nigeria Listed Firms

Ugwu Ikechukwu Virginus Ph.D[1] and Nwoko Cyprian Nnamdi Joshua[2]

[1] Dept. of Accountancy Chukwuemeka Odumegwu Ojukwu, University (COOU), Igbariam Anambra State, Nigeria
Gmail: virginusugwu418@gmail.com
[2]Dept. of Entrepreneurship, Madonna University, Okija Campus, Anambra State, Nigeria

Abstract: *Our study investigated how corporate governance variables (Board size BDSZ, Board independence BOID, Board composition BDCP and Audit tenure AUDT) affect the disclosure of KAMs using listed firms in Nigeria Stock Exchange NSE. We utilized a pooled research design which is a combination of both cross-sectional and time-series design properties. Study population comprised all the listed quoted firms on the NSE from 2017-2019, and with a purposeful sample size of thirty (30) firms that have elements of disclosure of KAMs consistently published within the period. Research analyses applied Descriptive Statistics, Correlation Analysis, Pooled Hausman Random, and Fixed Effect Model Test. We find that the Adjusted R-square value is (0.41), which indicates that corporate governance explains about 41% of the disclosure of KAMs in the polled firms under the study period; and BDSZ, BOID and BDCP have positive and significant effect on the disclosure of KAMs; while ADTN has a negative effect on the disclosure of KAMs in Nigeria. We recommend that corporate governance involvement have a cumulative effect in the disclosure of key audit matters KAMs, they should get involved in more decision making process, but be mindful that BDSZ, BOID and BDCP significantly affect the disclosure of KAMs. Our work contributes with, the rich empirical literature and the relevance of the content of the new model of KAMs applied in the study.*

Keywords: Board Size, Board Independence, Board Composition, Audit Tenure, Corporate Governance.

Background to the Study

Today, periodic audit report has been accepted as the only one and the most important avenues to streamline the expectations from investors, managers and auditors' report that has the information concerning their investment worth or return on their stock values. This is very important to the realization of independent audit economic function, (Shao, 2020). There is a specific audit opinion or information provided in the audit report by the external or independent auditors. This information should have value, be simple, be uniform and be comparable, but should not lack pertinence, quality and relevance to alleviate the information asymmetry between the management and the investors. Literatures have questioned the content and form of routine audit report and its value to investors moreover since after the outbreak of the global financial crisis in 2008, the voice of increasing the communication value of audit reports has become increasingly strong, (Shao, 2020). Thus, audit quality is crucial for regulating bodies, stakeholders and also an evidence that a trustworthy financial reporting is essential for a reliable operation of the stock market. Many stakeholders' opinions have been that audit report provides little informational value and hence they want the existing standards to be revised. Therefore, in other to address the stakeholders' dissatisfaction as regards to the current auditor report, in January 2015, the International Auditing and Assurance Standards Board (IAASB) released its most significant standard, a new International Standard on Auditing (ISA) 701 (1). After three years of development through interactions between auditors, policymakers and users worldwide, IAASB in January 2015, released the new audit report, which includes a set of standards that are likely to be game changing for stakeholders and the auditing profession (PWC, 2015). The new ISA, 701 intends to highlight the most significant entity-specific issues based on the auditor's evidence and work carried throughout the audit process in order to provide more relevant information to the users of the report (IAASB, 2015a). However, the Standard is considered to be at the heart of the enhancements to reduce the existing audit gaps. These requirements were the result of pressure from users to the corporate governance for the audit report to contain more than just an opinion of consent or not (Defond & Zhang, 2014). So, Key auditing matters KAMs refer to those matters that the accountants or auditors consider to be the most important for the audit of the current financial statements according to professional judgment. Key audit matters are selected from matters communicated with governance. The purpose is to improve the information content of audit reports for auditors to meet the demand of capital market reform and development for high-quality accounting information, and maintain the continuous and comprehensive convergence of other existing standards as regards audit quality.

Globally, the IAASB established an Auditor Reporting Implementation Working Group to promote awareness and aid understanding and support. The board has performed extensive outreach across numerous jurisdictions to encourage its stakeholders adopt and support effective implementation of the standards. The Working Group has been monitoring activities globally regarding the adoption of the standards, including early adoption. There are also some jurisdictions that are encouraging, or mandating, more extensive application of ISA 701, i.e., the inclusion of KAM for entities other than listed entities. The EU 2014 Regulation, Specific Requirements Regarding Statutory Audit of Public-Interest Entities, has taken effect for June 2017 year ends and applies to audits of public interest entities. It requires a description of the most significant assessed risks of material misstatement as well as a summary of the auditor's response to those risks and, where relevant, key observations arising from those risks and reference to the disclosure in the financial statements, (McGeachy & Arnold, 2017). The Financial Reporting Council of Nigeria (FRC) announced 15 December 2016 as the effective date for the implementation of ISA 701 – "Auditor's Responsibility to Communicate Key Audit Matters in the Auditor's Report" for all companies listed on The Nigerian Stock Exchange. The purpose is to provide listed companies with information about ISA 701.

Some works have determined whether the disclosure of key audit matters bring information increment and the possible economic consequences of key audit matters, including the impact on audit quality, audit fees and earnings value relevance, benefits, going concerns etc., Previous literature have studied audit firm and auditor characteristics, such as the impact of audit firm size on audit quality, the impact of auditor gender, age and industry expertise on audit quality but no specific work to the best our search has studied the effect of corporate governance on the disclosure of key audit matters by firms and auditors in Nigeria. The main focus of our study is to determine if there is any effect that corporate governance has on the disclosure status of key audit matters and to analyze the changes in the past years of adoption of key audit matters in Nigeria and also to see how the corporate governance structure of firms and auditors affect the disclosure of key audit matters. This work tends to use the listed companies that disclose key audit matters from 2016-2019 as research objects, and use empirical research methods to conduct qualitative and quantitative analysis on effect of the disclosure of key audit matters and the corporate governance structure of firms and auditors, in expectations of the stakeholders towards the new look of audit quality in the disclosure of key audit matters.

