# Benefits (Usefulness), Consequences, and Determinants of Key Audit Matters (KAMs) Reporting: A Systematic Literature Review

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**Abstract**

This study provides a systematic literature review of the benefits, consequences, and determinants of KAMs reporting in the international context. This review offers KAMs reporting background and theories, and some suggestions for future research at the end of the review. I used a systematic literature review using the Preferred Reporting Items for a Systematic Review of Meta-Analysis (PRISMA) guidelines to examine archival and first-hand data studies investigating the benefits, consequences, and determinants of KAMs reporting. Using a Boolean search strategy on Scopus and PRISMA selection criteria, I have reviewed 142 published research articles from 2016 to the end of 2024. The review highlights that financial reporting, audit, and forecasting quality have increased in KAMs reporting. Importantly, the market reacts to the KAMs disclosure, and KAMs disclosure is useful for better investment decisions. In addition, KAMs disclosure is useful for assessing financial health and debt contracting, and KAMs reporting increases auditors' and management competence. Prior studies document that audit delay, audit fees, perceived risks, and potential for financial restatements are KAMs reporting key consequences. Finally, auditor firm-related characteristics (audit firm size, audit fees, non-audit fees, auditors' tenure, and auditor gender), client-related characteristics (size, age, complexity, financial health, performance, and industry), and corporate governance characteristics (size, independence, gender, and expertise) are key determinants of KAMs disclosure. This review highlights that KAMs mitigate agency costs by reducing information asymmetry and increasing financial reporting and audit quality, and KAMs signal to the market. Prior studies document many usefulness and consequences of KAMs reporting, and many factors significantly determine KAMs disclosure. This SLR has practical implications for users, especially researchers, investors, management, auditors, and regulators.

To the best of our knowledge, this study represents the first systematic review that covers both secondary and primary data studies focusing on benefits, consequences, and determinants of KAMs reporting, especially since KAMs were mandated (2016) to the end of 2024.

**Keywords:** benefits, consequences, determinants, Key audit matters reporting, information asymmetry, signaling, agency problem, corporate governance, financial performance, market reaction, financial reporting quality, audit fees, audit report lag, auditor tenure, non-audit fees

## 1. Introduction

This review provides a systematic literature review on KAMs reporting, focusing on three key dimensions: benefits, consequences, and determinants. KAMs reporting is the latest significant change in auditing, and it is mandatory for listed firms in many countries with effect from December 15, 2016 (ISA 701). KAMs reporting's main purpose is to increase the communicative value of audit reports by providing more information about the auditing performed (audit process and procedures). KAMs are significant matters identified and addressed by the auditors in the financial statements. They provide the identified significant matters and how these matters were addressed in the financial statements audit. KAMs relate to significant risks, transactions, events, and auditors' judgments in the financial statements (Pinto & Morais, 2019; ISA, 701; EU Requisitions, 2014). Previous (old) audit reporting does not provide this information, and it was mainly focused on the audit opinion. Therefore, KAMs reporting is more likely to enhance the communicative value of audit reports (reduce information asymmetry) regarding significant matters identified and addressed. Since KAMs reporting was mandated, many studies have focused on KAMs reporting in many dimensions. In this review, prior studies are grouped into three categories to highlight existing findings regarding benefits, consequences, and determinants.

This review has two main objectives: first, to present the past studies' findings under three important questions related to KAMs reporting to show existing research and the gap, and second, to identify research gaps and offer suggestions for future research. Further, KAMs reporting is a significant new auditing standard, therefore, summarizing the literature on the benefits, consequences, and determinants of KAMs reporting provides insights on auditing harmonization about the new auditing standards and this review is more likely to be useful for the researchers, regulators, standard setters especially for IAASB, investors, creditors, management, auditors, and other stakeholders for the future actions and economic-decision making based on the previous findings. KAMs reporting has been applied in corporate reporting over the last decade. It is significantly connected with many areas, more importantly, information to stakeholders/market, external auditing process, corporate governance, audit firm, and firm characteristics. Therefore, three fundamental questions are answered to understand the KAMs reporting outcome and determinants, and future actions to improve audit quality and future research. These three questions are:

1. What are the benefits of the KAMs reporting?
2. What are the consequences of the KAMs reporting?
3. What are the determinants of the KAMs reporting?

The above questions are answered based on 142 published research articles covering both secondary and primary data research from 2016 to 2024. Prior studies document many benefits of KAMs, reporting specifically KAMs provide better information to the market and KAMs disclosure is useful for the economic decision-making of stakeholders, especially for stock market activities. KAMs reporting helps with debt contracting, especially low interest rates and long-term debt contracting through the reduction of information asymmetry. Some studies conclude that KAMs reporting significantly contributes to financial reporting, audit, and forecasting quality. Some other past studies document that auditors' workload and efforts have increased in KAMs reporting. Therefore, KAMs reporting is more likely to increase auditor competence and contribute to audit quality. A past study shows a significant positive relationship between the number of KAMs and the financial distress level of firms; in other words, KAMs reporting helps to assess the firms' financial health. In addition, KAMs reporting is useful for management, especially since a study documents KAMs reporting increases audit committee efficiency. These findings are consistent with the purpose of KAMs reporting.

Some past studies document the consequences of KAMs reporting, especially KAMs reporting increases the auditing cost because KAMs reporting is more likely to require additional auditing resources (especially time for identifying and addressing KAMs and reviewing these KAMs). However, some studies document no relationship between KAMs reporting and audit fees. Some prior studies show that KAMs increase audit report lag because of additional auditing time and review. However, some past studies show no relationship and a negative relationship between KAMs and audit delay. Some prior studies investigate the relationship between KAMs and financial restatements. Most of these studies show no relationship however, there is a lack of evidence for a positive association between KAMs and financial restatement, but KAMs relate to risks and uncertainties. Therefore, if auditors and management fail to adequately address the identified KAMs, the likelihood of financial restatements increases. In addition, some KAMs are based on auditors' judgments related to management estimates and provisions; therefore, there is a high probability of financial restatements because of high uncertainties related to auditor judgments on estimates and provisions.

Several prior studies have focused on the determinants of KAMs. These determinants are categorized into three dimensions: audit firm and auditor-related, client-specific, and corporate governance characteristics. Audit firm and auditor-related characteristics such as audit firm size, audit fees, audit firm rotation, audit partner rotation, audit firm tenure, audit partner tenure, audit partner gender, and non-audit fees have a significant relationship with KAMs disclosure. Client-specific characteristics such as size, age, profitability, financial health, business segments/ complexity, industry, and institutional factors significantly determine KAMs disclosure. Corporate governance attributes, more specifically, audit committee characteristics, size, independence, and gender diversity, significantly determine KAMs disclosure.

This SLR makes several significant contributions to the auditing literature by offering a timely and comprehensive synthesis of the outcomes and determinants of K/CAMs reporting across various jurisdictions. First, it consolidates empirical findings from 142 peer-reviewed articles published between 2016 and 2024, offering structured insights under four research questions that address both outcomes and drivers of KAMs. Second, the review contributes to theory development by revealing how KAMs reporting mitigates agency problems through enhanced transparency, reduced information asymmetry, and signaling effects that impact stakeholders' decision-making. Third, by categorizing determinants into audit firm characteristics, client firm attributes, and corporate governance features, this review offers a multidimensional understanding of what influences KAMs disclosures in practice. Fourth, it adds value to international auditing discourse by highlighting contextual variations in outcomes and determinants across different regulatory and institutional environments, thus promoting discussions on global auditing harmonization. Fifth, unlike earlier reviews that focused mainly on the early adoption of KAMs, this review incorporates the latest empirical evidence and methodological developments, capturing the maturity phase of KAMs implementation. Finally, this study provides some suggestions for future research opportunities by identifying gaps in the literature and suggesting underexplored areas such as cross-country comparability, KAMs readability, behavioral responses of auditors and stakeholders, and the unintended consequences of KAMs reporting. Collectively, this review serves as a valuable resource for researchers, practitioners, standard setters, firms, and regulators seeking to understand and improve the effectiveness of KAMs reporting in enhancing audit and financial reporting quality.

The remaining sections of the paper are structured into four major sections: background, methodology, results and discussion, future research opportunities, and conclusion. The background section reports the importance of auditing, especially KAMs reporting, and KAMs reporting standards. The articles' searching and filtering criteria and the selected number of articles from each journal are presented in the methodology section. The results and discussion section summarizes selected articles under formulated questions regarding benefits, consequences, and determinants of KAMs reporting, and future direction is discussed under each question. Future research opportunities provide direction on each theme (benefits, consequences, and determinants) discussed in this review. The last section covers the review summary, contributions/practical implications, and limitations.

## 2. Background

KAMs reporting research is primarily grounded in audit quality literature and is rooted in important theories, including agency, information asymmetry, signaling, disclosure, and institutional theory. Audit quality literature suggests that audit quality significantly depends on auditor competence and independence (DeAngelo, 1981a & 1981b). The identification, addressing, and disclosure of KAMs significantly depend on auditors' competence and independence because, as discussed earlier KAMs relate to significant risks, transactions, events, and auditors' judgment in the financial statements; moreover, it is the latest reporting. Therefore, auditors are more likely to disclose quality KAMs (more, detailed, relevant, and readable) when they are more independent and competent.

There is a conflict of interest between management and shareholders. It is called agency problems (Jensen & Meckling, 1976). Financial statement users rely on audited financial statements; therefore auditors' role is significant in mitigating agency problems. Auditors are more likely to disclose quality KAMs (more, detailed, relevant, and readable) when firms have agency issues and information asymmetry. Therefore, KAMs reporting is more likely to reduce agency problems and information asymmetry. The market is more likely to react to the auditors' reporting, so detailed audit reporting called KAMs reporting is more likely to signal to the market about the identified and addressed significant matters in the financial statements. Institutional factors are crucial for financial reporting and audit quality. Regulated and strong legal environments (e.g., common law countries) are more likely to increase financial reporting and audit quality (La Porta et al., 2006; Houqe et al., 2012; Francis et al., 2001; Barniv et al., 2005; Brown et al., 2014). KAMs reporting is mandatory for listed firms in many countries; therefore, institutional theory is well connected with KAMs reporting adoption and application.

For example, auditors are more likely to disclose quality KAMs (more, detailed, relevant, and readable) in countries that have strong institutional factors because auditors are more concerned about litigation and reputation risks. New audit reporting primary purpose is to increase the communicative value; therefore, KAMs reporting is well connected with disclosure theory. Disclosure Theory explains how and why firms provide information to stakeholders, particularly through financial reporting and audit disclosures.

KAMs reporting was introduced very first in the UK. It was mandated for UK-listed firms effective from or after September 30, 2013. Later, KAMs reporting was introduced in 2015 through the International Standards on Auditing (ISA) 701 by IAASB. ISA 701 is *"Communicating Key Audit Matters in The Independent Auditor's Report"*. It is mandatory for listed companies in many countries since December 15, 2016. For example, KAMs reporting applies in many countries, including China, Japan, Germany, India, the United Kingdom, France, Italy, and Canada. These countries represent the 9 largest economies out of 10 in 2023 (IMF, 2023). However, ISA 701 is not applicable in the U.S since they follow PCAOB Auditing Standard (AS) 3101 *"The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion"*. According to this standard, KAMs are called Critical Audit Matters (CAMs). The CAMs reporting is effective for audits of large accelerated filers for fiscal years ending on or after June 30, 2019, in the U.S.

The previous (old) audit report was narrow and more concerned with the audit opinion. The past audit report had limited communication between auditors and users about statutory auditing processes, especially about significant matters identified and how these matters were addressed. Stakeholders are more likely to demand more information for better economic decision-making. Therefore, IAASB introduced the new audit report by including KAMs. KAMs reporting primary objective is to increase the communicative value of audit reports. According to ISA 701, KAMs are 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."* KAMs are those issues that, in the auditor's professional judgment, were the most significant in the audit of the financial statements for the current period, including how these issues were addressed during the audit. KAMs relate to significant risks, significant transactions or events, or significant auditors' judgments (Pinto & Morais, 2019; ISA, 701; Regulation (EU) No 537/2014). KAMs are reported under the title "*Key Audit Matters"* in audit reports. ISA 701 provides the guidelines and provisions for KAMs reporting. According to this standard, no maximum or minimum number of KAMs is required. Moreover, KAMs section differs from the Material Uncertainty Related to Going Concern (MURGC) and Emphasis of Matter (EOM) paragraphs. Therefore, KAMs do not compromise the purpose of MURGC and EOM (IAASB, 2022).

