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Empirical Study of Implementation of ISA 701- Key Audit Matters: Focus on Nigeria Firms

Ugwu, I. Virginus Ph.D[1], Nwakoby, N. Peace Ph.D[2]

[1] Department of Accountancy Chukwuemeka Odumegwu Ojukwu University (COOU), Igbariam Anambra State, Nigeria. Gmail: **virginusugwu418@gmail.com**

[2] Department of Entrepreneurship Studies, Nnamdi Azikiwe University, Awka Anambra State Nigeria

Abstract: *We carried out this empirical study: implementation of ISA 710- Key Audit Matters KAMs in Nigeria. The methodology utilized a pooled data research design. These are data with both cross section and time interval. We applied data sourced from annual reports of firms quoted in the Nigerian Stock Exchange (NSE). Population comprised all the quoted firms on the NSE from 2017-2020 and a purposive sample size of (30) firms that have evidence of disclosure of KAMs within these period. We apply Descriptive Statistics, Correlation and Multiple Regressions to determine the impact that firm age, firm leverage, and audit gender have on KAMs. Our empirical evidences show that about 44% of the systematic variations in the dependent variable in the pooled companies over the period in Nigeria are jointly explained by the independent variables of KAMs; while our specific findings show that Audit gender has a negative and insignificant impact on implementation of KAMs; Firm age and leverage have a positive significant impact on implementation of KAMs. We recommend that implementation of KAMs have cumulative impact and that only leverage and Firm age contribute positively. We, contributes with the evidence of variables that have impact on KAMs implementations in Nigeria; the rich literature and the relevance of the content of the applied model of KAMs.*

Keywords: Firm Age, Audit Gender, Leverage, Key Audit Matters, Implementation

Introduction

Fraud and other key operating factors contributed to the economic crises of 2008. Many opinions attribute the main cause of the global financial crisis to the lack of appropriate and effective regulatory framework from developed countries. Others have suggested ethical failings of highly powered bankers and business persons' insensitivity in fraud in the USA (Lewis, Joseph & Roach, 2011; Hamilton & Gabriel, 2012; Osisioma, 2012). More so, this problem was complicated by the existence of an integrated and interconnected global community which reflected the vulnerability and openness of world economies to contagious risks and shocks today (Raja, 2008; Ugwu, 2020). However, some views are that it was an accounting fraud that caused the global crisis and the work of international audit firms involved in the scandal was strongly criticized. The fact being that prior to the unfolding of this crisis, these companies were at first given an unqualified audit report or known as "clean audit report" but they were not found to have bad financial condition until bankruptcy was inescapable. The public were questioning the competence of the auditors; the extent of what had happened; the main cause of the crisis and auditors' contribution in the collapse of world markets, and what was going to be done to solve the problem. These happenings, have further urged financial statement users, regulators and national standard setters to address the auditor's role in early warning signaling and in the provision of additional insights into audited financial statements. Francis, (2011) has long observed that audit quality and audit reporting have a long history, being that fact that audit quality is the core of the audit market. The audit report purpose has no value if the public has no confidence in it (Maijoor & Vanstraelen, 2012). 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.

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, 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). 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, for the audit report to contain more than just an opinion of consent or not (Defond & Zhang, 2014).

Further, this standard requires auditors of listed companies to list key audit matters (KAMs) in the audit report. KAMs are those matters that in the auditor's professional judgments are significant and require auditors' attention in carrying their assigned audit work. KAMs are selected from matters communicated with those charged with governance and are determined by taking into account areas of higher risk; significant auditor judgments; and the effect on the audit of significant events or transactions (Pratt, 2014). The recent inclusion of the KAMs in the auditors' report is expected by regulators to enhance the value of the audit and be useful to the stakeholders generally. This, 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). These changes in the audit report are aimed to reduce information asymmetry - the gap between the information the investors want to obtain from the audit report and the disclosure of the company and the audit report.

The adoption of KAMs in Nigeria was made known to Nigeria Stock Exchange NSE by the Financial Reporting Council of Nigeria (FRC) that 15 December 2016 was the effective date for the implementation of ISA 701 – "Auditor's Responsibility to Communicate KAMs in the Auditor's Report" for all companies listed on The NSE. The purpose of this Circular is to provide listed companies with information about ISA 701, (FRC, 2016).