Our main objective in this study is to determine the effect of corporate governance structure on the disclosure of Key Audit Matters KAMs. The other specific objectives are to determine if there is any statistically significant effect of: Board Size BDSZ; Board independence BOID; Audit Tenure ADTN; and Board Composition BDCP on the disclosure of key audit matters

The questions that relate to the study are: Does board size; board independence; board composition; and audit tenure significantly affect on the disclosure of key audit matters?

We form the hypotheses as thus: Board Size; Board Independence; Board Composition; and Audit Tenure, do not significantly affect the disclosure of Key Audit Tenure.

Conceptual Framework

Key Audit Matters (KAM) has been defined as "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance." Shao (2020) stated that Key auditing matters refer to those matters that the certified public accountant considers to be the most important for the audit of the current financial statements according to professional judgment. It is the on the discretion of the professional accountant to determine the key audit matters. Thus, Key audit matters are selected from matters communicated with governance. Hao Li, (2017) said that "Key Audit Matter refers to the matter that certified public accountants consider to be the most important matter of the current financial statements based on professional judgment, and the key auditing matters are selected from the matters communicated between certified public accountants and managers." (Certified Public Accountants Auditing Standards No. 1504 - Communicating key audit matters in the audit report). Therefore KAMs 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. The significant matters are communicated to those charged with governance by auditors on quarterly/six monthly basis in the audit committee meetings during limited reviews. The inclusion of Key audit matter will make the audit report more interesting, transparent and will capture the attention of the readers of the financial statements towards the matters that were significantly important in the professional judgment of the statutory auditor of the company, (Fiona Campbell, ACCA). McGeachy and Arnold, (2017), said that one significant change with the auditor reporting standards is the new International Standard on Auditing (ISA) ISA 701, Communicating KAMs in the Independent Auditor's Report. This ISA applies both to audits of financial statements of listed entities and in circumstances when the auditor otherwise decides to communicate KAMs in the auditor's report. The major aim of KAM is to improve the information asymmetry of value of audit report. There are many literature studies on whether the reform of audit report and the disclosure of key audit matters can improve the incremental value of information. For instance, Wang, Xu, Wang & Yu (2018) investigated listed companies that disclosed key audit items in 2015-2016 as the main research object, and found that the cumulative excess return of companies that disclosed key audit items before and after disclosure was significantly higher than that of companies that did not disclose. This thus indicates that key audit items improved the communication value of audit reports. But there are, some literature studies that have found that disclosure of key audit matters does not necessarily improve communication value and incremental information. The major aim of KAM is to improve the information asymmetry of value of audit report. There are many literature studies on whether the reform of audit report and the disclosure of key audit matters can improve the incremental value of information. Lennox, Schmidt, and Thompson, (2019) understudied the disclosure of material misstatement risk required by the UK as the background, and found that since most of the risks had been known by investors through other channels before disclosure, investors could not find the information increment of the disclosure of material misstatement risk in both short and long window periods. This study found that the disclosure of material misstatement risk failed to improve the information value.

Concept of Corporate Governance

Corporate governance is an effective tool in proper corporate management. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure that there is effective management and the integrity of the financial reporting process (Public Oversight Board, 1993). But, Cochran and Wartick, (1998) said that corporate governance is an umbrella term that contains many aspect related to the theories and practice of board of directors and their executives and non-executive directors. According to some authors, corporate governance is a nexus of contracts among the boards, stockholders, top management, regulators, auditors and other stakeholder (Maassen, 1999). Three monitoring mechanisms have been identified in the corporate governance literature. These are external auditing, internal auditing and directorships, (Anderson, Francis & Stokes, 1993; Blue Ribbon Committee, 1999), as well as the audit committee (Institute of Internal Auditor (11A, 2003; Coram, Ferguson & Moroney, 2011). Prior literatures have applied board directors as proxy in their studies considering the important roles of boards of directors in corporate governance, (Sharma, 2004; Elloumi & Gueyie). Further, Hilman and Dalziel, (2003), indicated that boards of directors have two roles, monitoring roles and provisions of resource role. Monitoring role refers to the responsibility of directors to monitor managers on behalf of shareholders, such as monitoring the CEO, (Daily, 1996), monitoring strategic implementation, (Pitcher, Chreim & Cisfalvi, 2000).