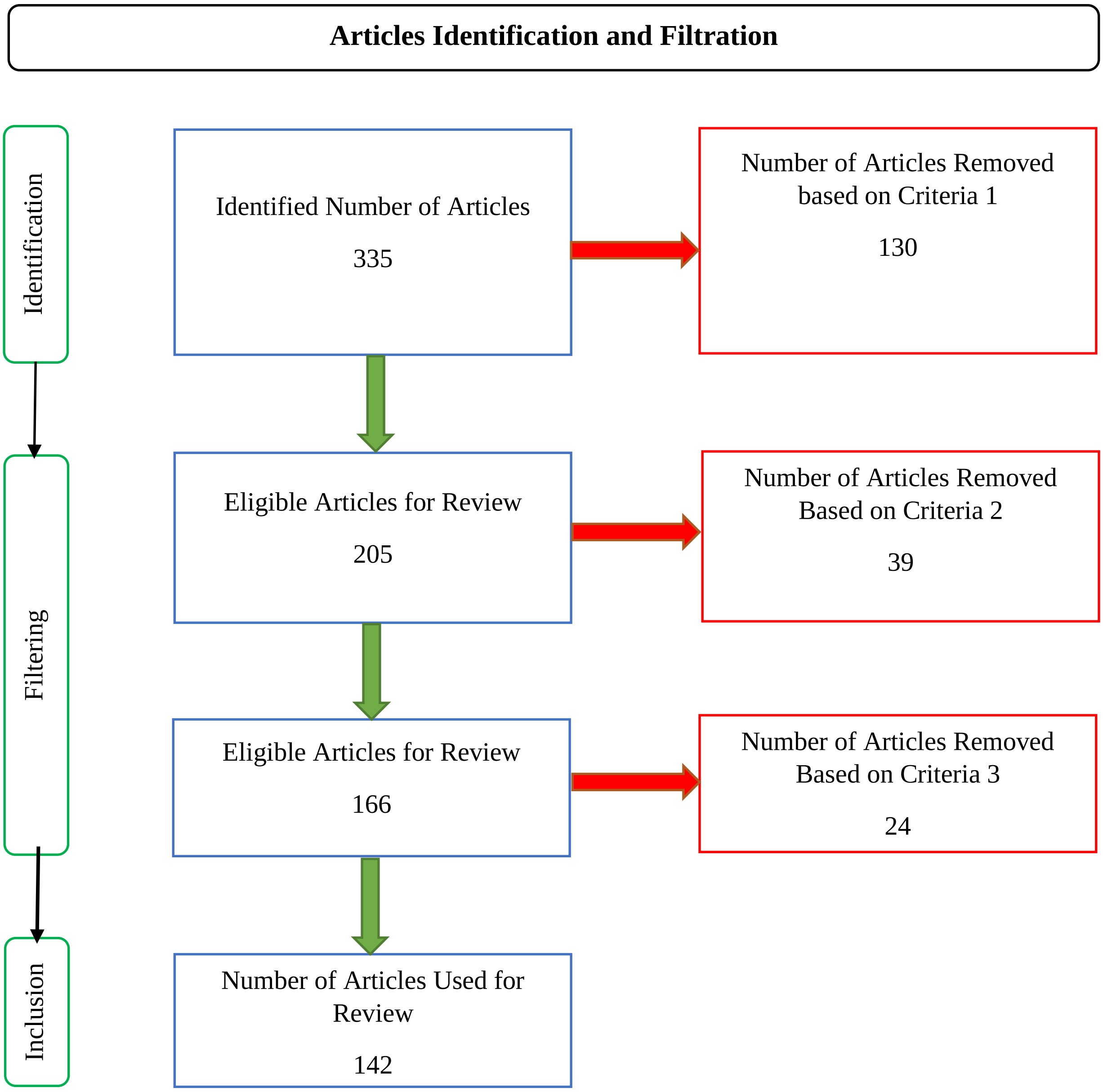
## 3. Methodology

I used a two-step approach to identify and filter past studies regarding the benefits, consequences, and determinants of KAMs reporting (Street & Hermanson, 2019; de Geus et al., 2020). The first step was to search and identify articles in “Scopus” indexed journals. Many recent review studies have used Scopus-indexed articles (Habib, Ranasinghe, & Liu, 2024; Alaamri, Hussainey, Nandy, & Lodh, 2024; Nguyen et al., 2020). I searched the following keywords: “Key Audit Matters”, "Key Audit Matters Reporting", “Critical Audit Matters”, "Critical Audit Matters Reporting", "Extended Audit Report", “Expanded Auditors Report”, and “New Audit Report” to identify articles. Table 1 shows the searched and identified number of articles for each keyword.

Table 1. Identified Articles for Each Keyword

| **Search Terms** | **No of Articles** |
|---|---:|
| Key Audit Matters | 228 |
| Key Audit Matters Reporting | 10 |
| Critical Audit Matters | 56 |
| Critical Audit Matters Reporting | 03 |
| Extended Audit Report | 20 |
| New Audit Report | 18 |
| Total | 335 |

The second step was to filter articles to review, including three criteria for filtering articles. Criteria 1: Remove articles if articles have been published other than in the English language, early-stage journals (below 11 volumes of the journal), abstracts, conference proceedings, duplicate articles in each search, and irrelevant articles (not related to KAMs reporting). Criteria 2: Remove articles published below Q2 ranking journals based on SJR (SCImago Journal Rank) in 2023. Criteria 3: Remove book chapters and articles not related to the main themes of the review. Finally, 142 articles were filtered for the review, including 86 and 46 articles published in Q1 and Q2 journals, respectively, from 2016 to December 2024. Figure 1 shows the study selection process in detail following the PRISMA recommendations.




Source: Author’s work

Figure 1. Article identification and filtration

Table 2 shows the selected articles published in Q1 and Q2 each year from 2016 to 2024. This review covers many articles published in 2024, a few in 2016 and 2018, and none in 2017. This table shows that KAMs reporting research has increased since 2016.

Table 2. Selected Articles with Year and Ranking

| **Year** | **Q1** | **Q2** | **Total** |
|---|---|---|---|
| 2016 | 01 | 01 | 02 |
| 2017 | 00 | 00 | 00 |
| 2018 | 02 | 00 | 02 |
| 2019 | 05 | 03 | 08 |
| 2020 | 05 | 07 | 12 |
| 2021 | 12 | 05 | 17 |
| 2022 | 13 | 05 | 18 |
| 2023 | 18 | 13 | 31 |
| 2024 | 30 | 22 | 52 |
| Total | 86 | 56 | 142 |

Table 3 shows which journals selected articles from and how many articles are from each journal. The review covers articles published in 61 journals, including top-tier journals. Many of the selected journals have one article, more articles have been published in the International Journal of Auditing (n=14) and Managerial Auditing Journal (n=12) than in other journals.

Table 3. Selected Articles from each Journal

| **Journal Name** | **No of Articles** |
|---|---|
| Abacus | 1 |
| Accounting and Finance | 4 |
| Accounting Horizons | 3 |
| Accounting in Europe | 3 |
| Accounting Review | 5 |
| Accounting, Organizations, and Society | 2 |
| Acta Montanistica Slovaca | 1 |
| Asia-Pacific Journal of Financial Studies | 1 |
| Auditing: A Journal of Practice & Theory | 4 |
| Australian Accounting Review | 1 |
| Behavioral Research in Accounting | 1 |
| British Accounting Review | 5 |

| | |
|---|---|
| China Journal of Accounting Research | 2 |
| Cogent Business and Management | 1 |
| Contemporary Accounting Research | 8 |
| Corporate Social Responsibility and Environmental Management | 1 |
| Economic Modelling | 1 |
| Emerging Markets Review | 1 |
| European Accounting Review | 2 |
| Finance Research Letters | 2 |
| Frontiers in Environmental Science | 1 |
| Frontiers of Business Research in China | 1 |
| Global Policy | 1 |
| IEEE Transactions on Computational Social Systems | 1 |
| International Journal of Accounting and Information Management | 3 |
| International Journal of Auditing | 14 |
| International Journal of Construction Management | 1 |
| International Journal of Disclosure and Governance | 1 |
| International Journal of Emerging Markets | 1 |
| International Journal of Finance and Economics | 1 |
| International Journal of Financial Studies | 2 |
| Journal of Accounting Literature | 1 |
| International Journal of Law and Management | 1 |
| International Review of Economics and Finance | 1 |
| International Review of Financial Analysis | 5 |
| Journal of Accounting and Public Policy | 2 |
| Journal of Accounting in Emerging Economies | 2 |
| Journal of Accounting, Auditing and Finance | 1 |
| Journal of Applied Accounting Research | 4 |
| Journal of Business Ethics | 1 |
| Journal of Business Finance and Accounting | 1 |
| Journal of Competitiveness | 1 |
| Journal of Contemporary Accounting and Economics | 1 |
| Journal of Corporate Accounting and Finance | 1 |
| Journal of Financial Reporting and Accounting | 3 |

| | |
|---|---|
| Journal of Information Systems | 1 |
| Journal of International Accounting Research | 3 |
| Journal of International Accounting, Auditing and Taxation | 3 |
| Journal of International Financial Management and Accounting | 1 |
| Journal of Risk and Financial Management | 5 |
| Machine Learning | 1 |
| Managerial Auditing Journal | 12 |
| Meditari Accountancy Research | 3 |
| Oeconomia Copernicana | 1 |
| Pacific Accounting Review | 4 |
| PLoS ONE | 1 |
| Qualitative Research in Accounting and Management | 1 |
| Research in International Business and Finance | 1 |
| Review of Accounting and Finance | 1 |
| Review of Managerial Science | 1 |
| Review of Quantitative Finance and Accounting | 2 |
| Total | 142 |

## 4. Results and Discussion

### *4.1 Research question 1: What are the benefits of the KAMs reporting?*

This section answers the above research questions based on what has been found since 2016. Answers to this question are expected to help researchers, practitioners, consultants, regulators, and other financial statement users understand the benefits (positive outcomes) of KAMs reporting.

#### *4.1.1 Information to the Market*

The primary purpose of financial reporting is to provide information for users, especially economic decision-makers. Investors, creditors, and regulators are more concerned about the financial statements of listed firms because they use more information from the financial statements for their economic decision-making related to the firms. Due to the agency problem, financial statements are more likely to be misstated therefore, stakeholders rely on audited financial statements. Past studies conclude that the market reacts to auditors' reporting. For example, the market reacts to GCO because GCO signals uncertainties regarding the going concern of the firms. KAMs reporting discloses significant matters identification and how auditors address these matters in statutory auditing. Therefore, the information conveyed through KAMs is critically important, and the market is more likely to react to KAMs. For example, Guo, Su, and Zhao (2024) suggest KAMs disclosure reduces value uncertainty and alleviates investors' local bias. Further, they find that more detailed and transparent information in extended audit reports is more likely to help inform decisions during the stage of initial public offering (lower IPO under-pricing). Some past studies have focused on the relationship between KAMs reporting, accounting information, and market reaction (Goh, Lee, Li, & Wang, 2024; Li & Liao, 2024; Liao, Sharma, Yang, & Zhao, 2023; Hoang, Moroney, Phang, & Xiao, 2023; Elsayed, Elshandidy, & Ahmed, 2023; Ong, Moroney, & Xiao, 2022). For example, Ong et al. (2022) suggest that KAMs are more helpful to investors, and it is significantly related to KAMs readability and quantity. Elsayed et al. (2023) document that KAMs reporting has some influence on market indicators.

Goh et al. (2024) examine the relationship between KAMs and informativeness in China, arguing that KAM disclosures provide incremental value to investors regarding material misstatement risks. KAM reporting enhances investor confidence by revealing significant audit matters and explaining how auditors addressed them. This transparency mitigates perceived misstatement risks. However, if auditors lack independence, KAMs may be misinterpreted or misapplied, reducing their value. Investor reactions to KAMs can be positive or negative. The regulatory environment influences KAM adoption and effectiveness. The study finds higher abnormal trading volumes, stronger earnings responses, and lower stock price synchronicity post-KAM adoption. KAM disclosures are more informative for non-state enterprises, small firms, and those with fewer analysts, indicating investors respond to KAM characteristics.

Similarly, Seebeck and Kaya (2023) document that KAMs reporting increases the communicative value and they find a positive significant relationship between more specific KAMs information and capital market reactions, Sirois, Bédard, and Bera (2018) document that KAMs have an attention-directing impact, as participants access KAM-related disclosures more quickly and devote greater attention to them when KAMs are included in the auditor’s report, and Zhai, Lu, Shan, Liu, and Zhao (2021) document that KAMs disclosures offer more firms-specific information and reduce share price synchronicity in China. Further, a primary data study finds that investors are less likely to invest when blockchain references accompany technology-related CAMs (Austin & Williams, 2021).

Li et al. (2024) investigate whether KAMs reporting enhances the efficient use of accounting information in Taiwan. The main prediction of the study is that KAMs reporting reduces accrual anomaly. The results show that account-level and entity-level KAMs reduce accrual anomaly. Further, more KAMs or KAMs related to accounting with low accrual reliability reduce the accruals overpricing of listed firms in Taiwan. The study suggests that accounting information efficiency increases in the new audit reporting. Further, Chang, Chi, and Stone (2024) document that auditors can signal client-related specific risks through KAMs. They find that client-specific risks KAMs are associated with investors' perception of financial reporting quality.

Hoang et al. (2023) examine the relationship between KAMs and investor reactions in financial and non-financial contexts. This study concludes that when a KAM relates to a financial (non-financial) risk, investors perceive higher (lower) investment risk and are less (more) willing to invest compared to unrelated KAMs. Investor risk assessment mediates the combined impact of management risk disclosures and KAM-relatedness on investment willingness. Stakeholders are more concerned about related party transactions. Auditors are more likely to disclose KAMs on related party transactions because these disclosures are useful for the risk assessment. For example, Pasc and Hategan (2023) document that auditors disclose KAMs related to related party transactions. They find that Big 4 auditors disclose more KAMs on related party transactions than non-Big 4 auditors in Europe. In contrast, Rahaman and Chand (2022) document that auditors are less likely to disclose negative KAMs and tend to avoid using negative wording when describing them.

Wang and Wu (2024) find that KAMs disclosure helps to reduce share price crash risk while improving ESG performance, and Zhi, and Kang (2021) document that the implementation of new audit reporting reduces the crash risk of listed firms in Chinese capital market during 2015-2016. Elsayed et al. (2023) document that new audit reporting with material misstatement risk-related high disclosure significantly affects, especially the cost of equity. Further, this study documents a significant relationship between information disclosed in the KAMs reporting and trading volume, volatility of market returns, and analyst forecast dispersion. However, a prior study shows no statistical relationship between KAMs reporting and the share price crash risk of listed firms in China from 2012 to 2019 (Liao et al., 2023). The findings suggest that more insightful information related to the share price crash is not conveyed through the KAMs reporting. Some other previous studies also argue that KAMs do not convey new information (Files & Gencer, 2020; Gutierrez et al., 2018; Lennox et al., 2022; Liao et al., 2019; Burke, Hoitash, Hoitash, & Xiao, 2023). For example, Burke et al. (2023) document that, on average, CAM disclosures do not provide incremental information to the market.

Li, and Zheng (2024) document that KAM disclosure can significantly reduce stock mispricing by mitigating information inefficiency and reducing market speculation. The above relationship is more pronounced for firms with low audit quality and poor internal control systems. Stakeholders are more concerned about insider trading activities because these are against the public interest and raise questions about investors' protection. A prior study examines the relationship between KAMs and insider trading profitability in China. They predict that KAMs restrict insider trading profitability in China (Liu, Chang, & Zuo, 2023). The results suggest that firm-specific, longer, readable, and more accurate KAMs reduce insider trading profitability. Therefore, purposeful insider trading activities are more likely to be mitigated by quality KAMs reporting. Similarly, Jaffar, Abu, Hassan, and Rahmat (2023) suggest that KAM disclosure reduces information asymmetry and assists investors in making investment decisions.

The audit expectation gap is a considerable issue in corporate reporting; therefore, stakeholders, especially regulators and standard setters, pay greater attention to the audit expectation gap. Auditors are more likely to provide more information regarding significant matters identified and addressed during the auditing process. For example, Iwanowicz and Iwanowicz (2019) document that KAMs reporting implementation and material disclosure limit the audit expectation gap. However, a primary data study by Segal (2019) documents that audit experts' view is that KAMs reporting has ultimately fallen short of its goal to enhance transparency, as clients largely disregard the information provided in KAM reports.