The new implementation of KAMs provides a needful academic search to investigate and verify whether the disclosures of KAMs are as anticipated in Nigeria by regulators and standard setters. Globally, works have been done in KAMs, but to the best of our search, there is still a little evidence of work done on this theme KAMS in Nigeria setting. We carried out this current work as empirical implementations of ISA 701- KAMs in Nigeria and the usefulness to investors in line with the regulators' expectation. This study is expected to make recommendations and significant contributions to the existing auditing theoretical development and auditing practice.

The main objective of this study is to find out the empirical evidence of implementation of ISA 701- KAMs in Nigeria. The specific objectives of this study are to know whether:

Auditors' gender has impact on key audit matters in Nigeria;

Firms age has impact on key audit matters in Nigeria; and

Leverage has impact on key audit matters in Nigeria.

The following research questions were asked to guide this work: Does auditors' gender impact on key audit matters in Nigeria? Does Firm age impact on key audit matters in Nigeria? Does Leverage impact on key audit matters in Nigeria?

We posited the following hypotheses for the study: Auditors' gender does not significantly impact on key audit matters; Firm age does not significantly impact on key audit matters; and Leverage does not significantly impact on key audit matters.

Conceptual Framework

Key Audit Matters KAMs

In Nigeria context, the (FRC), mandated the implementation of ISA 701 – "Auditor's Responsibility to Communicate KAMs in the Auditor's Report" for all companies listed on NSE in 2016. What is ISA, 710? It is the International Standards on Auditing ISA 701 and, this states the Auditor's Responsibility to Communicate KAMs in the Auditor's Report. KAMs have 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. KAMs are selected from matters communicated with those charged with governance." It is intended to address the following matters: a. Auditor's judgment as to what to communicate in the Auditor's report; b. The form of such communication; and c. The content of the communication. KAMs is applicable in three situations, as follows: a. The first is audits of complete sets of general purpose financial statements of listed entities such as year-end audits of companies; b. The second part is when the Auditor otherwise decides to communicate key audit matters in the Auditor's report; c. The third is when the Auditor is required by law or regulation to communicate key audit matters in the Auditor's report. Xin, S., (2020) indicates that KAMs 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. Hao, L., (2017) remarked that "KAMs refers to the matter that certified public accountants CPA consider to be the most important matter of the current financial statements based on professional judgment, and the KAMs are selected from the matters communicated between CPA and managers" (Certified Public Accountants Auditing Standards No. 1504 - Communicating KAM 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 inclusion of KAMs 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 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.

Implementations of Key Audit Matters

According to Campbell, implementation of KAMs includes the diligent application of professional judgment by the auditor in line with the standard. KAMs are to be selected from the matters communicated/presented to audit committee throughout the current audit year. Within these, the auditor shall determine/select, out of all the matters communicated during the year, those matters that required significant auditor attention in performing the current year audit. In other words, the implementation of KAMs is to be limited to the significant matter of the current year audit even when the auditor's opinion refers to comparative numbers presented in the financial statements. Further, this does not require the auditor to update the KAMs included in prior period auditor's report in the current period auditor's report unless the matter is continuing in the current period as well and determined as key matter again in the current year.

The ISA also applies when the auditor is required by law or regulation to communicate KAMs in the auditor's report. The major aim of KAMs is to improve the information asymmetry of value of audit report. KAMs can improve the incremental value of information, (Wang, Xu, Wang & Yu, 2018) 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 KAMs improved the communication value of audit reports. But others found that disclosure of KAMs does not necessarily improve communication value and incremental information; (Lennox et al. (2019), 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.