Concept of Board Size on Disclosure of Key Audit Matters

Board size is one of the factors that contribute to the proper function and operation that contribute to firms' success and growth. The board is the one that controls the shareholders investment in the firm and thus the board size affects firms' performance. There has never been an agreed view as regards board size of firms by prior literatures. However board size may cause agency problems. The earliest literature on board size is by Lipton and Lorch (1992) and Jensen (1993). Jensen (1993) said that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. While, Hermalin and Weisbach (2003) stated the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. In this, Lipton and Lorch (1992) recommends limiting the number of directors on a board to seven or eight, as numbers beyond that, would be difficult for the CEO to control. Thus a large board can result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton and Lorch, 1992). Some opinions have been that the problem of coordination outweighs the advantages of having more directors and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management ((Jensen, 1993; Hermalin & Weisback, 2003). It is being viewed that very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. But, (Dalton and Dalton, 2005) views that a larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality. There some opinions who say that the few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities. There are some literatures who have empirically tested these arguments and found a negative association between board size and performance (Cahit & Ali, 2016; Yermack, 1996; Eisenberg, Sundgren & Wells; 1998; Barnhart & Rosenstein, 1998). There more others who found a negative relationship of board size with performance or profitability, (Ammari, Kadria & Ellouze, 2014; Fernandez, 2014; Obradovich & Gill, 2013. These authors presented evidence of a negative association between board size and performance/profitability and thereby supporting the theory put forward by (Lipton & Lorch, 1992 and Jensen, 1993). In the same vein, Barnhart and Rosenstein (1998) found that firms with smaller board size perform better than firms with large board size. But, Vafeas (2000) found that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and they can be regarded as having better monitoring abilities in the firm operations. Mak and Yuanto (2003) supported this view when they found that listed firm valuations of Singaporean and 3 Malaysian firms are highest when the board consists of five members and also Bennedsen, Kongsted and Nielsen (2004), reported that small and medium-sized closely held Danish corporations found that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more. There are some literatures that have found board size to have a positive relationship, (Mark & Kusnadi, 2005; Bonn, 2004; Mak and Li (2001; Dalton and Dalton, 2005). From the previous literature however, it was recommended that the board size should not be too big nor too small but sufficient enough to allow for active and effective participation and such that they should be able to perform their duties effectively. So it could be deduced that, Boards with a large number of directors can be a disadvantage and expensive for the firms to maintain because, planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. Therefore in conclusion, effectiveness of the board does not depend on how many directors sit on it, although a minimum number of directors with adequate experience and knowledge is vital to ensure tasks are carried out efficiently.

Concept of Board Independence in Key Audit Matters

In corporate governance, independence is therefore important in a number of contexts. It is vital that external auditors are independent of their clients and that internal auditors are independent of the firms they are auditing, and that non-executive directors have a degree of independence from their executive colleagues on a board. 'Independence' as a concept is a quality that can be possessed by individuals and is an essential component of professionalism and professional behaviour. This refers to the avoidance of undue influenced and being free from any constraints that would prevent a correct course of action or free from inappropriate influences and managerial capture and make the correct and uncontaminated decision on a given issue, (ACCA, 2011). Independent directors are the person entrusted by shareholders to represent them and will help to reduce agency problems, (Fuzia, Halima & Julizaerma, 2016). According to Muth and Donaldson (1998), the independent directors may not endow the management with sufficient freedom which may result in a decline in firm performance. The controversy over the contribution of independent directors on the board lies at the core of the difference in the perspectives of the agency theory and stewardship theory on the role of independent directors on the board. There is a positive link between ratio of independent directors and firm performance, (Fama, 1980; Krivogorsky, 2006). The work of Fallatah and Dickins (2012) suggest that corporate governance and return on assets are not related; while it is positively associated with firm value. Ghabayen (2012) found that audit committee size, audit committee composition and board size do not impact firm performance. They also found that the increase in the proportion of independent directors on the board has a negative impact on firm performance. Al-Matari et al. (2012) find that none of the board characteristics, independence and audit committee characteristics other than audit committee size influences firm performance. Firm performance is found to decline when the audit committee gets larger. Alhassan et al. (2015) show an insignificant positive relationship between board size and firm performance and board composition and firm performance are insignificant and also find a significant relationship between board meetings and firm performance which is positive. Fallatah (2015) found that board size, board independence, stock ownership by government and large shareholders and CEO duality affects the determination of CEO compensation and if CEO compensation is related to firm performance. Berghe and Baelden (2005) found that independence is an important factor in ensuring board effectiveness through the monitoring and strategic roles of the directors. The ultimate factor for the board independence is by acquiring enough numbers of the independent directors on board. They also found that the director’s ability, willingness and board environment might lead to the independent attitude of each director. Kakabadse, Yang and Sanders (2010) found out that the non-executive director system in China was weak because there was too much intervention of controlling shareholders and there was a lack of understanding of the functions of non-executive directors. Johari, Saleh, Jaffar and Hassan (2008), show that the minimum composition of the independent director by the Malaysia Code of Corporate Governance is still not adequate enough to monitor the management. They found that the independent directors on the board did not have any effect on the earning management. Besides, Wooi and Ming (2009) indicated that the independent directors have failed in their internal monitoring role. Nowak and McCabe (2008) found that Independent directors would provide a variety of independent thinking, and majority of them could reduce the dangers of ‘group think’. Abdullah (2004) indicated there was no association between the board’s independence and the CEO’s duality with performance. But, Byrd, Cooperman and Wolfe (2010) found a relationship between the attendance of outside directors and the payment of CEO remunerations for United State banking sectors and that the independent directors who were regularly attending meetings would be better in monitoring of excessive payment to the CEO. Ararat, Orbay and Yurtoglu (2010) in Turkey, found there was no significant effect of board independence and equity issue; the independent were less efficient; and that there was a negative relationship and a non-relationship of independent directors and firm’s performance and concluded they are not truly independent. Altuwaijri and Kalyanaraman, (2016) find that board independence, ratio of independent directors to board size, has a positive link with firm performance while excess board independence, is found to have no statistically significant relationship with firm performance. Fuzia, Halima and Julizaerma (2016) found a mixed association between proportions of independent directors and firm performance. They also show that if the companies comprised the highest number of independent directors, it would not assure to enhance firm performance. It was thus concluded that the existence of independent directors on board should be monitored in order to bring positive shareholder values. They, suggest that independent directors encourage the appointment of higher quality auditors to give greater assurance to investors that company financial statements are fairly presented