#### *4.1.2 Forecasting Quality*

Firm performance forecasting is crucial in economic decision-making. Especially, investors and management are more likely to forecast firm performance. Auditors' reporting is related to provisions, estimations, and judgment. In addition, they are responsible for assessing the firms' going concern; therefore, auditing is crucial for forecasting quality. Stakeholders pay greater attention to forecasting quality because of uncertainty. Internal and external environmental factors have a significant effect on forecasting quality. Ever-changing business environments and agency problems are key challenges to ensuring forecasting quality. Auditors' reporting significantly contributes to forecasting quality because auditing significantly mitigates agency problems and increases financial reporting quality. Therefore, KAMs reporting is more likely to contribute to forecasting quality because KAMs reporting enhances the communicative value of statutory auditing and reporting.

There are two views on the relationship between KAMs reporting and forecasting accuracy. The first view is that KAMs reporting is more likely to reduce detection risks because these are related to significant matters identified and addressed during the auditing process. Therefore, such a reduction in deduction risks is more likely to have a positive impact on forecasting quality. On the other hand, the second view is that KAMs reporting is more likely to increase forecast errors and dispersion when auditors and firms fail to address the identified significant matters properly, and many KAMs are related to judgment. Auditor competence is crucial in identifying and addressing KAMs, and judgment is related to high uncertainty. Hu, Li, Lin, and Kleinman (2023) examine the relationship between KAMs reporting and forecasting accuracy of listed firms in China. The results show a significant positive association between KAMs disclosure and forecast errors, especially forecast dispersion has significantly declined for the firms disclosing KAMs. Further, this study documents that KAMs reporting increases the management disclosure and audit quality.

Sun, Gao, and Jin (2024) emphasise that KAMs reporting especially KAMs on the risk of material misstatements, can improve forecast accuracy. They find a positive relationship between detailed audit reports about the risk of material misstatements and analyst earnings forecast quality in China. Similarly, Kong, Ji, and Liu (2022) document that KAMs disclosure reduces analysts' firm visits and improves the frequency and analysts' forecasting quality in China. This study suggests that KAMs are informative. Another study by Liu, Yen, and Wu (2022) examines the relationship between KAMs sentiment and performance in Taiwan. They find a positive association between KAM sentiment and current and coming year performance (Tobin's Q, ROA, and ROE).

### *4.1.3 Credit Facilities*

Stakeholders, especially long-term and short-term loan providers, critically analyze all relevant information about the firms in assessing loan applications. More disclosure and quality information are useful for loan issuers and recoveries because these are very useful for assessing credit scores. KAMs reporting is more likely to have a significant effect on debt contracting because the purpose of KAMs reporting provides more information to the users. For example, Camacho-Miñano, Muñoz-Izquierdo, Segovia-Vargas, Camacho-Miñano, & Pérez-Pérez (2022) document that KAMs disclosure is useful in credit risk assessment (accuracy) by any decision-maker. KAMs reporting may reduce credit terms and conditions, especially interest rates, when lenders' confidence and understanding enhance the identified significant matters during the auditing process. On the other hand, KAMs reporting may increase credit terms and conditions, especially increasing interest rates and security bonds when lenders perceive more risks and uncertainties by having more KAMs. Some prior studies have focused on the relationship between KAMs reporting, debt contracting, credit risk, and loan approval (Yao, Su, & Liu, 2023; Chiang, Kleinman, & Lee, 2023; Liu, Ning, Zhang, & Zhang, 2022).

Yao et al. (2023) investigate the effect of KAMs reporting on loan approval decisions by bankers. They document that KAMs reporting provides a better understanding of audit procedures, assesses the value of audits, and extracts more relevant and useful information from the annual reports. These are very useful in loan approval decisions. The results show that spending more time reading the paragraph significantly impacts the probability of loan approval. Importantly, the above relationship is stronger when the content in KAMs reporting is more familiar and easier to read, users have accounting and auditing expertise, and are highly skeptical approvers. The credit risk level is crucial in debt contracting because lenders prefer high-credit-score firms. It means lenders prefer lending to low-credit-risk firms. Another study by Chiang et al. (2023) examines the impact of KAMs on the link between credit risk and earnings quality in Taiwan. The result shows KAMs significantly moderate the link between credit risk and earnings quality. Further, the above moderation is stronger when more KAMs are disclosed. Liu et al. (2022) examine the relationship between KAMs and debt contracting in China. KAMs disclosure is more likely to reduce information asymmetry through more disclosure about significant matters identified and addressed in the financial statements audit. Better information is a key feature of quality reporting. A better and more understanding of financial statements is more likely to affect the terms and conditions of the loan. The result shows that KAMs disclosure decreases the interest rates and increases the firm's ability for long-term debt contracting.

#### *4.1.4 Assessing Financial Health*

Auditors are responsible for assessing and reporting on clients' financial health. More specifically, they issue the GCO when firms have material going-concern uncertainties. Issuance of GCO is the auditor's professional judgment based on the available information and evidence. Generally, financial ratios significantly highlight the financial health of the firms. KAMs are related to significant risks, financial transactions, events, risks, and auditors' judgment. Therefore, KAMs are more likely to highlight the financial health of the firms. The argument is that auditors are more likely to issue more KAMs for financially distressed firms than strong firms. Auditors are more likely to identify more significant matters during the audit of financially distressed firms. Similarly, a recent study argues and finds a positive relationship between the number of KAMs and the financial distress level of the firms (Camacho-Miñano et al., 2024). They document that more KAMs indicate high financial distress, which means auditors issue more KAMs for financially distressed firms. Similarly, Wassie and Lakatos

(2024) report that KAMs are useful for assessing clients' financial distress levels in Ethiopia. Further, the result shows that the number of KAMs and account-level KAMs significantly correlate with the firms' financial distress levels. Further, Wang, Zhang, Ma, and Wu (2024) document that KAMs are more differentiated if the firms are subject to higher financial risk. They find that auditors disclose less boilerplate KAMs to higher financial risk clients in China.

*4.1.5 Auditor Competence and Liability*

Auditors' competence significantly depends on workload and effort. Auditors draw reports and conclusions based on auditing sample financial transactions and events. Because it is challenging to audit all (100%) transactions and events of a year, where time is a major limiting factor. Audit risk is the major problem in auditing. Audit risk means auditors issue inappropriate opinions when financial statements are materially misstated. Audit risk is related to three major risks: inherent, control, and detection risks, where auditors are fully responsible for the detection risk. There is a high probability for high audit quality when auditors' efforts and workload increase because these reduce the detection risk. The argument is KAMs reporting significantly contributes to audit quality because auditors' workload and effort have increased since KAMs reporting. Some past studies document that auditors' workload and efforts have increased since KAMs reporting (Zeng et al., 2021; Rautiainen, Saastamoinen, & Pajunen, 2021; Alharasis, Alkhwaldi, & Hussainey, 2024; Bepari, Nahar, Mollik, & Azim, 2024; Nguyen & Kend, 2021). For example, a primary data study by Nguyen et al. (2021) documents that KAM disclosures have led to auditors thinking more in advance about the key audit risks. Bepari et al. (2024) document that audit quality improved after adopting KAMs reporting. They find a significant association between KAMs disclosure and audit quality (absolute value of discretionary accruals).

KAMs reporting is more likely to reduce auditors' liability because it discloses more significant matters they identified and addressed during the auditing process. In addition, auditors have no restrictions on KAMs disclosure (especially quantitative and qualitative aspects). Auditors are responsible for what matters are going to be disclosed, and these matters are going to be disclosed. Therefore, they are more likely to use this KAMs reporting as useful communication about significant matters identified and addressed during the auditing process. On the other hand, auditors are accountable for KAMs disclosure. When auditors identify and disclose significant matters, they communicate with users regarding potential risks identified and addressed during the auditing process. So, they communicate significant matters through KAMs disclosure. If any issues are identified in disclosed KAMs then auditors are accountable. An experimental study by Owens, Saunders, Schachner, and Thornock (2024) documents that

GC-related CAMs in the audit report mitigate auditor liability. Similarly, an experimental study in Thailand finds that KAM disclosures reduce auditor liability only in cases of fraud-related misstatements, not error-related misstatements (Pratoomsuwan & Yolrabil, 2020). CAMs disclosure can reduce auditor liability for undetected misstatements, but only for those that are hard to foresee. Unrelated CAMs do not increase or decrease liability compared to no CAM disclosure, but reduce liability compared to stating "no CAMs." This could lead auditors to disclose irrelevant or boilerplate CAMs just for legal protection, weakening the value of more meaningful disclosures (Brasel, Doxey, Grenier, & Reffett, 2016).

*4.1.6 Financial Reporting/ and Audit Quality*

KAMs reporting is more likely to increase auditors' work and efforts. Further, auditors' accountability and responsibility are more likely to increase in KAMs reporting. Therefore, ISA 701 is more likely to increase financial reporting and audit quality. Zeng et al. (2021) examine the relationship between KAMs reporting and audit quality in China. Audit quality is measured by five variables: discretionary accruals, small positive earnings surprise, the sum of financial performance and investment net income, audit opinion, and audit fees in this study. The results show that audit quality has increased since KAMs reporting mandate. In addition, they document that the number of KAMs and KAMs disclosure characteristics increase the auditors’ concern about earnings quality, audit effort, and the likelihood of issuing modified audit opinions. Similarly, Lin (2023) finds a positive association between the information entropy value of KAM disclosures and unqualified opinion in China, Elshafie (2023) finds that auditors are more likely to disclose CAMs when the financial reporting is low, and an experiment study by Carver, Muriel, and Trinkle (2023) find that CAMs reporting improves perceived auditor credibility moreover they find a positive association between CAMs disclosure and perceived audit quality in U.S.

Another primary data study investigates auditors’ perception of KAMs reporting and audit quality in Finland (Rautiainen et al., 2021). They note that KAMs focus on areas in the financial statements that are most likely to involve significant risks of inaccuracies, errors, or reliance on management discretion. They predict that auditors perceive that KAMs reporting improves audit quality. However, respondents did not perceive the KAMs reporting improved audit quality, but KAMs reporting made the audit process more fluent and led to better cooperation between management and auditors. Further, they document three key factors significantly related to KAMs process and auditing work. These are effectiveness, risks, and workload. Two recent studies also document that KAMs reporting significantly increases auditor workload and responsibility because KAMs reporting is mandatory and auditors are accountable for KAMs reporting (Alharasis et al., 2024; Bepari, Nahar, & Mollik, 2024). Similarly, another recent primary data study by Donahue, and Malsch (2024) documents that most participants believe KAMs reporting is less likely to add value. However, this study does not suggest that KAMs reporting has no benefits because some participants believe KAMs are useful.

The management and auditors are responsible for financial reporting quality, so financial reporting quality measures discretionary accruals, earnings management, and earnings manipulation are also proxies to measure audit quality. Accounting and auditing standards' primary purpose is to ensure the financial reporting quality. The stakeholders, especially regulators, are more concerned about the financial reporting quality. KAMs reporting is the latest reporting and aims to enhance financial reporting quality by increasing the accountability of auditors. In addition, financial reporting quality is expected to improve through providing more information and understanding about significant matters identified and addressed by the auditors during the statutory auditing process. Some studies have focused on the relationship between KAMs reporting and financial reporting quality (Espahbodi et al., 2023; Reid, Carcello, Li, Neal, & Francis, 2019; Li, Hay, & Lau, 2019).

Espahbodi et al. (2023) examine the relationship between KAMs reporting and financial reporting quality. They support two reasons for the positive relationship between KAMs reporting and financial reporting quality. Firstly, they note that KAMs reporting increases transparency and accountability. Therefore, auditors are more likely to detect misstatements and report on them. Secondly, management is more likely to improve the financial reporting quality if they perceive that KAMs signal negatively to the market. Further, KAMs reporting is more likely to increase effective communication between auditors and those charged with governance and lead to close oversight of management by those charged with governance. The results show a positive association between KAMs reporting and financial reporting quality. In addition, Reid et al. (2019) and Li et al. (2019) show a positive relationship between KAMs reporting and financial reporting quality (absolute abnormal accruals[1]). Similarly, Sai, Li, Liu, Zhao, and Ouyang (2024) document that KAMs reporting improves audit quality and significantly reduces accrued earnings management in China. This result is consistent with prior studies (Suttipun, 2021; Camacho-Miñano, Campa, & Parte, 2024; Chen, Xiao, & Zhou, 2023). For example, Camacho-Miñano et al. (2024) find a negative association

[1] They document that KAMs reporting decreases absolute abnormal accruals.

between the number of KAMs, and sales manipulation. Further, the results show a negative association between entity and accounts-level KAMs and sales manipulation in UK.

Miñano et al. (2024) investigate the relationship between KAMs reporting and earnings management. They argue that identifying and addressing KAMs reduces earnings management. The results show a negative relationship between the number of KAMs and abnormal cash flow, a negative association between entity-level KAMs and abnormal cash flow, abnormal production costs, and a negative association between the number of accounting-level KAMs and abnormal production costs and abnormal working capital. Similarly, Drake, Goldman, Lusch, and Schmidt (2024) find that tax-related CAMs are associated with a slight improvement in tax accrual quality, an increase in the reserve for unrecognized tax benefits, and a decreased likelihood of tax-related earnings management. However, Baatwah, and Hussainey (2024) document that the effective tax rate decreases in KAMs reporting in Oman. More specifically, they find a negative relationship between the number of KAMs and the effective tax rate.

KAMs relate to auditors' significant judgments on accounting provisions and estimates in the financial statements. So, these KAMs are more likely to increase the accuracy of accounting provisions and estimates (financial reporting quality). Gold, Heilmann, Pott, and Rematzki's (2020) experiment examines the relationship between KAMs and financial reporting behaviour. They argue that KAMs are more likely to enhance transparency, increase accountability pressure on management, and lead to improved scrutiny and financial reporting quality. They find that managers are more likely to reduce aggressive financial reporting decisions in the presence of KAMs in Germany.

Goodwill is a subjective and judgment-based recognition, so goodwill is more likely to be misstated in the financial statements. Auditors are more likely to disclose KAMs on goodwill. Jahan and Karim (2024) examine the relationship between goodwill-related CAMs disclosure and firms' financial reporting decisions in the U.S. They report that goodwill-related CAMs disclosure is more likely to recognize a goodwill impairment loss compared to firms that do not have such CAM disclosures. Further, when auditors highlight goodwill-related issues as a CAM, firms are more likely to report any loss in the value of goodwill, which reflects a more transparent and cautious approach to their financial reporting.