Christensen., Steven and Christopher (2014) argued that the possibility to change investment decisions should be higher when an audit report including KAMs is presented compared to when the existing audit report is presented, and that the possibility to change investment decisions would be higher when some contents are disclosed as KAMs, compared to when the same contents are disclosed as notes on financial statements. Therefore, KAMs can bring incremental information value and research Analysis on the impact of disclosure on audit quality and audit cost. Yi and Mao (2019) found that after the reform of audit report on KAMs, the level of accrued earnings management decreased significantly and the audit quality improved. (Chen, Zhang, Zhang and Niu, 2019) found that, compared with companies that did not disclose KAMs, A + H-share companies' earnings value relevance decreased significantly after disclosing KAMs, indicating that the incremental risk information provided by KAMs attracted investors' attention, enhanced investors' perception of earnings uncertainty, and reduced investors' dependence on earnings in decision-making. Christensen, Steven and Christopher, 2014) found that disclosure of KAMs would make nonprofessional investors give up their investment in the company. Cade & Hodge (2014) discovered that when the audit reporting standards require auditors to disclose key accounting estimates of enterprises, the experimenters (managers) are not willing to share their private information with the auditors. Sirois & Bera, (2018) applied eye movement tracking to find that the disclosure of KAMs will play a guiding role, making the users of audit reports pay more attention to the matters disclosed by KAMs, but may also ignore other important matters. Further, Kang, (2019) found that when an experienced audit committee member is faced with inexperienced shareholders, they would ask more challenging questions to the management. When KAMs were disclosed in the audit report, this phenomenon was more significant and this indicating that the disclosure of KAMs affected the behavior of the audit committee. While Trpeska, Atanasovski and Bozinovska, (2017) confirmed the informational value of KAMs disclosure with an online survey of corporate on loan officers; Boolaky and Quick (2016) did not find that bank directors' perceptions change as a result of KAMs disclosures. Auditor needs to develop preliminary view on matters that are likely to be significant which would require significant attention and eventually be implemented as KAM at planning stage.

Auditors' Gender and Key Audit Matters

ShixinYang , YunguoLiu and Qiongdan Mai (2018) found that the audit quality of signed auditors shows significant gender differences. Atkinson, Baird & Frye (2003) found that male and female-managed funds do not differ significantly in terms of performance, risk, and other fund characteristics and that it influences the decision making of mutual fund investors; and that that firms with female audit committee representation have significant lower audit fees (Ittonen, Miettinen & Vahamaa, 2008; Chin & Chi 2008), women auditors discover more potential misstatements than male auditors, though they analyze the misstatements in a less accurate manner than male auditors; that women auditors are more risk-averse than male auditors. Breesch and Branson, (2009) found that women auditors discover more potential misstatements than male auditors and with misstatements, found that women auditors are more risk-averse than male auditors. Lepine et al., (2002) show how male-dominated teams may, in some contexts, constitute the worst gender composition and that as the percentage of males on a team increased, there was an exponential increase in the tendency for making decisions that were overaggressive and (Ivanova-Stenzel & Kubler, 2005) said female and male performance differ most in mixed teams with revenue sharing between the team members, as men put in significantly more effort than women showing that women perform best when competing in pure female teams against male teams whereas men perform best when women are present or in a competitive environment. Mannix and Neale (2005) found that gender composition has no relation with performance outcomes of the group. Auditor gender and audit quality (Jiäntti, and Matias, 2014) show that the auditor gender significantly affects audit quality. Rezaei and Shabani, (2014) found that an increase in age and size of audit firms causes a reduction in the use of Accruals items, consequently, increases audit quality.

However some other studies found that female executives can lower financing costs as in (Francis, Hasan & Wu 2013), improve corporate governance as in (Adams and Ferreira, 2009), restrain overinvestment (Barua, Davidson & Rama, 2010; He, Liu & Liu, 2011), reduce financial fraud, and possibly promote accounting information conservatism (Peni, & Vähämaa, 2010; Srinidhi, Gul & Tsui, 2011; Ittonen et al., 2013; Francis, Hasan, Park and Wu, 2015; Fisher & Yao, 2017). While other studies found no significant gender differences in the decision and risk preferences of tax avoidance and earning management (Dyreng, Hanlon & Maydew, 2010; Zang, 2012). Some studies show the inconsistent but in conclusions that female auditors were more prudent in audit work and that they provided higher-quality audits than male auditors, (Niskanen, J. K, M. & Niskanen 2011; Ittonen et al., 2013; Hardies, Breesch & Branson, 2012; Hardies, Breesch & Branson, 2016). On the other hand others found no significant differences between female and male auditors (O'Donnell & Johnson, 2001; Gul, Wu & Yang, 2013; Hottegindre, Loison & Farjaudon, 2017). There are other studies that found that audit quality of male auditors to be higher than that of female auditors as in, (Chung et al., 2001, Gold et al., 2009, Hardies, Breesch & Branson, 2010, Hossain, Chapple & Monroe, 2016; Ye & Yu, 2011; Zhang, Wu & Chen, 2014). Further, Ittonen et al. (2013) found that the financial statements audited by female auditors had less absolute abnormal accrual and that female auditors could constrain the clients' earning management upward and downward. Hardies et al. (2016) found that female auditors were more likely than male auditors to publish Going Concern Opinions, and this significant gender difference exists even with important and high-risk clients. But, Hossain et al., (2016) found that female auditors were less likely to publish Going Concern Opinions for companies facing financial distress. These findings, suggest that women auditors discover more potential misstatements than male auditors, though they analyze the misstatements in a less accurate manner than male auditors. The findings also indicate that women auditors are more risk-averse than male auditors.