Concept of Board Composition on Key Audit Matters

Two observable board characteristics are board composition and the separation of the roles of CEO and board chair. Board composition has received considerable attention by most corporate governance systems around the world, (Salleh, Stewart, & Manson, 2006). The composition of the board is also proposed to help reduce agency problem, (Weisbach, 1998; Hermaline & Weisbach, 1991). However, a positive relationship is expected between firm performance and the proportion of outside directors sitting on the board. Unlike inside directors, outside directors are better able to challenge the CEOs. In UK there is an evident of the recognition of the role of outside directors to be a minimum of three outside directors required on the board, but in US the regulation requires at least two-thirds of the board, (Bhagat & Black, 2001). Board composition is defined as the proportion of outside directors as the total number of directors, (Mohammed, 2014). In prior literatures, Board composition has given rise to two different views: Those who argue for non-executive directors in the board and those who have the views against more non-directors in the board. Opinion for more non-executive directors in the board, use agency theory and resource dependency to support their views. The ground of agency theory is based on the fact that the essence of the board is to monitor and control the action of the directors because of the opportunist behavior, (Mohammed, 2014; Berle & Means; Jensen & Mecklings, 1976). Thus, the inclusions of outside directors increases the board ability of efficiency in monitoring top management and ensures no expropriate of stakeholders wealth by top management as an incentive to develop their reputation as experts in decision control, (Fama & Jasen, 1983; Muhammed, 2014). According to Yousef, Nur and Kharli, (2014), Non-directors comprise of independent directors that are appointed based on their experience and competence and they do not have any interest in the shareholding of the firm but to maintain their reputation and thus strive to maximize the firms’ value. O’Sullivan, (2000) said that the proportion of non-executive directors on the board has a significant positive impact on audit fees. The plausible explanation for this finding is that independent directors demand a higher quality audit to provide greater assurance that the financial statements do not contain a material misstatement. Beasley and Petroni (2001) argue that boards with higher percentage of outside directors will seek higher quality auditors in order to provide more effective monitoring of corporate management. Another study of (O'Sullivan, 2000; Salleh et. al., 2006) found that the proportion of non-executive directors had a significant positive impact on audit quality. They suggested that non-executive directors encouraged more intensive audits as a complement to their own monitoring role while the reduction in agency costs expected through significant managerial ownership resulted in a reduced need for intensive auditing. But, Kane and Velury (2002) found that the greater the level of institutional ownership, the more likely it is that a firm purchases audit services from large audit firm in order to ensure high audit quality. Then, Mitra et. al., (2007) found that diffused institutional ownership was significantly and positively related to audit fees. They attribute this finding to either institutional investor demand for the purchase of high quality audit services as safeguard against fraudulent financial reporting or firms' endeavor to purchase high quality audits to attract institutional investment in common stock. It is expected that the portion of institutional ownership will have impact on audit quality of the company. Audit quality is an important element to ensure the credibility of corporate governance as well as financial reporting process. Thus in a broader concept and in a very subjective views, some studies (O'Sullivan, 2000; Carcello et. al., 2002; Salleh et. al., 2006; Yatimet. al., 2006; Mitra et. al., 2007) use the amount of audit fees to measure audit quality. High amount of audit fees indicate that auditors provide more and efficient audit services compared to low audit fees. However some researchers (DeAngelo, 1981; Palmrose, 1986; Palmrose, 1987; Knapp, 1991; Colbert and Murray, 1998; Beasley and Petroni, 2001) argued that the big size of audit firm especially Big Eight firm as the best indicator to audit quality because this category of audit firm provided higher audit quality than the smaller audit firm. Mak and Li (2001) support the argument that board structure is endogenously determined when the results of their OLS indicate that board size, leadership structure and firm size have a positive impact on firm performance but their 2SLS regressions do not support this result.