#### *4.1.7 Information to Management/ Management Competence/ Operating Efficiency*

KAMs/CAMs disclosure is more likely to increase management efficiency, specifically regarding management disclosure. For example, Hosseinniakani, Overland, and Samani (2024) document that management disclosure increases after the new audit reporting introduction. The audit committee's functions are closely related to financial reporting and external auditing. KAMs are from the current year's financial statements. Therefore, KAMs reporting potentially increases the efficiency of the audit committee. Kang (2019) explores the combined impact of investor sophistication and the potential disclosure of CAMs on the likelihood that experienced audit committee members will pose challenging questions regarding management's significant accounting estimates. This study finds that audit committee (AC) members ask more probing questions about management’s significant accounting estimates when primary shareholders are unsophisticated compared to sophisticated ones. Prospective critical audit matters (CAMs) amplify this effect, emphasizing AC members' heightened diligence in protecting investors and ensuring financial statement reliability under such conditions, supporting hypotheses on investor sophistication and CAMs influence. Similarly, Fuller, Joe, and Luippold (2021) find that the audit committee's effectiveness and detailed CAMs reporting motivate managers to disclose the risks associated with complex estimates. Further, Höfmann, Pott, and Chrzan (2024) findings suggest that the disclosure of KAMs supports a conservative management accounting preference.

Auditor reporting about operational activities is more likely to increase operating efficiency through the auditors' monitoring and suggestions. Management is more likely to respond to auditors' suggestions and report on operating activities for better performance. Inventory management contributes significantly to the financial performance of the firms, where auditors' reporting and suggestions are useful and improve inventory management. An, Li, Wang, Wang, and Yu (2023) examine the relationship between KAMs and inventory management. They document that KAMs reporting especially KAMs related to inventory, increase the inventory management efficiency, which is stronger for the material industry. The results show a positive association between inventory-related KAMs and inventory management. They suggest that KAMs reporting especially KAMs related to inventory, improve inventory management efficiency and operating performance. Another study by Lei and Shu (2024) examines the relationship between tax-related KAMs and corporate tax savings. They document that firms exhibit lower cash effective tax rates during the period following their auditors' disclosure of tax KAMs. This study suggests that KAMs reporting improves firms' internal operation decisions. Similarly, Ma et al. (2024) document that KAMs disclosure interacts with management’s disclosure, especially related to accounting estimates (fair value). However, Bentley, Lambert, and Wang (2021) find that CAMs disclosure decreases risk-decreasing activities by the management because CAMs disclosure is more likely to increase disclosure costs.

*4.1.8 Summary*

External auditing involves three parties' relationship, such as auditors, the responsible party (those charged with governance), and the intended users. Audit reporting/ audit outcomes, including KAMs reporting, are useful to these parties. Figure I summarises the benefits of KAMs reporting to the above three parties based on research articles reviewed in this study.

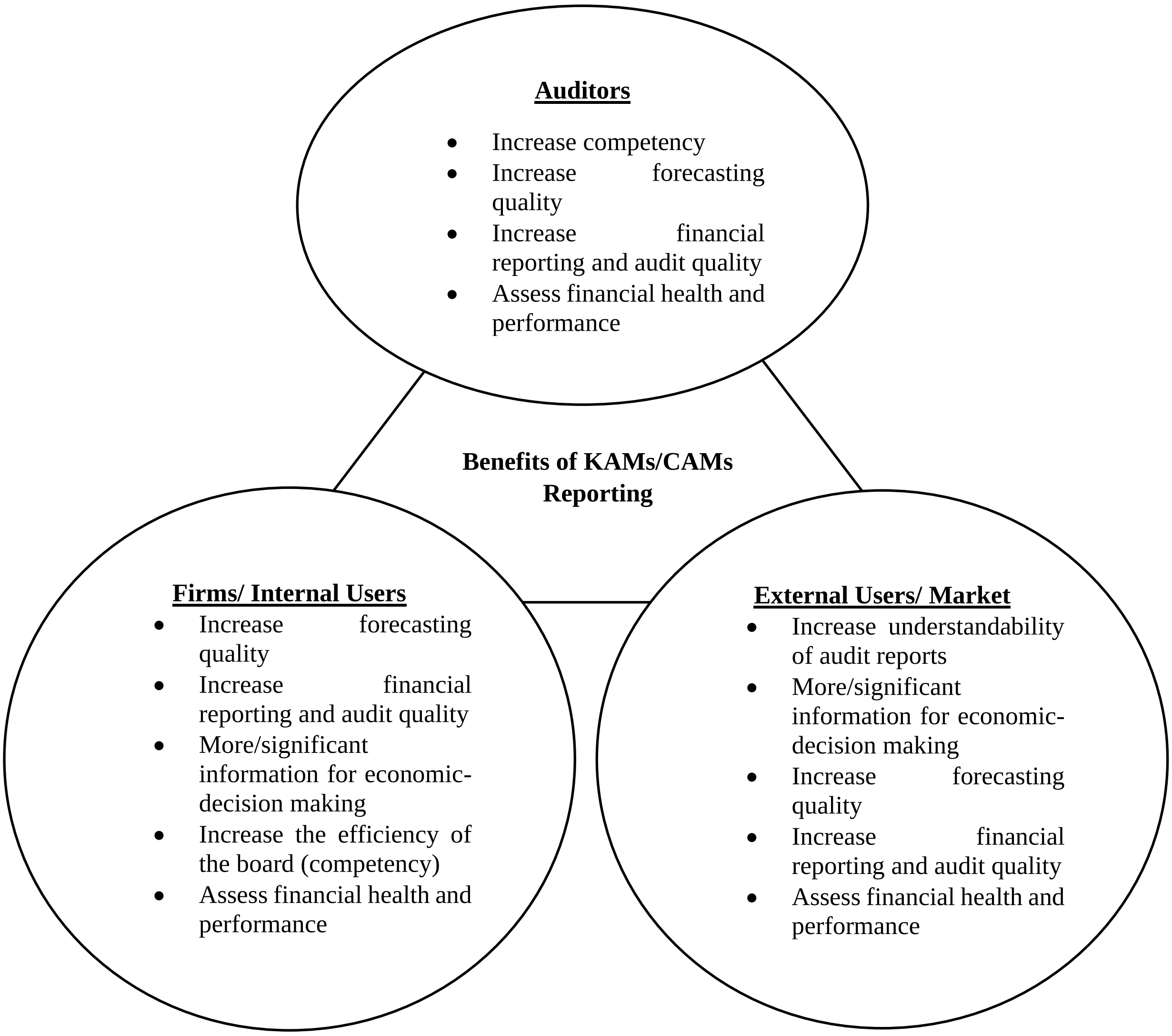



Figure I: Benefits of KAMs/ CAMs

### *4.2 Research question 2: What are the consequences of the KAMs reporting?*

This section aims to synthesize existing research findings related to the consequences (negative outcomes) of KAMs reporting. More specifically with this research question, this review provides answers based on the prior findings. This will help researchers, practitioners, regulators, investors, and other stakeholders to understand the consequences of KAMs reporting.

#### *4.2.1 Audit Fees*

KAMs reporting is the additional and mandatory requirement for the financial statements audit of listed firms. Therefore, it requires more work and effort to identify, address, and disclose KAMs in audit reports. Audit fees depend on factors such as audit work, complexity, risk, audit firm size, and other external business environment factors. Auditors are more likely to charge high audit fees when they spend more time (for auditing and reporting) and resources. It is the fundamental factor in determining audit fees. Therefore, auditors are more likely to charge high audit fees when they identify and report KAMs because the identification and reporting KAMs are more likely to consume a significant auditing time. Several prior studies have focused on the relationship between KAMs reporting and audit fees (Espahbodi et al., 2023; Reid et al., 2019; Li et al., 2019; Zhang & Shailer, 2021; Elmarzouky, Hussainey, & Abdelfattah, 2022; Kitiwong et al., 2024; Baatwah, Almoataz, Omer, & Aljaaidi, 2024; Bradbury & Almulla, 2019).

Espahbodi et al. (2023) examine the effect of KAMs reporting on audit fees. They argue that the financial reporting quality and audit fees have increased since KAMs reporting. They support two key reasons for the positive relationship between KAMs and audit fees. Firstly, they emphasize that auditors are more likely to feel that they are more accountable in KAMs reporting. Therefore, they are more likely to conduct more audit procedures on the identified KAMs and spend more time with senior managers and partners for the additional review of the engagement team's work. Secondly, they emphasize that auditors are more likely to be exposed to more monitoring and scrutiny by the users of audit reports because they disclose detailed information about the auditing process and procedures on identified KAMs. These lead to an increase in auditors' litigation and reputation risk, which increases the demand for risk premium compensation. This study finds a positive association between KAMs and audit fees.

Similarly, Li et al. (2019) document that audit fees have increased in the post-adoption of KAMs reporting in New Zealand, and Zhang et al. (2021) find that current-year audit fees increase than the previous year's audit fees when auditors include more risks of material misstatements in the current year extended audit report of listed firms in the London Stock

Exchange. Further, some other prior studies find a positive association between KAMs and audit fees (Mamcarczyk, Popławski, & Zieniuk, 2020; Elmarzouky et al., 2022; Kitiwong et al., 2024; Alharasis et al., 2024; Baatwah et al., 2024; Bradbury et al., 2019; Chen, Nelson, Wang, & Yu 2024). KAMs disclosure may overlap, especially related to risk disclosure. The management is responsible for relevant and adequate financial risk disclosure. For example, Gotti, Liu, Pérez, and Yin (2024) overlapping KAM and risk factor disclosures increase auditor liability (audit fees). However, two prior studies find no relationship between KAMs/ CAMs and audit fees (Reid et al., 2019; Lee et al., 2024).

*4.2.2 Audit Delay*

KAMs reporting enhances the credibility and transparency of statutory auditing. KAMs reporting is a mandatory requirement for listed firms. Therefore, auditors' accountability has increased since the introduction of KAMs. Auditors are more concerned about litigation and reputation risks; therefore, they are more likely to comply with standards and regulatory requirements. Identifying, addressing, and reporting the KAMs is more likely to increase auditing time because KAMs reporting is an additional mandatory requirement and is the latest reporting. Therefore, auditors are more likely to spend considerable time familiarizing the new standards and the likelihood of audit delay when identifying more KAMs. Some prior studies have focused on the relationship between KAMs reporting and audit report delay (Reid et al., 2019; Abdullatif et al., 2023; Lee et al., 2024; Rahaman & Bhuiyan, 2024; Alawadhi, Alrefai, & Alqassar, 2024; Kitiwong, Ekasingh, & Sarapaivanich, 2024).

Alawadhi et al. (2024) examine the relationship between KAMs reporting and audit delay. The study predicts and finds a positive association between the number of KAMs and ARL. They document each KAM increase audit delay by four days. Further, this study documents a significant positive relationship between specific categories of KAMs related to investment and implementation of new standards and ARL. Similarly, Kitiwong et al. (2024) document marginal evidence on the positive relationship between KAMs and audit delays.

Reid et al. (2019) examine the relationship between KAMs and audit costs. In addition to audit fees, they examine the relationship between KAMs reporting and ARL in the additional test. KAMs provide detailed information to users about what matters were more significant in the statutory audit and how they were verified and addressed KAMs. This study predicts a positive association between KAMs and ARL; however, the results show no relationship between KAMs and ARL.

Abdullatif et al. (2023) investigate the impact of KAMs reporting and ARL of listed firms in Jordan. They argue that KAM reporting requires auditors to exert greater effort, as they are responsible for disclosing more detailed information about audit procedures related to the reported KAMs. This effort is expected to increase with the number of reported KAMs, potentially leading to longer auditing and reporting. However, in contexts such as Jordan, where the demand for external auditing may remain consistent, auditors might treat KAM reporting as a procedural formality. Consequently, their actual audit efforts may not significantly change, resulting in a minimal or insignificant impact of KAMs on the ARL. The results show no significant relationship between the number of KAMs and ARL.

Lee et al. (2024) examine the relationship between CAMs and ARL. They emphasize that CAMs disclosures in the US lead to extensive discussions on CAMs-related details between firms and audit teams. This is anticipated to increase the time auditors need to complete the audit process and issue their opinions (PCAOB, 2011). In addition, more audit efforts and training are required to effectively address CAMs. Therefore, CAMs may increase audit delays. Conversely, CAMs reporting may encourage managers to be more transparent and cooperative in providing the information auditors need. This collaboration and cooperation may lead to a more efficient audit process and shorter ARL. The result shows a negative association between CAMs disclosure and ARL.

Rahaman et al. (2024) examine the relationship between KAMs reporting and ARL of Australian Securities Exchange (ASX) 300 firms from 2018 to 2020. Firstly, they argue that KAMs reporting may increase ARL because KAMs communication involves complex and subjective auditor judgments related to material accounts or disclosures (PCAOB, 2017), and KAMs increase auditors' stress, effort, and time, potentially extending the audit lag (Rahaman and Chand, 2021). Conversely, they argue that KAMs reporting may reduce ARL because KAMs reporting leads to efficient resource allocation and KAMs enhance risk understanding, promote transparency, improve communication, and build stakeholder confidence, facilitating timely issue resolution. The result shows a negative association between KAMs disclosure and ARL. This result is consistent with Baatwah et al. (2024).

*4.2.3 Financial Restatements*

FR is used as a proxy for low financial reporting and auditing quality. Financial reporting and auditing quality are more likely to reduce FR. Firms are less likely to restate their financial statements when auditors are identifying and addressing more significant matters properly. However, if they fail to address the identified significant matters, it leads to FR. In addition, some provisions and estimations are included and ensured in the financial statements based on the judgment of management and auditors. These are related to uncertainties and are more likely to restate the financial statements when KAMs relate to auditors' or management's or both judgments. KAMs are related to uncertainties because some KAMs are related to significant risks and auditors' judgment. Therefore, there is a high probability of a relationship between KAMs and FR. Some recent studies examine the relationship between KAMs reporting and FR (Huang, Huang, & Yuan, 2024; Kitiwong & Sarapaivanich, 2020; Khuong, Thi Ngoc Anh, Minh Nhu, Vu Tran Trong, Thi Kieu Trang, & Hoang Kha Thy, 2024; Camacho-Miñano, Campa, & Parte, 2024; Ma, Zhou, Wang, & Wang, 2023). For example, Ma et al. (2023) document that firms are more likely to restate their financial statements when they have KAMs related to management's subjective estimates.