Firm Age and Key Audit Matters

Age is the length of time during which a being or thing has existed. Firm age is the number of years of incorporation of the company; even though some believe that listing age, should define the age of the company (Shumway, 2001). A company is a legal personality (Waelchi & Pdferer. 2011) and is born a company is born through incorporation (Gitzmann, 2008; Pickering, 2011). Therefore the year of incorporation can be the definition of the age of the company. Umoren and Asogwa (2013) found that the positive association in ages and performance of firms is based on the premise that older, experienced and well-established companies are likely to disclose more information because they have established and cost effective reporting systems whereas the negative association on the contrary, signifies that younger companies disclose more information to boost investor confidence and reduce skepticism. Majundar (1997) investigated the impact of size and age on firm- level performance of 1020 Indian firms. It was discovered that Indian older firms are more productive but less profitable. In the same vein, Dogan (2013) focused on 200 companies listed on the Istanbul Stock Exchange from 2008 to 2011. The study found a negative relationship between age and profitability. Coad, Segarra and Teruel (2007) found that firm performances improve with the age of the firm and that older firms have a lower level of productivity. The negative relationship can also be viewed from the perspective of liability of obsolescence in which organizational performance declines with age (Barnet 1990). The decline has been attributed to environmental drift, resulting from rivalry and competition (Utterback & Abernathy, 1975) and organisational inertia – the syndrome of too big or too old to change. Liabilities of obsolescence arise from growing external mismatch with the environment. In the same vein, the liability of senescence may help to explain the negative relationship between age and profitability. Liability of senescence describes the internal inefficiency arising from organisational aging (Hannan, 1998).

Some studies have reported a positive relationship between firm age and profitability. Coad, Segarra and Teruel (2007) used a sample of Spanish firms from 1998-2006 and found that performance increases with age. Hui, Ladzi, Jeatabadi, Kasim and Radu (2013) found a positive relationship between age and profitability. The theory of learning by doing, explains the positive relationship, which posits that as the age of the firm increases, there is the likelihood of improvement in their productive efficiency over time by learning from their experience (Balik & Gort, 1993). Garnsey (1998) states that "New firms are hampered by their need to make search processes in the prelude to every new problem they counter. As learning occurs, benefits can be obtained from the introduction of a repertoire of problem-solving procedures eliminating open search from the problem-solving response greatly reduces the labour and time required to address recruitment problem".

Leverage And the Key Audit Matters

Leverage is the proportion of total debt used to provide an overview of the capital structure of the company so that it can be seen the level of risk of uncollectible debt. Financial leverage arises if a company uses long-term debt with fixed interest to finance its investment. Companies with high levels of leverage will have greater financial risk than companies with low levels of leverage (Alali and Elder, 2014). A high degree of leverage brings strong pressure from the debtor to immediately submit financial statements on time (Abdulla, 1996) as a result the company will present financial statements on time. Companies with higher leverage ratios will disguise the level of risk, thereby delaying publishing their company's annual report by or extending the period of audit work (Modugu et al., 2012).

The financial leverage measures the level of return sensitivity for each share due to changes in income before interest and taxes. Leverage ratio is the company's ability to meet its liability. If the company has a high leverage ratio, the risk of loss will increase. To gain confidence in the company's financial statements, the auditors will include KAM and prudence in the audit report. This is consistent with agency theory, namely the agency relationship between the principal and the agent. The company will try to provide a large information and KAM about the condition of the company for the understanding of the creditors for credit decision making process. Fajaryani (2015) stated that the existence of debt is measured by financial ratios, namely leverage. Companies with a high level of leverage will negatively affect the level of integrity of financial statements due to increased risk associated with debt agreements. Lailah and Indra, (2019) studied factor that affect audit lag using company size, profitability and corporate leverage. The results showed that company size and profitability are variables that can shorten Audit Report Lag. Meanwhile, leverage has not empirically proven to have a significant effect. The findings implies that large companies have better information and technology systems compared to smaller companies so as to strengthen internal control and speed of presentation of financial statements and the disclosure of key audit matters.