Concept of Audit Tenure in Key Audit Matters

The Nigeria Law, Section 357 (1) of the Company and Allied Matters Acts CAMA requires that every company appoint an auditor at each Annual General Meeting AGM. Other Sections of CAMA 362, 363 and 364 stated the removal of the auditor at the AGM with a simply proposing of the appointment of a different auditor. The auditors could also resign on their own at any time giving notice to the effect to the client company, Section 365. Both the auditor and the client firm utilize the loopholes of the law to switch over to their advantages and to the detriment of the other. Akrawah and Akhor, (2016) explained audit firm tenure as the length of time it has been filling the audit needs of a given client, and as having an influence on the risk of losing an auditor's independence. Given a long association between a company and audit firm can lead to such close identification of the auditing firm with the interests of its client's management and lack that required independent action by the audit firm against the client becomes difficult and as thus complacency, lack of innovation, results to less rigorous audit procedures and a learned confidence in the client may arise after a long association. Too long auditor tenure and client relationship would significantly lead to development of personal relationship that may result to the bonds of loyalty, trust or emotive relationships having developed between the client and the auditor, Casterel1a, Jensen & Knechel, 2007). Longer audit tenure could encroach in the independent auditor's opinion and increase the likelihood of the auditor yielding to the client's pressure in relation to their choice and application of accounting policies which might ultimately mars the true and fair audit opinion required of the independent auditor. In this regard, DeAngelo, (1981), indicated that audit client contract based on relationship outcome might greatly impact on auditor client agreement or disagreement as the case may be. But, in other cases, the disagreement might strengthen or weakened the auditor-client relationship on the area of auditor professional judgment. The auditors who are concerned that a client may be lost, might possibly choose yielding to the client's style and keep succumbing to pressure to accept the client's position only because they fear to lose audit client relationship (Evbodaghe, 2009). So audit firms are expected to maintain audit ethics and professional standards in their work on whether loosing or maintaining their audit tenure with the client. Deis and Giroux (1992) found that the longer the auditors audit their clients leads to closer relationship between the audit firms and clients and consequently decrease audit quality. Prior studies have documented two viewpoints of the effect of audit tenure on the credibility of financial statements; regulators view and economic view (Geiger & Raghunandan, 2002). In the point of regulatory view, long association between a client and an audit firm may lead to impair their independence (Geiger & Raghunandan, 2002). Further, Geiger & Raghunandan, (2002); Deis and Giroux (1992); O'Keefe, Simunic and Stein (1994); and Raghunandan, Lewis and Evans (1994) found that the long auditor tenure would decrease audit quality. Similarly, Vanstraelen (2000) found negatively relationship between auditor tenure and opinion and then again provide support for a mandatory audit firm rotation. Barbadillo and Aguilar (2008), reveals an inverse relationship between auditor tenure and audit quality and suggest that auditors tend to be more dependent in the first years of the auditing engagement. According to Ebimobowei and Oyadonghan, (2011) a policy favoring mandatory rotation of auditors could have positive effects on the quality of audit reports as it would allow for fresh approach and restore public confidence in the audit function. While, Adeyemi and Okpala (2011) notes that an audit firm's tenure can result in a loss of auditor's independence. Geiger and Raghunandan (2002) found a positive and significant relationship between audit tenure variable and audit reporting failures. Vanstraelen, (2000), shows that long-term auditor client relationship is positively related with the increased likelihood of the auditor issuing unqualified opinions. Walker, Lewis and Casterella, (2001) provide empirical evidence relating to the link between the length of the audit engagement and audit failures. Nashwa (2004) using a sample of U.S companies found that risk increases early in the auditor client relation and then declines over time suggesting that longer audit tenure overtime will smoothen out any initial challenges that may impair the quality of the auditor's performance. The results of the study do not support the hypothesis that short auditor tenure improves audit quality.

Theoretical Framework

Agency Theory and Key Audit Matters

Agency theory is the agency relationship between one or more people or 'principal' asking another party 'agent' to do some work on behalf of the principal which involves the delegation of some decision making authority to the agent (Meckling, 1976; Mustapha, 2011). All arising information about companies is likely to be more owned by agents than principals, so that this information imbalance can lead to information asymmetry and cause agency problems. There are situations where shareholders want high profits or increased investment; while management wants adequate compensation in the form of income as a reward. As a result of these differences in interests, a third party is required to function as a mediator between the principal and the agent. Auditors are parties who are considered to be able to mediate between the interests of principals and agents in managing company finances so that the auditors have the function of monitoring the work performed by company management through inclusion of KAM in the financial statements reports and considering the viability of the company's business. The auditor will evaluate the financial statements made by the agent and the reasonableness of the financial statements. The audit opinion provided by the auditor has been mandated by (ISA 701, 2015) to include KAM and the report can be a measure or consideration for interested parties in assessing the performance of agents in managing the company.

Empirical Reviews

Köhler, Ratzinger-Sakel and TheisORCID, (2020) investigate the effect of (KAM) in the auditor's report as required by the new ISA 701. The results show that in the condition in which the KAM section suggests that already small changes in the key assumptions could eventually lead to a goodwill impairment (KAM negative condition), investment professionals assess the economic situation of the company to be significantly better as compared to the condition in which the KAM section suggests that only large changes in the key assumptions could eventually lead to a goodwill impairment (KAM positive condition). Finally the study showed that a KAM section has no communicative value, implying that non-professional investors have difficulties with processing the information conveyed with KAM.

Cordoş, George-Silviu, Fülöp and Melinda-Timea, (2015) investigated if users of audit reports agree with IAASB's proposal to include a new section, (KAMs), in the audit report in order to include more information regarding the audit mission, with the aim of improving audit communication. The research found that most of the replies are in agreement with the regulating body's proposals. But, several respondents raised legitimate concerns regarding the implementation process of KAMs, and the effect KAMs will have on audit reporting. The conclusions were that KAMs are an important concept and that their introduction and applicability will have a positive effect in the audit reporting process.

Sirois,. Bédard, and Bera (2018) examined whether and how the addition of mandatory paragraphs that highlight Key/(KAMs) in the auditor's report affects users' information acquisition process using eye-tracking technology. They found that 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, when exposed to an auditor's report with several KAMs, participants devote less attention to the remaining parts of the financial statements, depending on the relevance of the information for the decision task users are less attentive

Alves and Galdi (2020) investigatethe (KAMs) contained in the annual standardized financial statements (SFSs) of Brazilian listed companies. The methodology evaluated how information influences the market in a particular period and a disclosure event and variation in the sum of the daily abnormal returns of each company on the days that form part of the information disclosure window. They found the consistency of the informative content of the financial statements with KAMs, insofar as the variation in the cumulative abnormal return of the companies analyzed is positively associated with the cumulative returns in the information disclosure window for the SFSs following the adoption of the new independent auditor's report.

Chang-yeol, Kim, and Park, (2020) examined key audit matters (KAMs), The results of analysis of companies to which KAMs are applied indicated that auditors carried out audits more conservatively for such companies. More so, the result can be interpreted as indicating that, due to the introduction of KAMs, auditors evaluate their risk highly and carry out audits more conservatively in order to reduce the risk.