Kitiwong et al. (2020) examine the relationship between KAMs reporting and audit quality proxied by FR in Thailand. They emphasize that auditors are more accountable and careful since the KAMs reporting is mandated. KAMs disclosure improves audit quality and helps to detect and report misstatements. Therefore, they predict a negative relationship between KAMs disclosure and FR. They find a weak negative relationship between KAMs disclosure and FR. Further, they document no relationship between the number of KAMs and FR but KAMs related to acquisitions are positively correlated with FR. A later study by Khuong et al. (2024) documents no significant relationship between KAMs disclosure and FR. Further, the study documents that the number of KAMs partly reflects the shortcoming that exists in firms' financial statements.

Huang et al. (2024) examine the relationship between the features of KAMs and FR behaviour in China. They define three features of KAMs, which are readability, tone, and detail of KAMs. They investigate the relationship between each KAMs reporting feature and FR behaviour. They find a positive association between the worse readability of KAMs and FR behaviour. Further, a negative tone and greater detail KAMs have a significant positive relationship with FR behaviour. Another study by Ma et al. (2023) examines the relationship between differentiated disclosure of KAMs and FR risk in China. They argue that auditors use differentiated wording in KAMs disclosure to show that more effort has been devoted and that they are sufficiently diligent. The results show a positive association between more differentiated KAMs and FR, and this link is stronger for a strong legal environment and small auditors. A primary data study by Kachelmeier, Rimkus, Schmidt, and Valentine (2020) suggests that disclosing CAMs, especially those related to uncertainty in measurement, can reduce how much responsibility auditors are seen to have for any mistakes or misstatements in those areas.

#### *4.2.4 Financial Reporting/ and Audit Quality*

Investors' perception is crucial in investment decisions. Financial statements and audit reports convey more significant information about the financial performance, position, cash flow, changes in equity, and going concerns of the firms. In particular, KAMs are more likely to provide insightful information on significant matters identified and addressed in the statutory audits. So, these KAMs may increase or reduce perceived risks. For example, more, detailed, relevant, and readable KAMs are more likely to reduce or increase the perceived risks. Therefore, the perceived financial reporting quality is more likely to link with KAMs disclosure (number, length, relevance, and readability). For example, Chang et al. (2024) examine the relationship between KAMs information content and investors' perceived financial reporting quality. The results show that KAMs that contain more client-specific information are perceived as having lower reporting quality in Taiwan. The results suggest that investors may view a company as having lower financial reporting quality when the risk descriptions in its KAMs are less readable. Further, this study documents that KAMs that contain more client-specific information are perceived as having lower reporting quality in Taiwan.

KAMs may be useful and may not be useful because many stakeholders use financial statements and audit reports for different purposes. Boolaky and Quick (2016) investigate bank directors' perceptions of new audit reporting. Banks carefully refer to clients' financial statements and audit reports in assessing loan applications. This study shows a significant association between assurance level and confidence in the financial statements, perceived quality of the audit, value of information, and loan approval. However, this study shows no association between KAMs and the above dependent variables. The study suggests that new audit reporting is not necessarily perceived as useful by stakeholders.

Financial statements and audit reports are more likely to be understood by professional investors than by non-professional investors because they have adequate knowledge and experience with them. KAMs reporting is a new reporting; therefore, the communicative value of KAM section is more likely to be low for non-professional investors. For example, Köhler, Ratzinger-Sakel, and Theis (2020) find that KAMs have no communicative value, implying that non-professional investors have difficulties with processing the information conveyed by KAMs.

#### *4.2.5 Auditor Competence (Audit Quality)*

KAMs reporting is the latest reporting requirement; therefore, awareness, support, and education on KAMs reporting are critical for the quality KAMs applications and outcomes. For example, Pelzer (2021) documents that non-Big 4 auditors are consistent in their lack of support for CAM disclosure. Further, IAASB identified that users and practitioners have some understanding issues regarding KAMs section. Therefore, auditors' misunderstanding or inadequate knowledge and practical experience of KAMs reporting is more likely to reduce KAMs reporting quality. For example, they may disclose less or more or inappropriate matters as KAMs. Importantly, Hegazy and Kamareldawla (2021) find that some auditors failed to identify all KAMs properly. Many auditors classify some matters under KAMs, but these matters must be classified under uncertainties for GC and EOM. Grosse, Scott, and Zang (2024) document that going concern issues were identified as KAMs for 4% of firms out of 214 sample firms in New Zealand. Similarly, a qualitative study by Bepari, Nahar, & Mollik (2024) documents that going concern qualifications or audit report modifications are now disclosed as KAMs.

In addition, Abdullatif and Al-Rahahleh (2020) find that a small number of KAMs communicate in Jordan because of the ambiguity of ISA 701. Some studies argue that KAMs reporting does not increase audit quality. For example, Kitiwong et al. (2020) document that KAMs reporting does not increase audit quality. The results show no relationship between the number and common types of KAMs and financial restatements. In addition, Rautiainen, Saastamoinen, and Pajunen (2021) conclude that independent auditors do not consider that KAMs improve audit quality however, they note that KAMs are helpful for the audit process and more fluent in terms of effectiveness, risks, and workload. Similarly, Bepari et al. (2024) document that KAMs reporting enhances performative audit quality, but audit reporting transparency remains unchanged, suggesting KAMs reporting may reduce audit report clarity. Moroney, Phang, and Xiao (2021) conclude that investors place more value and credibility on Big 4 auditors' reports rather than KAMs in the audit reports. Managers perceive that CAMs disclosure provides a signal to investors about estimates subjectivity when auditors and clients have a close relationship. CAMs lead to more aggressive reporting from the management (Tan & Yeo, 2022).

Another view is that KAMs disclosure can be a moral license for the auditors because auditors are more likely to have moral satisfaction when they disclose more KAMs. This moral satisfaction may not increase financial reporting quality, especially auditor judgment related to accounting estimates and provisions. An experimental study shows the existence of a judgment-action gap in KAMs reporting (Asbahr & Ruhnke, 2019). Moreover, this study shows that low skeptical action relates to provision when the accounting estimate is reported as a KAM. Further, they document that KAM reporting does not affect audit efforts. Similarly, Ma, Coram, and Troshani (2024) document that when fair value estimates are disclosed as

KAMs or footnotes by the management, auditors feel less accountable. Another primary data study by Whitfield, Kang, and Trotman (2024) predicts and finds that early communication of planned audit procedures to the audit committee makes auditors less likely to modify their planned procedures, even when new risks emerge that require adjustments, particularly in situations where inspections are anticipated which is aligned to self-justification theory.

Another serious concern is that auditors may try to develop and disclose standardized KAMs. It means that auditors may report similar KAMs in a similar style because other audit report elements, except opinion-related disclosure, are almost similar every year. For example, Kend, and Nguyen (2020) document that around 70% of Australian firms had the same KAMs disclosed in both 2017 and 2018. This practice is less likely to achieve the main purpose of KAMs reporting. Therefore, stakeholders, especially standard setters, regulators, and other financial statement users, are more likely to mitigate and avoid the issuance of standardized KAMs. Seebeck (2024) documents evidence for increasing textual similarity measures, including stickiness, generality, and boilerplate language, and reveals that similarity weakens the positive capital market impact of precise KAM reporting in the UK. Moreover, Ma et al. (2024) reveal that small audit firms delay goodwill impairment and amplify price distortion from goodwill inflation under KAM reporting. Similarly, Chen, Hung, Tseng, and Hsiao (2024) show that auditors are more likely to issue less readable audit reports for firms involving earnings management, especially in KAMs reporting context.

*4.2.6 Perceived Risks*

KAMs/CAMs reporting is the new reporting; therefore, there is a greater probability of less understanding about these by the users. New audit reporting increases the length of audit reports. Therefore, there is a greater probability of misinterpretations and misunderstanding by users, especially by non-professional investors. For example, Ma, Zhou, Wang, and Wang (2024) document that KAMs disclosed by small audit firms will only mislead non-professional investors. Prior studies document that CAMs disclosure relates to uncertainty (Hollie, 2020; Burke, Hoitash, Hoitash, & Xiao, 2023). Further, CAMs may link to financial restatements (increase) due to uncertainty, failure to address the identified KAMs properly, and risks. Therefore, CAMs disclosure is more likely to increase investors' perceived risks. For example, an experimental study documents that investors are less likely to invest in firms that disclose CAMs, compared to those that do not disclose any CAMs (Austin et al., 2021).

Klevak, Livnat, Pei, and Suslava (2023) emphasize that CAMs might signal that a firm has some additional problematic areas. They find that firms with more extensive CAM disclosures increase perceived uncertainty. Moreover, these firms have greater stock price volatility and a higher degree of dispersion in analyst forecasts compared to firms with less comprehensive CAM disclosures. More KAMs disclosure (more, detail) is more likely to reduce user attention to other areas in financial statements when users pay greater value and attention to the audit report. For example, Sirois et al. (2018) document that many KAMs disclosures are more likely to reduce user attention to the other areas in the financial statements. Another study by Coram, and Wang (2021) documents that the audit expectation gap is more likely to increase regarding perceptions of the reliability of audited financial reports when KAMs disclosed. An experiment study documents that CAMs disclosure reduces jurors' perceptions of auditor culpability, particularly when fraud detection or auditor acquiescence are less perceived (Brown, Majors, & Peecher, 2020) and another study finds that jurors are more likely to judge auditors are negligent when CAMs are disclosed in the audit report, compared to when no CAM disclosed (Backof, Bowlin, & Goodson, 2022).

*4.2.7 Summary*

According to prior studies, KAMs reporting consequences can be categorised into three primary areas: cost, reporting, and perception & competence. The figure I shows the consequences of KAMs reporting based on prior studies.

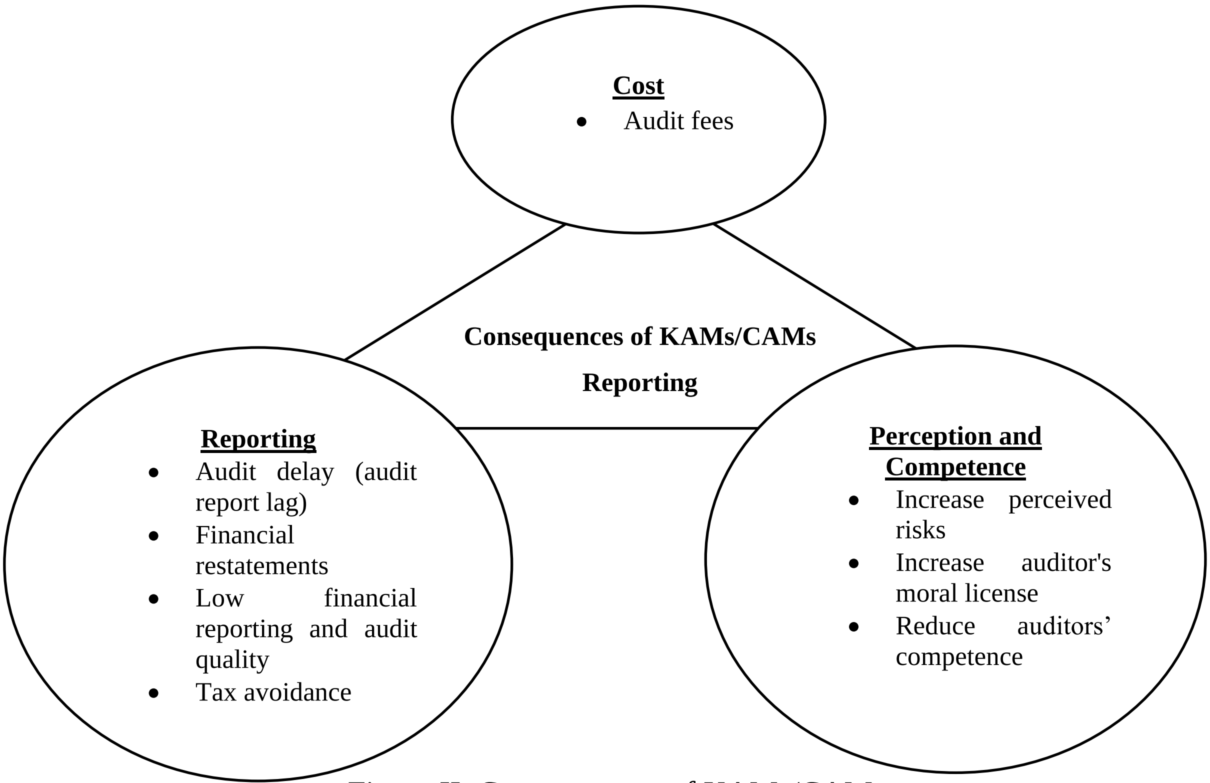



Figure II: Consequences of KAMs/CAMs

### *4.3 Research question 3: What are the determinants of the KAMs reporting?*

Audit firms', clients', and corporate governance (including institutional characteristics and legal environment) characteristics are crucial in auditing and reporting. Several prior studies document a positive relationship between audit firm size and audit quality, high audit quality when firms have strong corporate governance, a positive relationship between strong firm performance and audit quality, and high audit quality when clients are in a high investor-protective legal environment and a strong regulatory environment. Not surprisingly, some past studies have focused on determinants of KAMs reporting. These studies examine the relationship between audit firms' characteristics and KAMs reporting, firms' attributes and KAMs reporting, and corporate governance characteristics and KAMs reporting.

#### *4.3.1 Audit Firm and Auditor-Related Characteristics*

Audit firm characteristics such as audit firm rotation, audit partner rotation, auditor tenure, audit firm size, auditor gender, audit fees, non-audit services, and joint provision of financial statement audit and extended external report assurance play crucial roles in statutory auditing and reporting. Audit firm characteristics are key determinants of KAMs length, readability, sentiment, quantitative density, specificity, the degree of forward-looking statements, and the extent of boilerplate language (Küster, 2024). Importantly, a primary data study documents that CAMs reporting process is largely controlled by the independent auditor (Daugherty, Dickins, Pitman, & Tervo, 2021).