Theoretical Framework

Signaling Theory

Signaling theory is based on the assumption that the information received by each party is not the same. This theory is related to information asymmetry which shows information asymmetry between company management with parties concerned with information. This very Theory serves as a signal to reduce information asymmetry between agents and principals, because of this information asymmetry problem, all the company stakeholders require an independent auditors to function as intermediaries in providing information in the form of periodic audit reports. Auditors are the most important part of signal theory because their opinions in the form of audit reports are very important for users of financial statements (Butler et al., 2004; Feldmann et al., 2013). Auditors are the independent professionals who provide opinions about the company's financial statements. The development as regarding the issuance of opinions by independent auditors have been mandated from by (ISA 701 (1), 2015) to include KAMs in every period audit opinions, as the opinions will provide a signal for investors to make an investment decisions.

Empirical Reviews

Köhler., Ratzinger-Sakel and TheisORCID, (2020 investigated the effect of KAMs in the auditor's report as required by the new ISA 701. The results show that in the condition in which the KAMs section suggests that already small changes in the key assumptions could eventually lead to a goodwill impairment (KAMs negative condition), investment professionals assess the economic situation of the company to be significantly better as compared to the condition in which the KAMs section suggests that only large changes in the key assumptions could eventually lead to a goodwill impairment (KAMs 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 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.

Alves and Galdi (2020) investigated the (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 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 KAMs 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 KAMs 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 KAMs reports.

Velte and Issa (2019), presented a literature review of 49 empirical studies on KAMs disclosure in audit reports. Five major streams that analyze the impact of KAMs 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 KAMs in the Financial Industry focusing on KAMs 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 KAMs on the application of audit procedures. The study used documentary analysis of 16 audit reports related to 8 financial statements without KAMs (2015) and 8 financial statements with KAMs (2016). The results suggest that the disclosure of the KAMs paragraph caused an increase in the procedures performed when comparing the reports between 2015 and 2016.

Xin Shao (2020) researched on disclosure status and influencing factors of KAMs using listed companies that have disclosed KAMs from 2016 to 2018, with mean testing and regression research on how the characteristics of firms and auditors will affect the disclosure of KAMs. The study found that: 1) the number of KAMs, the length of the text, the length and proportion of digital figures, and industry-specific KAMs 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 KAMs.

Posner, (2020) made a report on international disclosure of KAMs by the ACCA reports on the results of a year of international reporting of KAMs, the IAASB's analog to "critical audit matters" in the U.S. Using 560 audit reports across 11 countries, the study found that 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.

M. Abdullah, F. Altawalbeh and M. Eid, (2019) examined the investors reaction to the disclosure of KAMs as mandated by ISA701, using (195) public shareholding companies listed in Amman Stock Exchange (ASE) Jodan as at the end of 2017. But with a final sample of (128), 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 KAMs: 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 KAMs (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 KAMs included in the audit report; that auditor and client characteristics are determinants of the number of KAMs disclosed and, moreover, determine the type of KAMs disclosed in the audit reports.

Sammut, K. (2018) investigated on impact assessment of the introduction of ISA 701 and KAMs 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.

Ciğer, Vardar and Kinay (2019) studied KAMs using 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."

Velte, (2018) investigates the relationship between the percentage of women on audit committees (WOAC) in UK firms and auditors' disclosures on KAMs from 2014 to 2015. The results show that firms with a higher percentage of WOAC have higher readability of KAMs disclosures as measured by the Flesch reading ease index. The result after modifying the dependent and independent variables, sensitivity tests (Blau index and Fog readability index) also corroborate the expectation that WOAC will lead to greater readability of KAMs disclosures, with stricter monitoring activities and greater risk avoidance in the audit committee.

Pratoomsuwan and Yolrabil (2020) examined the effects of KAMs 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 KAMs disclosures reduce auditor liability only in cases of fraud and not in cases of errors. Finally the results support the view that KAMs 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).

Methodology

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

We applied secondary data sourced from annual reports of the firms listed in the Nigerian Stock Exchange (NSE). Population of this study comprised all the listed quoted firms on the NSE from 2017-2020. Due to the in-exhaustiveness of the entire quoted in the NSE, a sample size of thirty (30) firms with elements of disclosed of the KAMs and have consistently published annual report from 2017-2019 is randomly selected for our study.