Milton Segal (2019) studied (KAM) and the recent requirement for auditors of listed companies to report KAMs. The methodology applied detailed interviews with some of South Africa's leading audit experts to highlight their perspective of the impact of KAM on audit reporting and the audit environment. The result found various perceptions of what makes a matter "key", and vary from materiality, to subjectivity and difficulty, as well as incorporating a time-based consideration and found a significant increase in cost and an increase in potential liability, triggering the need for thorough internal risk management policies; and also conclude that KAM has ultimately failed to achieve its goal of greater transparency, with clients virtually ignoring KAM reports.

Patrick Velte and Jakob Issa(2019), presents a literature review of 49 empirical studies on (KAM) disclosure in audit reports. Five major streams that analyze the impact of KAM disclosure on stakeholders' reactions are focused. Although there are some indications of decreased earnings management behavior, most studies find no significant changes in auditor behavior and there are many insignificant results with regard to shareholders' reaction.

Edgar and Tim, (2019) carried out literature reviews of KAM in the Financial Industry focusing on KAM within European Banks. The findings provides a deep insight into both, the most relevant topics auditors are dealing with in European Banks and bank specific dependencies and their influence on KAM.

Marques, Portugal and Almeida (2019) investigated the Impact Generated by KAM on the Application of Audit Procedures. The study used documentary analysis of 16 audit reports related to 8 financial statements without KAM (2015) and 8 financial statements with KAM (2016), as well as the respective working papers, letters of external circulation and workbooks prepared by the audit teams, obtained together with a certain relevant external audit company in the Brazilian domestic market. The results suggest that the disclosure of the KAM paragraph caused an increase in the procedures performed when comparing the reports between 2015 and 2016.

Xin Shao (2020) research on disclosure status and influencing factors of KAM The article used data from listed companies that have disclosed KAM from 2016 to 2018, and uses mean testing and regression research methods to analyze how the characteristics of firms and auditors will affect the disclosure of KAM. The study found that: 1) the number of key audit matters, the length of the text, the length and proportion of digital figures, and industry-specific key audit matters fluctuated significantly from 2016 to 2017 and stabilized from 2017 to 2018; 2) The size of the firm, the audit term, the firm's industry expertise, and the auditor's gender, years of practice, and industry expertise will significantly affect the disclosure of KAM.

Posner, (2020) made a report on international disclosure of "KAM" This study conducted by the ACCA reports on the results of a year of international reporting of "KAM," the IAASB's analog to "critical audit matters" in the U.S. The study looked at 560 audit reports across 11 countries. According to the study, financial reporting improved following the adoption of KAMs in 2016. Not only did the disclosures themselves provide better information, but the study saw improvements in governance, audit quality and corporate reporting.

Abdullah, Altawalbeh and Eid, (2019) examined the investors reaction to the disclosure of (KAMs) as mandated by ISA701, the study's sample consisted of all the (195) public shareholding companies listed in Amman Stock Exchange (ASE) Jodan as at the end of 2017, using a manual content analysis to tracing the auditor practices in reporting KAMs, the final sample consisted of (128) public shareholding companies using the event study test to examine the study hypothesis. The results revealed that the disclosure of KAMs has significantly affected the investors' decisions measured by the abnormal trading volume.

Sierra-Garcíaa, Gambettab, García-Benauc, and Orta-Pérezd, (2019) studied the determinants of the magnitude of entity-level risk and account-level risk KAM: The case of the United Kingdom, using 100 companies in the UK during the period 2013–2016. The results showed 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. In general, the result also shows that auditors of companies that pay higher audit services fees present more ELRKAM and fewer ALRKAM and that client characteristics are relevant to the number and type of KAM included in the audit report; that auditor and client characteristics are determinants of the number of KAM disclosed and, moreover, determine the type of KAM disclosed in the audit reports.

Sammut, K. (2018) investigated on impact assessment of the introduction of ISA 701 and KAM using literature and semi-structured interviews and Big Four audit firms and five listed entities. Findings indicated that the introduction of KAMs adds credibility and informational value to the AR. The auditor's role has been clarified, with the information and expectation gap being minimised significantly through the revised AR and KAMs. The wording used to describe KAMs is essential for the understanding of users, and boilerplate wording is avoided to retain the informational value of such KAMs. Further result were that the majority of the work related to the KAMs was previously being done, however the level of documentation has increased and the concepts of Emphasis of Matter and Other Matter paragraphs should be retained, even though users may not be knowledgeable enough to distinguish between them.

Ciğer, Vardar and Kinay (2019) studied KAMs: A research on listed firms in CEE countries and Turkey. Three CEE countries were chosen according to their economic development levels (Romania, Poland and the Czech Republic) and analyzed for the year ended in 2017 by frequency and cross-table analysis. Result showed that when the manufacturing sector is considered as a whole, both (KAMs) sub-headings and the average number of KAMs showed the most similarity in Turkey and Poland. In a more specific assessment, Turkey bears a resemblance to both Poland and Romania in the "fabricated metal production" sub-sector. The most notable difference in terms of KAMs sub-headings between Turkey and two of the CEE countries (Poland and Romania) is "going concern."

Pratoomsuwan and Yolrabil (2020) examined the effects of (KAM) disclosures in auditors' reports on auditor liability in cases of fraud and error misstatements using evaluators with audit experience. Result show that the participating auditors assess higher auditor liability when misstatements are related to errors rather than when they are related to fraud. In addition, the results also demonstrate that KAM disclosures reduce auditor liability only in cases of fraud and not in cases of errors. Finally the results support the view that KAM reduces the negative affective reactions of evaluators, which in turn, reduce the assessed auditor liability.