##### *4.3.1.1 Audit Firm Size*

Audit quality is proxied by audit firm size. Prior studies document a positive association between large audit firms and audit quality because they are more independent and competent than other auditors. Auditor competence and independence are crucial in ensuring audit quality. KAMs reporting is the latest reporting. Auditors' accountability and responsibility have increased since the introduction of KAMs reporting. Big 4 auditors suggest audit quality because they are more competent and independent. Moreover, they are more likely to use an expert audit team and high technology, which leads to providing high audit quality. For example, Hegazy, El-Haddad, and Kamareldawla (2022) document that the auditor position is the most significant factor influencing the recognition of KAMs in the new audit report and contributes to audit quality, and Wang, Luo, and Chen (2024) document that technology is useful to identify and generate high-level CAMs. Further, big auditors are more concerned with litigation and reputation risks, so they are more likely to comply with KAMs reporting.

Past studies examine the relationship between Big 4 auditors and KAMs disclosure. For example, Sierra-García, Gambetta, García-Benau, and Orta-Pérez (2019) investigate the relationship between Big4 auditors such as Deloitte, EY, KPMG, and PwC, and KAMs reporting. More specifically, this study shows the relationship between each Big 4 auditors and entity-level and account-level KAMs. The results show PwC tends to report more entity-level-risk KAMs than the other three Big 4 auditors. In addition, this study documents that PwC reports more account-level-risk KAMs than KPMG and BDO. A similar study examines individual Big 4 auditors and KAMs reporting of the largest 300 companies listed in the Australian Securities Exchange (Bepari, Mollik, Nahar, & Islam, 2022). The results show KPMG and Deloitte auditors are negatively associated with the number of KAMs, and PwC is positively associated with the number of KAMs when compared to the reference auditor EY in this study.

Wuttichindanon and Issarawornrawanich (2020) studied the determining factors of KAMs reporting of listed firms in Thailand from 2016 to 2017. They predict a positive relationship between Big 4 auditors and KAMs disclosure. The results show a significant positive relationship between Big4 auditors and the number of KAMs, and this relationship does not exist in the year 2016, but exists in the year 2017. It means the application of KAMs reporting is more pronounced in the later period from the mandated year. Some prior studies also document a positive relationship between Big 4 auditors and KAMs disclosure (Ji, Li, Li, & Monroe, 2024; Suttipun, 2022; Hategan, Pitorac, & Crucean, 2022). Importantly, Ji et al. (2024) document that the relationship between client importance and the number of KAMs is stronger for Big4 clients.

However, Baatwah (2023) documents a negative relationship between Big4 auditors and the number of KAMs of 273 year-observations from the listed firms in the Omani capital market from 2016 to 2019. Importantly, each Big 4 auditor is negatively correlated with the number of KAMs. However, they document that each Big 4 auditor is reporting KAMs differently. It means no homogeneity among Big 4 auditors regarding KAMs reporting. Baatwah (2023) finding is consistent with Rahaman et al. (2023), and Srisuwan, Swatdikun, Pathak, Surbakti, and Saramolee (2024). Rahaman et al. (2023) document that Big-4 auditors do not issue more KAMs but disclose detailed KAMs compared to non-Big-4 auditors. Srisuwan et al. (2024) found a negative relationship between Big 4 auditors and the number of KAMs in Thailand. Further, some prior studies document no relationship between Big4 auditors and KAMs disclosure (Moubarak & Elamer, 2024; Joudeh & Aqel, 2024).

Some past studies have focused on the homogeneity of auditors' audit reports, especially the homogeneity of Big 4 auditors' audit reports, because they are categorized as large audit firms and proxied for audit quality. Honkamäki, Mättö, and Teittinen (2022) examine the homogeneity of Big4 auditors' audit reports in the new audit reporting (KAMs reporting). They examine Big 4 auditors' homogeneity reporting related to KAMs disclosure on fair value accounting. Stakeholders pay greater attention to the fair value of accounting because the fair value of accounting involves considerable management estimation and the use of specialist services. The results of 235 firm-year observations of the real estate sector in the EU, Switzerland, and Norway from 2017 to 2018 confirm that Big4 auditors are not homogenous in audit reports. They find a significant statistical difference among Big 4 auditors' reporting on the challenge of management estimates and audit procedures. Another study by Gambetta, Sierra-García, García-Benau, and Novejarque-Civera (2023) documents that the informative value of KAM matters and KAM audit procedures vary among audit firms, even among Big 4 auditors.

*4.3.1.2 Auditor, Audit Partner Rotation and Tenure*

Stakeholders, especially regulators, suggest a regular auditor and audit partner rotation to minimize independence issues and improve audit quality. For example, the EU (2014) audit legislation sets out a maximum audit firm engagement period of ten years. There is a long-term debate on the relationship between auditor tenure and audit quality. Some studies argue that auditors' independence is low when they have a long tenure. When the same auditor or engagement partner conducts the statutory audits of the same clients for a long period more likely to arise some threats (mainly familiarity and self-interest threats) that may affect auditors' independence. A long tenure is more likely to increase familiarity between the auditor and the management. This relationship questions the quality of auditing and reporting because of familiarity issues. In addition, long tenure is more likely to increase the self-interest of auditors because of personal interests. Therefore, sometimes auditors have to compromise audit quality when they pay greater attention to self-interest. Due to that, there is a possibility for a negative relationship between auditor tenure and audit quality. On the other hand, some prior studies argue a positive relationship between auditor tenure and audit quality because auditors have a better understanding of clients when they have a long tenure with clients. So, long auditor tenure is more likely to increase the financial reporting and audit quality. Based on these two arguments, some prior studies have focused on the relationship between auditor tenure, auditor rotation, audit partner rotation, and KAMs disclosure.

The relationship between new auditors and audit quality may be negative because of less experience with the client; on the other hand, new auditors may have a positive relationship with audit quality because of the fresh views of the new auditor. For example, Wang, Jia, Xiao, and Yu (2024) document that experienced auditors disclose more, longer, and clearer KAMs, and Elshafie (2023) document that auditors are less likely to disclose CAMs in the first year of engagement. Lin and Yen (2022) examine the relationship between auditor rotation, KAMs disclosure, and reporting quality in Taiwan. They predict different KAMs disclosures when changes in the audit firm or audit partner. They find that the different KAMs disclosures are more likely to be related to changes in audit partners than none. These differences in KAMs disclosure are from the fresh perspective of the new auditors. This study shows no statistical evidence of the relationship between auditor rotation and financial reporting quality when there is no change in KAMs disclosure. Further, this study shows a relationship between auditor rotation and financial reporting quality when the new auditors disclose different KAMs. Finally, this study concludes that new auditors disclose different KAMs than previous auditors because of the fresh perspective of the new auditors.

Another study investigates the impact of auditor rotations on KAMs reporting in South Africa (De Ricquebourg & Maroun, 2023). The results show no significant relationship between audit partner changes and changes in KAMs disclosure. This study documents that audit firm changes significantly impact KAMs disclosure. New KAMs are added to the audit report, or KAMs are removed from the audit report when changing the audit firm. They conclude that there are differences in how audit firms choose to implement the provisions of the standard because there is a degree of agency at the firm level. Similarly, Chen, Xiao, and Zhou (2023) find that firms have more CAMs when they change the audit firm and all signing auditors together.

A recent study examines the relationship between audit firm and audit partner rotations and KAMs reporting in 29 selected European countries (Federsel, 2024). The results of 6,103 firm-year observations from 2018 to 2022 show considerable changes in KAMs reporting, but audit partner rotations have a limited effect on KAMs reporting. The findings support the argument that audit firm rotation is more likely to increase audit quality because a new auditor's fresh look has a significant effect on auditing and reporting. The findings once again underscore the importance of audit firm rotation rather than audit partner rotations. Firms are less likely to expect more benefits when the audit partner is rotated because the new audit partner is still from the same audit firm. Moreover, old and new audit partners' experience, training, and practices are almost similar, so such a fresh look cannot be expected. However, audit firm rotation is more likely to bring fresh-look benefits because the new audit firm is completely new. Similarly, Mahd and Idris (2024) find a positive association between auditor rotations and KAMs.

Another recent study by Rousseau and Zehms (2024) investigates the role of audit firms and audit partners in KAMs reporting. They examine the relationship between audit firms and audit partners, and the similarity of KAMs. There is less likelihood of a fresh look when the same audit partners and audit firms conduct the current statutory audits; therefore, they are more likely to report similar KAMs. The results show that the same partners and auditors disclose similar KAMs, and these are more than 10% and 2% respectively than different audit partners and audit firms in the UK.

Al-Asmakh, Elamer, and Uadiale (2024) examine the relationship between auditor tenure and cultural dynamics and KAMs reporting of 456 non-financial firm-year observations from 2016 to 2021 in Gulf Cooperation Council countries. They predict and find a positive relationship between audit partner tenure and KAMs disclosure, consistent with the argument that audit partners have a better understanding and knowledge about the client when they have long tenure with that client. This study result is consistent with Rahaman et al. (2023). Similarly, Mwintome et al. (2023) find a positive association between auditor tenure and KAMs readability. It means that KAMs readability is associated with long auditor tenure. This result is consistent with the argument that auditors have more knowledge and understanding about clients when they have long tenure. It helps to disclose readable KAMs.

*4.3.1.3 Auditor/Audit Partner Gender*

Prior studies document that gender is crucial in financial reporting, risk management, and auditing (Francoeur et al. 2019; Garcia & Blandon et al. 2019; Zalata et al. 2019). Prior studies suggest that auditor or audit partner gender is crucial in auditing (Breesch & Branson, 2016; Hossain, Chapple & Monroe, 2018). Importantly, prior studies document mixed results between female auditors or audit partners and audit quality. For example, Hardies, Breesch, and Branson (2016) find a positive association between female auditors and the issuance of GCOs for financially distressed private firms in Belgium, however Hossain, Chapple, and Monroe (2018) find a negative relationship between female auditors and the issuance of GCOs for financially distressed firms in Australia. Therefore, the relationship between auditor gender and audit quality is an open question for investigation. Therefore, the relationship between auditor gender and KAMs is a potential area in audit quality research.

Generally, female auditors are suggested for high audit quality because they pay greater attention to litigation and reputation risk, and make less risky choices (Hardies et al. 2013; Ittonen et al. 2013; Nekhili et al. 2018). Another study documents that female auditors detect more possible material statements (Breesch and Branson 2009). Female auditors are suggested for more effective information processing and audit judgments (Chung and Monroe 2001;

O'Donnell and Johnson 2001). Due to gender discrimination, females' high skills and effort lead to leading positions in audit firms (Nasution & Jonnergård, 2017). Further, female auditors are more likely to overestimate responsibilities and the potential impact of their scope and performance (Fondas & Sassalos, 2000; Ittonen et al., 2013).

Abdelfattah, Elmahgoub, and Elamer (2021) examine the relationship between female audit partners and KAMs reporting in the sample of UK firms from 2013 to 2017. The results show a positive association between female auditor partners and the number of KAMs, and they disclose more details KAMs. However, this study documents that female audit partners provide less readable audit reports, suggesting behavioural variances between female and male audit partners in writing style. A similar recent study by He and Rivai (2024) documents that gender diversity is associated with KAMs disclosure, especially finding that female audit partners who lead the audit engagement disclose detailed KAMs in Taiwan.

Bepari et al. (2022) examine the relationship between auditor gender and KAMs reporting. They find a positive relationship between female auditors and the number of KAMs and account-level risk KAMs. The findings are consistent with the argument that female auditors pay greater attention to litigation and reputation risk. However, this study shows a negative relationship between female auditors and entity-level risk KAMs. Another recent study supports the argument that female auditors significantly contribute to audit quality. They document a positive relationship between female auditors and KAMs correct classification in Egypt (Moubarak et al., 2024). In another study, Bepari and Mollik (2023) document that female audit partners disclose fewer time-variant Key Audit Matters (KAMs), exhibiting a lower tendency to introduce new KAMs and remove existing ones.

*4.3.1.4 Audit Fees*

As per audit quality literature, audit quality is proxied by audit fees. Prior studies predict and find a significant relationship between audit fees and auditing outcomes (audit quality) because audit fees are significantly related to audit risk, complexity, audit effects, resource allocation, and more work. Auditors are more likely to charge high audit fees when they encounter significant risks and complexity in the client's financial statements. Also, auditors are more likely to use more resources when they charge high audit fees. The importance of audit clients is measured by audit fees or total fees (audit fees and non-audit fees). Audit quality may depend on the importance of the clients, with the two arguments. One is that auditors' independence is low when they receive significant audit fees or total fees from a client. There is a greater likelihood of a negative effect on audit quality. Another argument is that auditors are more likely to put more effort and spend more resources when they receive significant audit fees or total fees from the clients.

KAMs relate to significant risks and judgment. Therefore, considerable additional audit effort, auditing time, and resources are required for the new audit reporting. KAMs reporting is more likely to be associated with audit fees. KAMs are categorized under two types: account-level and entity-level risk KAMs. Sierra-García et al. (2019) examine the relationship between audit fees and entity-level risk KAMs and account-level KAMs. They find a positive association between audit fees and entity-level risk KAMs; however, the results show a negative association between audit fees and account-level risk KAMs. Similar to this study's findings, another study by Bepari et al. (2022) shows a positive association between audit fees and the number of KAMs and audit fees and account-level risk KAMs, and no statistical evidence between audit fees and entity-level risk KAMs. Similarly, Ji et al. (2024) find a positive association between the client's importance and the number of KAMs, and Pinto et al. (2019) document a positive association between audit fees and the number of KAMs, and this result is consistent with prior studies by Suttipun (2022) and Srisuwan et al. (2024).

*4.3.1.5 Non-audit Fees*

There is strong criticism for allowing statutory auditors to perform many services (non-audit). Prior studies have focused on the relationship between non-audit services and audit quality with two basic arguments. Some studies argue that engaging financial statement auditors for non-audit services is more likely to reduce auditor independence because appointing statutory auditors for non-audit services is more likely to raise self-interest and self-review threats. Therefore, they suggest a negative relationship between non-audit fees and audit quality. However, some other studies argue that allowing statutory auditors to provide non-audit services increases understanding and knowledge about clients, such as better understanding and knowledge about clients (knowledge spillover), positively contributing to audit quality. Therefore, non-audit fees are more likely to be associated with KAMs reporting. Bepari et al. (2022) examine the relationship between non-audit fees and KAMs reporting. The results show a negative association between non-audit fees and account-level risk KAMs, but no statistical evidence between non-audit fees and the number of KAMs and entity-level risk KAMs.