The data collected apply Descriptive Statistics, Correlation Analysis and Multiple Regression.
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)

Auditors Gender = AUDG= Auditors gender, if female group GEN =1 and if Male, group GEN=0.

Firm Age= FAGE= Year of listing in years is the year of initial public offer (IPO) or listing of a company shares in the country of registration stock exchange.

Firm Leverage = FLEVG= Leverage, calculated as total liabilities divided by total assets.

Model Specification

The study adopted the model of (Kitiwong and Srijunpetch, 2019)

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

$KAMs_{it} = \beta o + \beta_1 AUDG_{it} + \beta_2\ FAGE_{it} + \beta_3 FLEVGit + \mu_{it}$ ……………………….Model i

We define working variables as follows:

$KAMs_{it}$ = Key Audit Matters; β_o = Constant term (intercept) of the study model; β_1- β_3 = Explanatory variables Coefficients of Key Audit Matters; μ_{it} = Component of unobserved error term of the firms, i in period *t;* $AUDG_{it}$ = Audit Gender, *i* in period *t;* $FAGE_{it}$ = Age of the firms *i* in period *t;* $FLEVG_{it}$ = Firm Leverage *i* in period *t; while t= years*

Presentations

Descriptive Statistics

Items	KAMs	FAGE	FLEVG	AUDG
Mean	0.602723	25.34545	0.373207	0.263874
Median	1.000000	25.40000	0.364000	0.265000
Maximum	2.000000	49.20001	0.713000	0.636000
Minimum	0.000000	9.300004	0.180000	-0.01200
Std dev.	0.692146	11.60800	0.120055	0.127241
Skewness	0.531565	0.138200	0.743961	1.002406
Kurtosis	2.187149	1.867293	3.063502	2.736901
Jarque-bera	8.208628	6.462925	10.16557	4.944820
Prob.	0.016501	0.039500	0.006203	0.084381
No. obsev.	90	90	90	90

Source: Authors Computation, (2021)

The descriptive statistic result shows the mean value of the variables of KAMs is (0.60), FAGE is (25), FLEVG is (0.37), AUDG is (0.26). The median values shows FAGE as (25), and the maximum FAGE is (49), minimum is (9) as the determinant of KAM. The result of Skewness values for KAM is positive Skewness distribution which has a long right tailed that is skewed to the right, FAGE also has a positive but almost zero normal Skewness and this implies a symmetric distribution; then FLEVG and AUDG has positive value which shows a clear long right tailed Skewness distribution to the right. FLEV has a normal (Kurtosis=3) approximately, others have (kurtosis<3) which is said to be a platykurtic distribution.

Correlation Analysis Result

Items	KAM	FAGE	AUDG	FLEVG
KAM	1.0000			
FAGE	0.0733	1.0000		
AUDG	0.2229	0.0280	1.0000	
FLEVG	0.3046	0.3616	0.1270	1.0000

Source: Authors Computation, (2021)

The result indicates that there is a positive but a weak correlation among all the independent variables: FAGE has (0.07), AUDG has (0.22) and FLEVG has (0.30). The correlation of the independent variables among one another indicated a positive but a weak relationship. However, none of the figure shows a strong perfectly correlation and multi-co linearity to mar any of the variables in being used to test the hypotheses.

Presentation of Regression Analysis

Variables	Coeffi.	Std Error	z-statistic	probability
FAGE	0.0221	0.0217	0.1018	0.9821
AUDG	-1.2816	1.8688	-0.6858	0.4665
FLEVG	4.2332	2.1716	1.9493	0.0734
	Limit points			
Limit_1: c "5"	-7.6116	1.6644	-4.5737	0.0000
Limit_2: c "6"	-4.0656	1.5030	-2.7048	0.0068
Pseudo R-squared	0.4398		Alk info criterion	1.4494
Schwarz criterion	1.5967		Log likelihood	-73.7305
Hannan-Quinn crit	1.5092		Restriction log likelihood	-108.386
LR statistic	60.332		Average log likelihood	-0.670
Prob. (LR statistic)	0.0000	**Note: statistically significant @ 1% level**.		