Gold, Heilmann., Pott and Rematzki, (2020), examined whether the implementation of (KAMs) in auditors' reports affects managers' reporting behavior. The research argued that greater transparency through KAMs leads to higher accountability pressure as managers may expect their judgments to be scrutinized more strongly in the presence of KAMs and improvement of financial reporting quality and also whether informational precision (firm-specific versus non firm-specific information) in a KAM section moderates the effect of KAM presence on reporting behavior. Results show that managers' tendency to make an aggressive financial reporting decision is reduced in the presence of KAMs (compared to the absence of KAMs).

Ugwu, I. V (2020) investigated the determinant of KAMs in Nigeria and analyzed the data using descriptive statistics, correlation and multiple regression and found that Firm size and audit gender have a negative insignificant relationship with KAM; while Firm age and leverage has a positive significant relationship with the disclosure of KAM in Nigeria.

Research Methodology

We utilized a pooled research design which is a combination of both cross-sectional and time-series design properties.

Population of this study comprised all the listed quoted firms on the NSE from 2017-2019, and with a purposive sample size of thirty (30) firms that have elements of disclosure of the KAMs consistently published annual report from 2017-2019.

Research analyses apply Descriptive Statistics, Correlation Analysis, Pooled Hausman Random Effect Model and Fixed Effect Model Test.

While the variables measurements are as follows:

KAM = KAM = an indicator variable, for which the value is 1 for the disclosure of KAM and 0 otherwise (Chang-yeol, Kim and Park 2020; Hao Li, 2017);

Board Size = BDSZ= Represents the total number of members within the board of directors;

Board Independent= BOID = The number of the board that are independent as specified in the reports;

Board Composition = BDCP= The % Percentage members of the board constituted of by non-Executive directors;

Auditor Tenure = AUDT= Auditors Tenure in Dummy (1,0) is computed as (1) for Firms that Use external auditors that have stay for 3 years and (0) for auditors with less than 3 years engagement

Model Specification

The study adopted the model of (Kitiwong and Srijunpetch, 2019) on key audit matter as follows:

KAMs = f(Auditor + Audit Firm + Client + Country + Year) (Kitiwong and Srijunpetch, 2019) as is modified as thus to fit our model.

$KAMs_{it} = \beta o + \beta_1 BDSZ_{it} + \beta_2 BOID_{it} + \beta_3 BDCPit + \beta_4 AUDTit + \mu_{it}$ ………………Model

We define working variables as follows:

$KAMs_{it}$ = Key Audit Matters; β_o = Constant term (intercept) of the study model; β_1- β_4 = Explanatory variables Coefficients of Key Audit Matters KAMs; μ_{it} = Component of unobserved error term of the firms, i in period *t;* $BDSZ_{it}$ = Board Size, *i* in period *t;* $BOID_{it}$ = Board Independent *i* in period *t;* $BDCP_{it}$ = Board Compositions *i* in period *t;* AUDTit = Audit Tenure *i* in period *t; while t= years*

Result Presentation, Analyses and Interpretation

Table One: Descriptive Statistics

	KAMs	BDSZ	BOID	BDCP	AUDT
Mean	0.643741	0.276170	0.072530	0.141682	0.185172
Median	0.630000	0.264000	0.076000	0.130000	0.170000
Maximum	1.550000	1.240000	0.123000	0.420000	0.560000
Minimum	0.210000	0.037000	0.014000	0.009800	0.014000
Std. Dev.	0.228317	0.169304	0.023018	0.073540	0.105722
Jarque-Bera	122.7438	881.8311	9.553976	24.77808	7.845425
Probability	0.000000	0.000000	0.007265	0.000005	0.018600

Source: Authors Computation, 2020

Our table above shows that KAMs has an average disclosure of mean (0.643) and the various means of the independent variables are: BDSZ (0.276); BOID (0.073); BDCP (0.142); and AUDT (0.185). The maximum and minimum values of the variables are: KAMs (1.55, 0.210); BDSZ (1.240, 0.037); BOID (0.123, 0.023); BDCP (0.420, 0.009); and AUDT (0.560, 0.014). The Jarque-Bera test of normality of the variables did not display outrageous distribution of any of the independent variables..

Table Two: Pearson Correlation Metrics

	KAMs	BDSZ	BOID	BDCP	AUDT
KAMs	1.000000				
BDSZ	0.043368	1.0000000			
BOID	0.052325	-0.140636	1.000000		
BDCP	0.192785	0.0171226	0.214775	1.00000	
AUDT	0.070018	0.1604910	-0.018134	0.18750	1.00000

Source: Authors Computation, 2020

The Pearson correlation table above seems all the explanatory variables appears positively related to the dependent variable and BOID is negatively related to BODSZ and AUDT; while the rest of the variables are positively related to each other. But in checking for multi-co linearity there seems to be no two explanatory variables that have perfect correlation to distort the application of the proposed OLS model.

Correlated Random Effect-Hausman Test

Test cross-section random effects

The study applied Hussmann Effect Test to select the most fitted model between fixed and random effect model that is best for the study. The Hussmann test model result is presented in the table below.

Test Summary	chi-sq Statistic	Chi-Sq. d.f	Prob.
Cross-section random	1.287754	4	0.00653

Cross-section random effects comparisons

Variable	Fixed	Random	Var(diff.)	Prob.
BDSZ	0.067227	0.058374	0.002563	0.8310
BOID	0.615654	0.410564	0.301671	0.7243
BDCP	0.362470	0.445532	0.026647	0.5063
AUDT	-0.175582	-0.085546	0.010857	0.3543

Source: Authors Computation, 2020

The Hausman test result from the table above indicates a chi-square value of (1.287754) and a probability value of (0.0065). The test from the chi-squared value of the probability is less than 10 as the standard indication value. Therefore, the study accept that the random effect model is most fitted for correction of the identified homogeneity of the data applied for the study and reject the fixed effect model and as a result we use the random effect to correct the problem of homogeneity in the panel data used for the study. Below is the adjusted regression random model.