*4.3.2 Client-related Characteristics*

Client characteristics such as firm size, age, profitability, financial strength, business segments/ business complexity, and institutional and industry-related factors are crucial in financial reporting and auditing. These characteristics are more likely to determine the statutory auditing outcome. For example, auditors are more likely to charge higher audit fees for high-risk firms (more complex businesses, highly regulated firms, low-performing firms, and financially weak firms) because they are more likely to spend more time and resources to verify these firms' financial statements. In addition, they are more concerned with litigation and reputation risks. Generally, auditors' litigation and reputation risks are high for these firms. Client attributes are key determinants of KAMs length, readability, sentiment, quantitative density, specificity, the degree of forward-looking statements, and the extent of boilerplate language (Küster, 2024). For example, Pinto, Morais, and Quick (2020) find that the probability of a KAM increases with more precise accounting standards in the European context (UK, France, and Netherlands). Similarly, Li, Gou, & Wang (2023) find that auditors are more likely to disclose more KAMs for clients that receive annual report inquiry letters in China.

Generally, audit risk and complexity are high for large and old clients. Audit risk and complexity are more likely to be associated with the size and age of the clients. Sierra-García et al. (2019) document the relationship between client characteristics and KAMs reporting of FTSE 100 companies in the UK. This study shows that client characteristics significantly determine the number and type of KAMs. More specifically, clients' profitability, complexity, and financial position significantly correlated with the number of KAMs. Similarly, Muñoz-Izquierdo, Mazarío, and Camacho-Miñano (2024) find that an extended audit report includes more disclosure for failing firms (Zombie) than strong firms. More specifically, Zombie firms receive more disclosure on current assets valuation. Some other prior studies also show a positive association between client-specific characteristics such as client age, size, complexity, liquidity, and solvency and KAMs disclosures (Rahaman et al., 2023; Rahaman et al., 2022; Bepari et al., 2022; Zhang & Shailer, 2022; Dusadeedumkoeng, Gandía, & Huguet, 2023). For example, Dusadeedumkoeng et al. (2023) document that client size, complexity, liquidity, and solvency are significantly associated with KAMs in Thailand.

Audit risk is associated with business risks. Business risks are from both the internal and external environment. Murphy, McLaughlin, and Elamer (2023) document that auditors disclose detailed KAMs during the COVID-19 pandemic. The descriptive statistics clearly show that the number and length of KAMs are higher during the COVID period; these show significant mean differences between pre-COVID and COVID. Businesses had risks and going concern issues during the COVID-19 pandemic; therefore, auditors were more likely to issue detailed KAMs because of the high risks. However, Kend and Nguyen (2022) identify that only 3% of the audit procedures performed to address audit risks related to the COVID-19 pandemic in 2022 in Australia.

Auditors are more concerned about highly regulated firms' audits because litigation risk is high for failure of statutory audits. They are more likely to provide high-quality audits for highly regulated firms. Rahaman et al. (2022) find that auditors issue more KAMs to highly regulated firms than to other firms. Further, another study by Gambetta et al. (2023) documents that KAMs description and procedures significantly differ among types of industries in the UK, for example, consumer service versus basic materials.

Bepari et al. (2022) examine the relationship between firm characteristics such as life cycle, size, complexity, intangible intensity, and KAMs levels such as entity and accounts level. This study argues that KAMs disclosure is more likely to differ as per the firms' life cycle, for example, the growth and decline stages of firms are associated with higher risks for material misstatements. These higher risks are more likely to impact KAMs disclosure. Complexity and firm size are significantly related to risks. More complexity and larger firms are more likely to have higher risks because of many segments, complex structures, higher levels of political scrutiny, and perceived risks. Auditors are more likely to avoid litigation risks. Therefore, they are more likely to disclose more KAMs to mitigate litigation risks. More specifically, they are more likely to disclose more KAMs to more risky firms than to less risky firms. The results show a positive association between size, complexity, and KAMs disclosure, such as the number of KAMs, accounts, and entity-level KAMs. Large firms and complex firms are more likely to receive more KAMs. Further, the results show a significant positive relationship between intangible intensity and KAM disclosure related to only the number of KAMs and account-level KAMs.

Wuttichindanon et al. (2020) document a significant relationship between firm-specific characteristics (complexity, financial performance, and industry type) and KAMs disclosure. This study shows that auditors disclose more KAMs for firms with many subsidiaries, firms belonging to the technology, property & construction, and finance industries, and fewer KAMs for profitable firms in Thailand. Similarly, Woudenberg, van der Hel–van Dijk, and Kamerling (2021) find considerable differences regarding the numbers and subjects of KAMs and the materiality level and base among public interest entities in the Dutch market.

Another study by Pinto et al. (2019) finds a positive relationship between more business segments (high complexity) and the number of KAMs. Similar to Wuttichindanon et al. (2020), Elmarzouky, Hussainey, Abdelfattah, and Karim (2022), and Rahaman and Chand (2022) document that KAMs' disclosure varies among industries. Importantly, Rahaman et al. (2022) find that the number and extent of KAMs disclosure vary within industries, but the types of KAMs vary within and across the industries in Australia. Legal environment and governance are crucial in financial reporting and audit quality. Firms and auditors are more concerned about financial reporting and audit quality in a strong legal environment and governance because of high litigation risks. For example, Ma, Wang, Wang, and Wu, (2024) document that the boilerplate of KAMs is significantly influenced by media coverage and the legal environment.

*4.3.3 Corporate Governance Characteristics*

The role of corporate governance is crucial in financial reporting and statutory auditing. The basic argument is based on the agency problems between stakeholders and management. Corporate governance literature suggests that strong corporate governance mitigates agency costs. In other words, agency costs are low when firms have strong corporate governance; therefore, strong corporate governance increases financial reporting and statutory audit quality. Board independence, board gender diversity, board size, CEO duality, audit committee size, audit committee independence, and audit committee gender diversity are key measures of corporate governance. Here, audit committee characteristics are crucial in financial reporting and audit quality because audit committee functions are mostly related to internal controls, financial reporting, and external audits.

Prior studies document the significant relationship between board characteristics, audit committee characteristics, and statutory auditing and reporting. Rahaman and Karim (2023) examine the relationship between the board, audit committee, and auditor characteristics and KAMs reporting of 534 firm-year observations from the listed firms in Bangladesh from 2018 to 2021. This study documents that chair gender, women's representation on the board, and audit committee size significantly correlate with the KAMs disclosure. Importantly, female board members are positively associated with the KAMs disclosure; however, female chair and audit committee size are negatively correlated with KAMs disclosure. Further, Murphy et al. (2023) conclude that male audit partners disclose more KAMs and female audit partners disclose more detailed KAMs. Another study by Wuttichindanon et al. (2020) finds a positive relationship between board independence and the number of KAMs. This finding is consistent with suggesting board independence for strong corporate governance (demanding more audit work and effort). However, Noureldeen, Elsayed, Elamer, and Ye (2024) document a negative association between supervisory board independence and the number and length of KAMs.

Readability of the financial statements and audit reports is crucial for better economic decision-making because various stakeholders use the financial statements and audit reports. They are from different educational backgrounds; therefore, readability is vitally important. The purpose of the KAMs reporting is to enhance the communicative value of the audit report, where the readability of KAMs disclosure is more likely to increase the communicative value of the audit report. Velte (2018) examines audit committee gender diversity and KAMs' readability of UK firms from 2014 to 2015. The argument is that audit committee gender diversity is more likely to increase the readability of KAMs because female representation in the audit committee is more concerned with greater risk avoidance and strong oversight. The results show KAMs readability is higher when firms have greater female members in audit committees. Further, the results show a positive association between client size, profitability, and KAMs reporting readability. The existing findings on the relationship between the audit committee and KAMs reporting underscore the importance of audit committee gender diversity. Similarly, Bepari (2023) documents that female representation in audit committees increases the readability of KAMs and helps to identify and disclose more specific KAMS with evidence from the sample of ASX 300 listed firms from 2017 to 2020. The results show a negative relationship between audit committee gender diversity (female) and the number and length of KAMs.

Audit committee financial and industry expertise is widely suggested for a significant contribution to financial reporting and audit quality. For example, Aboud, Elbardan, El-Helaly, and Kotb (2024) document that audit committee accounting experience is a significant factor in enhancing the quality of extended audit reporting. Prior studies show that audit committee financial expertise reduces earnings management (Bédard et al., 2004) and accounting irregularities (Abbott et al., 2004; Badolato et al., 2014). Audit committee financial and industry expertise provides better oversight of the financial reporting process (Cohen et al., 2014). Some prior studies have evidence that audit committee financial experiences increase auditing demands and efforts (Abbott et al., 2003, 2004; Ghafran & O'Sullivan, 2017) and document a significant relationship between audit committee financial experience and audit delay (Abernathy et al., 2014; Sultana et al., 2015). Therefore, the audit committee's financial and industry expertise vitally contributes to financial reporting and auditing processes.

Zhang et al. (2022) examine the relationship between audit committee expertise and KAMs disclosure. The results show a negative relationship between audit committee financial and industry expertise and the number of KAMs and unmatched with significant issues. The audit committee's financial and industry expertise is more likely to reduce KAM-related irrelevant matters. A study by Bepari (2023) documents that audit committee financial and industry expertise increases the readability of KAMs and helps to identify and disclose more specific KAMS. The results show a negative relationship between audit committee financial and industry expertise and the number and length of KAMs. In addition, this study documents a negative association between audit committee legal expertise and KAMs reporting (specific

KAMs disclosure, readability, and KAMs length). Similarly, Hosseinniakani et al. (2024) document that a positive correlation between auditor and management disclosure is stronger for firms with audit committees. Velte (2020) finds a positive association between audit financial and industry expertise of audit committees and KAMs readability.

*4.3.4 Summary*

According to prior studies, KAMs reporting determinants can be categorised into three primary areas: audit firm and auditor-related, client-related, and corporate governance-related characteristics. Figure I shows the determinants of KAMs reporting based on prior studies.

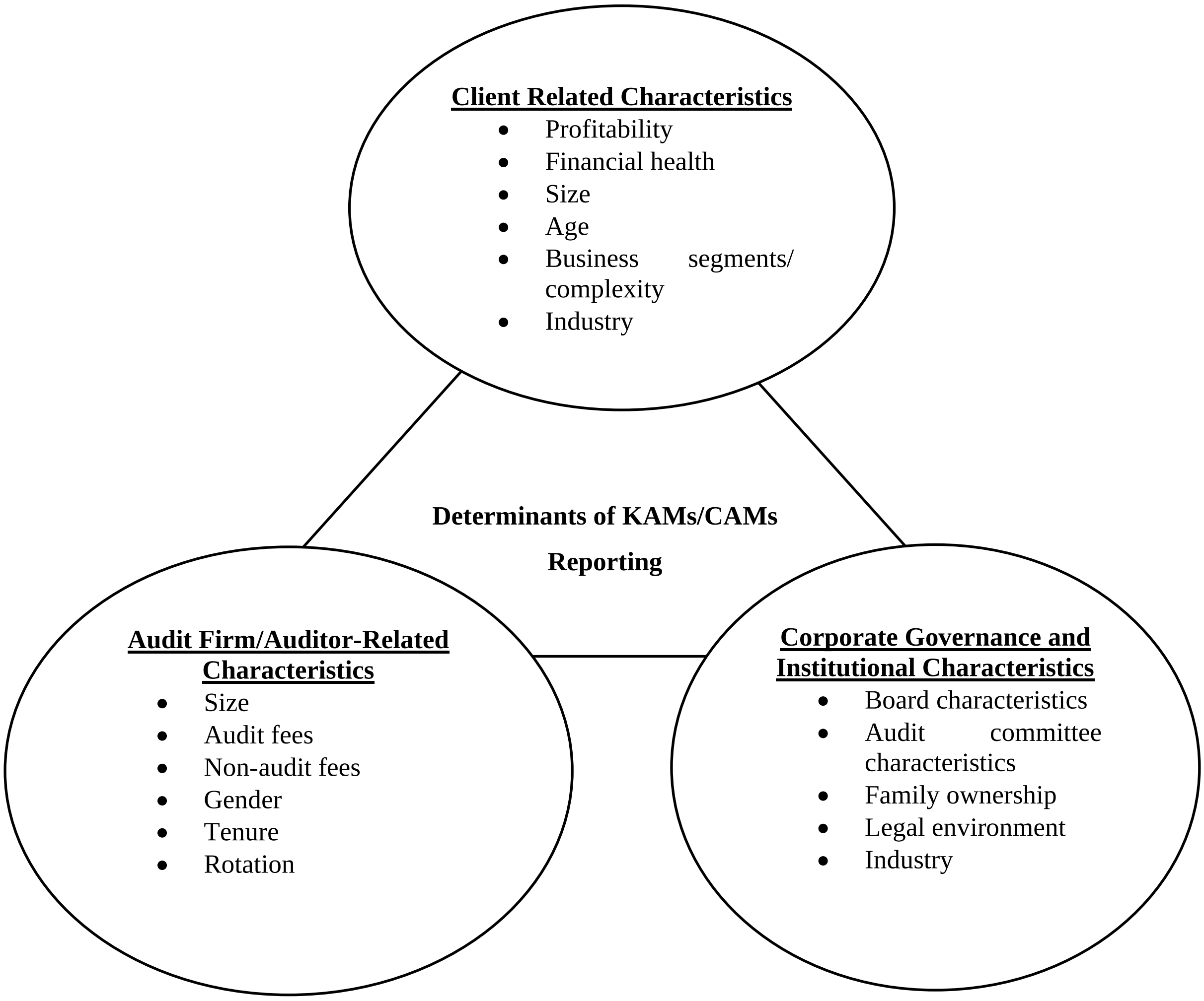



Figure I: Determinants of KAMs/ CAMs

## 5. Suggestions for Future Research Opportunities

The review covers many articles published in 2024, evidencing that the social scientists' focus has increased on KAMs reporting since 2016. This emerging interest in the KAMs reporting-related research underscores many potential KAMs reporting research in the forthcoming years. Prior studies suggest that institutional factors, especially the legal environment, play an important role in the adoption and implementation of accounting and auditing standards. More particularly, prior studies found differences regarding financial reporting and auditing practices and quality between legal traditions. They suggest common law countries for better investor protection. In the globalized business environment, stakeholders, especially regulators and standard setters, are more concerned about auditing harmonization because accounting and auditing applications are more likely to differ between nations. KAMs reporting is the latest significant change; moreover, these relate to significant matters identified and addressed in the auditing process, including significant risks. I observed that relatively few prior studies have focused on cross-country analysis. Only 8.4% of review studies are cross-country investigations; notably, many have focused on the European context (83.33%). Therefore, cross-country studies, especially in similar regions, for example South Asia, similar nations, similar legal traditions, different regions, for example, Europe and Asia, different nations, and different legal traditions, for example, common and civil law, have been isolated in the prior studies, and potential for future research.