Source: Authors Computation, (2021)

Our regression model has the R-Squared value of (0.44) and by implications about 44% of the systematic variations in the dependent variable in the pooled companies over these periods of ISA 701 were jointly explained by the implementation of the independent variables of KAMs. It therefore suggests that the implementation of the dependent variable KAM in Nigeria cannot be 100% explained by the variables applied in this study. We then states that the unexplained dependent variable can be attributed to exclusion of very important independent variables that can impact KAMs, but are outside the scope of this study. The LR-statistic value is 60% and the corresponding value of probability (0.0000) shows that our model on the overall is statistically significant at 1% level significance and also shows that the study model is valid and can be used for statistical inference.

Testing of the Hypotheses and Discussion of Findings

Auditors' gender is not statistically significant in implementation of key audit matters KAM.

The model result coefficient value for AUDG is (1.287) and z-statistic value is (0.6858) with a corresponding probability value of (0.4665). The test result shows that a negative and insignificant relationship exists between KAM and AUDG. The study therefore rejects the alternate hypothesis and accepts the null hypothesis that AUDG is not a statistically significant in the implementation of key audit matters. Our findings did not agree with the followings who found auditors' gender to impact audit quality, (Ittonen et al., 2008; Chin and Chin, 2008; Jianti and Matias, 2014; Hardis et al., 2012).

Firm age FAGE is not statistically significant in the implementation of key audit matters KAM.

The above model result shows that the FAGE coefficient value is (0.022) and the z-statistic value is (0.1018), while the corresponding probability value is (0.982). This indicates that FAGE has a positive significant relationship on KAM of the pooled companies period selected. On this evidence, the study rejects the null hypothesis and accepts the alternate hypothesis that FAGE impact the implementation of KAM in Nigeria. This agrees with the prior empirical research (Xin Shao, 2020; Rezaei and Shabani, 2014)

Firm Leverage FLEVG is not statistically significant in the implementation of KAMs

The study test model above shows that the coefficient value of FLEVG is (4.2332) and the z-statistics value is (1.9493), while the corresponding probability value is (0.0734). The figures of FLEVG show that there is a positive relationship between FLEVG and disclosure of KAM. Therefore we conclude the study hypothesis decision by rejecting the null hypothesis and accepting the alternate hypothesis that FLEVG is a determinant of the disclosure of KAMs in the pooled companies within the period under study.

The results show that auditor gender has a negative significant impact with KAMs. This result disagreed with the several other findings in relation to the subject matter that audit gender supports audit quality and the disclosure of KAMs: (Edgar and Tim, 2019; Xin Shao, 2020; Sierra-Garcia et al, 2019; Patric V., 2018; Jiantti Matias, 2014; Bresch and Branson, 2009 and S. Yang et al, 2018); while the result in audit gender agrees with the followings: (Hossein et al, 2016; Guido-DiBrito, et al 1996; Gardiner et al, 1999; Liang et al, 2006). Also, the study found that Leverage LEVG and firm age FAGE have a positive significant determinant disclosure on KAMs in the pooled companies within the period under studied, and thus did agreed with the finding of (L. Fujiana and Satria, I. 2019), but disagrees with other findings of the same nature. But, Bedard et al (2015) found that there are proxies that are significant in KAMs but rather a symbolic value; while Milton Segal, (2019), concluded that KAM has failed to achieve its goal of greater transparency, with clients ignoring KAMs report. However in overall, our result indicated that the variables' applied has positive significant impact on KAMs disclosure (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).

Summary of Findings

The summary of the findings are as follows: That about 44% of the systematic variations in the dependent variable in the pooled companies over the period in Nigeria is jointly explained by the independent variables of KAMs. Audit gender has a negative and insignificant impact with the disclosure of key audit matters KAM; while Firm age and leverage have a positive and significant impact with implementation of the disclosure of key audit matters KAMs.

Conclusions

The study concludes that audit gender is not impacting the disclosure of KAMs, because the tested model of the explanatory variable shows negative and significant impact in the implementation of KAMs; while firm age and firm leverage impact KAMs of the pooled companies for the studied period, with a positive significant on the tested hypotheses. Further, the overall variables showed a positive significant impact of about 44% systematic variation in the dependent variable indicating a significant positive impact disclosure of the explanatory variables on KAM in the pooled companies in Nigeria.

Research Recommendations

We recommends firm managers to be mindful that KAMs have cumulative implementation impact in decision making, but only leverage and Firm age contribute positively to the disclosure of KAMs in Nigeria.

Contribution to Knowledge

This work contributes with evidence of variables that impact KAMs; the presentation of empirical evidence and the relevance of the content of the new model of KAMs.

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