Table Three: Panel Least Square Regression Result

Variable	Coefficient	Std. Error	t-statistic	Prob
C	0.583763	0.128553	4.825236	0.0000
BDSZ	3.047339	0.162755	19.52633	0.0000
BOID	5.504844	2.314266	2.423863	0.0268
BDCP	0.342350	0.382568	0.932035	0.3511
ADTN	-0.183672	0.284335	-0.643838	0.5183

Effects Specification

Cross-section fixed (dummy variables)

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R-square	**0.426624**	**Mean dependent var**	**0.645750**
Adjusted R-square	**0.408775**	**S.D. dependent var**	**0.227316**
S.E or regression	**0.182613**	**Akaike info criterion**	**-0.263147**
Sum square resid.	**2.066196**	**Schwarz criterion**	**0.345864**
Log likelihood	**26.46622**	**Hanna-Quinn criter**	**-0.028816**
F-statistic	**2.231745**	**Durbin-Watson stat**	**1.886627**
Prob(F-statistic)	**0.012866**		

==

Source: Authors Computation, 2020. Note: Statistically significant @ 1%

The panel OLS regression result on corporate governance variables effect on the disclosure of key audit matters has shown that the Adjusted R-square value is (0.41), which is 41% that indicates that corporate governance explains about 41% of the disclosure of KAMs in the polled firms under the study period. The F-statistic value is (2.2320) and the probability value is (0.012) and this shows that the KAMs OLS regression model is well specified and is statistically significant at 1% level of significance of our study. At the same time the Durbin Watson statistic value has not revealed any autocorrelation in the model.

Hypotheses Testing and Discussions

Hoi: Board Size (OLS = **3.047339, probability=0.0000)** as an independent variable of corporate governance appears to have a positive and significant effect on the disclosure of Key Audit Matters KAMs at 1% level. This means we should reject the hypothesis I **(Hoi: Board Size does not significantly affect the disclosure of Key Audit Matters KAMs).** Therefore we state that Board size positively and significantly affects the disclosure of KAMs.

Ho ii: Board Independence (OLS= **5.504844, probability=0.0268)** as an independent variable of corporate governance appears to have a positive and significant effect on the disclosure of Key Audit Matters KAMs at 1% level. This means we should reject the hypothesis 2 **(Ho ii: Board Independent does not significantly affect the disclosure of Key Audit Matters).** Therefore we state that Board independent positively and significantly affects the disclosure of KAMs.

Ho iii: Board Composition (OLS= **0.342350, probability= 0.3511)** as an independent variable of corporate governance appears to have a positive and significant effect on the disclosure of Key Audit Matters KAMs at 1% level. This means we should reject the hypothesis 3 **(Ho iii: Board Composition does not significantly affect the disclosure of Key Audit Matters).** Therefore we state that Board composition positively and significantly affects the disclosure of KAMs.

Ho iv: Audit Tenure (OLS= **-0.183672, probability= 0.5183)** as an independent variable of corporate governance appears to have a negative effect on the disclosure of Key Audit Matters KAMs at 1% level. This means we accept the hypothesis 4 **(Ho iv: Audit Tenure does not significantly affect the disclosure of Key Audit Matters).** Therefore we upheld **Hoiv** and state that Audit tenure negatively affects the disclosure of KAMs.

Discussions

Bedard et al, (2015) found that there are proxies that are significant but rather a symbolic value in KAMs; while Milton Segal, (2019), concluded that KAMs has failed to achieve its goal of greater transparency, with clients ignoring KAMs report. However in overall, our result indicated that variables' of corporate governance have positive significant effect on disclosure of KAMs and this agrees with other researchers who found KAMs to increase audit quality, expectations and transparency in the disclosure of KAMs (Bedard et al, 2015; Posner, 2020; Sirois et al., 2018; Cordes et al., 2015; Chang-yeol et al., 2020; Edgar and Tim, 2019; Marques et al., 2019; Mohammad et ai., 2019; Velter, 2018; Pratoomsuwan and YolrBIL, 2020; Gold et ai., 2020; Alves and Galdi, 2019).

Findings, Conclusions and Recommendation

Our study investigated how corporate governance variables (BDSIZ, BOID, BDCP and AUDT) affect the disclosure of KAMs in Nigeria using listed firms in NSE. The study found that 41% of the systematic variations in the dependent variable in the pooled firms over the period in Nigeria is jointly explained by the corporate governance variables; and Board size BDSZ, Board independent BOID and Board composition BDCP have positive and significant effect on the disclosure of key audit matters KAMs; while Audit Tenure ADTN has a negative effects on the disclosure of KAMs in Nigeria.

Conclusions

The study concludes that BDSZ, BOID and BDCP have significant positive effect on the disclosure of key audit matters KAMs; while AUDT has negative effects on the disclosure of KAMs using the pooled firms for the period. Again the overall result shows corporate governance has a positive significant effect on the disclosure of KAMs by firms in Nigeria.

Research Recommendations

We recommend that corporate governance involvement have a cumulative effect in the disclosure of key audit matters KAMs, but management should be more mindful in decision making being the fact that BOSZ, BDID and BDCP significantly contributes to the disclosure of KAMs.

Contribution to Knowledge

Our work contributes to the rich empirical literature and the relevance of the content of the new model of KAMs applied in the study.

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