Based on the reviewed articles, many prior studies have focused on the Chinese market (19.72%), followed by UK (12.67%), U.S. (12.67%), Australia (7.75%), Thailand (5.63%), Taiwan (4.23%), few studies are from New Zealand, Bangladesh, Canada, Germany, Finland, Oman, Egypt, Ethiopia, Hong Kong, Malaysia, Jordan, Netherlands, Norway, South Africa, Spain, Sweden, and Palestine. Subject to filtering criteria, no prior studies have focused on the largest economies such as Japan, India, France, Italy, or Brazil. These countries represent the 10 largest economies in the world in 2025 (Forbes India, 2025). Therefore, potential research opportunities are available in the market. The following sections suggest some future research opportunities based on the above review under three dimensions.

### *5.1 Benefits (usefulness) and Consequences of KAMs/CAMs reporting*

Clients (management), auditors, and other stakeholders (users) are more concerned about KAMs reporting outcomes. However, many prior studies have examined the market reactions to KAMs disclosure, especially related to the share price. Some studies have focused on the relationship between KAMs and debt contracting, KAMs and financial reporting and audit quality, and KAMs and forecasting quality. Relatively few studies have examined the outcomes of KAMs reporting, focusing on management competence and performance. A fundamental question that can arise is whether identifying and addressing KAMs increases (helps) management competence and performance. Based on this question, future research may examine the relationship between KAMs reporting and management competence and performance in various aspects, for example, financial statements disclosures, financial and non-financial performance, because KAMs disclosures cover accounts-level and entity-level KAMs. KAMs disclosure is more likely to affect the financial statements' disclosures, for example, accounting estimates, provisions, fair value, and intangible assets recognition, especially goodwill, and tax-related disclosures (Jahan et al., 2024; Drake et al., 2024; Lei et al., 2024; Kang, 2019; Höfmann et al., 2024; Ma et al., 2024; Bentley et al., 2021). KAMs disclosure is more likely to improve the performance related to liquidity management (especially inventory, trade receivables and payables, and cash holding), acquisition of new assets and business segments, capital structure, and sustainability (going concern) (Zeng et al., 2021; An et al., 2023). In addition, KAMs disclosure is more likely to increase non-financial performance, for example, internal control system (Li et al., 2024; Lei et al., 2024). Finally, future research may examine the relationship between KAMs disclosure and management competence and performance.

Prior studies have focused on the relationship between KAMs and financial reporting and audit quality. However, less attention has been given to the relationship between KAMs reporting and auditor competence, especially focusing on the better prediction of audit opinions. Some prior studies have documented that KAMs reporting is more likely to increase auditors' workload and efforts (auditor competence) (Zeng et al., 2021; Rautiainen et al., 2021; Alharasis et al., 2024; Bepari et al., 2024; Nguyen et al., 2021; Bepari et al., 2024). Moreover, KAMs reporting is more likely to enhance the audit process more fluently. Identifying and addressing more significant matters (more KAMs) are more likely to help predict an appropriate audit opinion. For example, when auditors identify and address more KAMs, they may modify the audit report rather than identify and address zero or fewer KAMs. Potential future research may examine the relationship between KAMs and audit opinions, which is more likely to have implications for financial statement users, especially regulators and standard setters.

Identifying more KAMs and accurately addressing these KAMs may reduce financial restatements when auditors and firms accurately address the identified significant matters (KAMs) in the financial statements. On the other hand, when firms and auditors fail to address the identified KAMs accurately, there is a likelihood of financial restatements. Because KAMs relate to significant risks. Further, some KAMs are related to judgment on the provisions and estimates in the financial statements. Therefore, KAMs relate to uncertainties because these represent significant risks and uncertainties. KAMs related to uncertainties (judgment on provisions and estimates) are more likely to have a positive association with FR. KAMs may highlight the potential financial restatements when these KAMs relate to uncertainties, high risks, and judgments on estimates and provisions. Firms are more likely to restate financial statements when auditors and management fail to address the identified significant matters correctly. In contrast, firms are less likely to restate financial statements when auditors and management address the identified KAMs (significant matters) correctly. As discussed above, some prior studies have focused on the relationship between KAMs and financial statements (Huang et al., 2024; Kitiwong et al., 2020; Khuong et al., 2024; Camacho-Miñano et al., 2024; Ma et al., 2023); however, there is no strong evidence of either a significant positive or negative relationship between KAMs and financial restatements. Therefore, the relationship between KAMs and FR is an open question for further investigation (unsettled issue). Potential research is more likely to investigate the relationship between KAMs and financial restatements to contribute to existing literature on the relationship between KAMs and FR.

KAMs reporting is more likely to increase auditing cost and time because it is the latest and additional mandatory requirement for listed firms' financial statements audits. Auditors are required to disclose KAMs, and they are responsible for KAMs disclosure. They are more likely to consume considerable auditing resources, specifically, time for addressing and reviewing KAMs appropriately. As pointed out earlier, many prior studies have documented that auditors' workload and efforts have increased since the introduction of KAMs reporting (Zeng et al., 2021; Rautiainen et al., 2021; Alharasis et al., 2024; Bepari et al., 2024; Nguyen et al., 2021; Bepari et al., 2024). Some studies have focused on the relationship between KAMs and audit fees (Espahbodi et al., 2023; Reid et al., 2019; Li et al., 2019; Zhang et al., 2021; Elmarzouky et al., 2022; Kitiwong et al., 2024; Baatwah et al., 2024; Bradbury et al., 2019), and KAMs and audit delay (Reid et al., 2019; Abdullatif et al., 2023; Lee et al., 2024; Rahaman et al., 2024; Alawadhi et al., 2024; Kitiwong et al., 2024; Abdullatif et al., 2023). These studies have documented mixed results on the above relationships. Therefore, the relationship between KAMs and audit fees, and KAMs and audit delay is an open question for further investigation (unsettled issue). Potential research is more likely to investigate the relationship between KAMs and audit fees, and KAMs and audit delay, to contribute to existing literature on the relationship between KAMs and audit fees and KAMs and audit delay.

Auditors are more likely to provide extensive disclosures through KAMs, including identifying and addressing significant risks. Therefore, KAMs disclosure is more likely to increase or reduce perceived risks. However, relatively few prior studies have focused on the relationship between KAMs disclosure and the perceived risks of stakeholders, especially investors (Ma et al., 2024; Klevak et al., 2023; Brown et al., 2020; Backof et al., 2022). Future studies may examine the relationship between KAMs disclosure and investors' (equity and debt) perceived risks (especially experimental studies). Especially with the fundamental question of the relationship between KAMs disclosure and investment decisions, and may consider gender differences (male and female investors) and professional knowledge and experience differences (professional and non-professional investors) in this link (Ratzinger-Sakel et al., 2020; Ma et al., 2024).

As discussed earlier, auditors disclose significant matters identified and addressed in the financial statements as KAMs. Therefore, firms are less likely to disclose more KAMs when they perceive that more KAMs disclosure signals or highlights more risks or negative performance of the firms to the market. This perception is more likely to create a problem in the relationship between firms and auditors and may cause adverse outcomes for KAMs or more KAMs. No prior studies have focused on the relationship between KAMs reporting and the auditor-client relationship. Future research may investigate the effect of KAMs disclosure on the relationship between firms and auditors.

### ***5.2 Determinants of KAMs Reporting***

#### *5.2.1 Audit firm-related characteristics*

Allowing financial statement auditors to provide non-audit services is a long-term debate with positive and negative arguments and research findings. Therefore, stakeholders are more concerned about non-audit fees over the decades. Not surprisingly, many prior studies have focused on the relationship between non-audit fees and audit quality (auditing outcomes and financial reporting quality) (DeFond, Raghunandan, & Subramanyam, 2002; Kinney Jr, Palmrose, & Scholz, 2004; DeFond & Zhang, 2014). However, this review underscores less attention on the relationship between non-audit fees and KAMs reporting (only one article was found on this relationship). Therefore, there are potential research opportunities on this relationship for insightful findings for practical implications, and contributions to audit quality literature.

Emerging interest in gender diversity motivates gender diversity research in auditing. Gender diversity-related research interest has increased since the UN introduced 17 Sustainable Development Goals (SDGs) in 2015; more specifically, SDG 5 is gender equality. Not surprisingly, many prior studies have focused on auditor gender diversity and auditing outcomes (Hossain, Chapple, & Monroe, 2018; Hardies, Breesch, & Branson, 2016; Ittonen & Peni, 2012; Khlif & Achek, 2017). This review highlights limited attention on the relationship between auditor gender and KAMs disclosure. Potential research on this link is more likely to bring more insightful findings for practical implications and contribute to audit-quality literature.

The emerging interest in sustainability demands non-financial reporting (sustainability reporting, corporate social responsibility reporting, integrated reporting, ESG reporting, climate-related financial disclosure) and assurance on these reports. This interest and demand led to the latest evolution in auditing called the joint provision of financial statements and extended external reports assurance. Prior studies have focused on the relationship between joint provision and auditing outcomes (Ruiz-Barbadillo & Martínez-Ferrero, 2020; Maso, Lobo, Mazzi, & Paugam, 2020; Lu, Simnett, & Zhou, 2023). However, this review documents no prior studies investigating the relationship between joint provision and KAMs disclosure.

Some prior studies have documented a positive association between local auditors and audit quality (Francis, Golshan, & Hallman, 2022; Dong, & Robinson, 2018; Chen, Gul, Truong, & Veeraraghavan, 2016; Wang, Chiu, & Kogan, 2024), and a recent study has documented a significant negative relationship between local auditors and audit quality (Rahaman, Karim, & Sobhan, 2025). The above positive and negative relationship between auditor-client geographical proximity and audit quality is due to two important concerns: auditor competence and independence. Local auditors are more likely to have a better understanding and knowledge of clients and their business environment, and such better understanding and knowledge are more likely to increase auditors' competence and lead to audit quality. On the other hand, when auditors are very close in geographic distance, they may have familiarity (a good relationship between auditors and firms) threats, which may affect auditors' independence and lead to poor audit quality. KAMs are the outcome of financial statements auditing. KAMs refer to significant risks, transactions, events, and the auditor's judgment. Geographical closeness between clients and auditors is more likely to determine KAMs due to potential auditor competence and auditor independence issues. No prior studies have focused on the relationship between auditor-client geographical proximity and KAMs. Potential research is more likely to investigate the relationship between auditor-client geographical proximity and KAMs to reveal insightful findings and contribute to the existing literature on auditor-client geographical proximity and audit quality.

*5.2.2 Client attributes*

Considerable research has focused on the relationship between client attributes and KAMs disclosure. However, limited attention has been given to the comparative study KAMs reporting between and among industries. For example, the emerging interest in sustainability and its reporting may increase KAMs disclosure for environmentally harmful industries (for example, mining industries) than environmentally friendly industries (for example, professional services). Further, auditors are more likely to react to business mergers and acquisitions/and disposals because these are significant transactions and events (unusual transactions and events). However, existing studies have not examined the relationship between business acquisition/ disposal and KAMs disclosure. Prior studies have focused on the role of auditors and auditing outcomes in mergers and acquisitions (Gal-Or, Hoitash, & Hoitash, 2022; Chahine, Hasan, & Mazboudi, 2018; Cai, Kim, Park, & White, 2016). This review suggests the above potential research opportunities on the relationship between client attributes and KAMs disclosure.

*5.2.3 Corporate governance characteristics*

This SLR indicates that less research has focused on the relationship between corporate governance characteristics and KAMs reporting. However, the corporate governance and auditing literature highlights the important role of corporate governance in auditing and audit reporting, supporting significant theories such as agency, information asymmetry, resource dependency, and upper echelons theories. Numerous studies have examined board size and auditing outcomes. However, this review did not find prior studies examining the relationship between board size and KAMs disclosure. This review found two studies on the relationship between board independence and KAMs disclosure (Wuttichindanon et al., 2020; Noureldeen, Elsayed, Elamer, & Ye, 2024). These studies show mixed results in this link. Therefore, the relationship between board independence and KAMs disclosure is an open research question for further investigations. Further, auditing literature shows that many studies have focused on the relationship between audit committee independence and auditing outcomes. However, this review did not find prior studies examining the relationship between board size and KAMs disclosure. As discussed at the beginning of section 5, the literature highlights the crucial role of the legal environment in the adoption and implementation of auditing standards. It is related to institutional theory. However, less attention has been given to the relationship between legal environment/ institutional factors and KAMs disclosure. This review suggests the above potential research opportunities on the relationship between corporate governance characteristics and KAMs disclosure.

## 6. Conclusion

KAMs reporting is the latest mandatory reporting for listed firms in many countries. This systematic literature review summarizes the prior research in KAMs reporting under the outcomes and determinants of KAMs reporting. Existing studies reveal many KAMs reporting outcomes, especially better information to external users (investors), increased financial reporting, audit, and forecasting quality, and mixed results on audit fees, audit delay, and financial restatements. Prior studies have documented that audit firm-related specific characteristics, client-specific characteristics, and corporate governance characteristics significantly determine KAMs disclosure. Several prior studies have focused on the outcomes and determinants of KAMs reporting; however, there are some potential research opportunities (as suggested in section 5) on the outcomes and determinants of KAMs reporting. This review significantly contributes to audit quality literature by summarizing quality published research in KAMs reporting. Further, it helps future researchers to identify research gaps (potential research opportunities). In addition, this study has practical implications for stakeholders by providing a comprehensive review of KAM reporting, especially for management, auditors, regulators, standard setters, and investors for their economic decision-making and revision of corporate policies and standards.

Similar to prior review studies, this study has some limitations. First, this study only covers 142 papers published in top-tier Scopus-indexed journals as per applied criteria, therefore, articles published in other journals may have insightful findings on the outcomes and determinants of KAMs reporting. Second, this review does not compare the industry, market, and year. However, such a comparison may be insightful and useful for understanding and identifying potential research opportunities. Third, this review covers both primary and secondary data studies. However, a separate review of primary and secondary data studies may highlight particular research methods' prior evidence, gaps, and opportunities. Finally, this review covers only papers published from 2016 to the end of 2024. However, KAMs reporting was introduced in 2013 in the UK. Studies conducted before 2016 and after 2024 were not included in this review. I leave these limitations for future reviews on the determinants of KAMs reporting.

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