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Review Paper

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THE EFFECTS OF DISCLOSING KEY AUDIT MATTERS IN THE AUDITOR'S REPORT

ЕФЕКТИ ОБЈЕЛОДАЊИВАЊА КЉУЧНИХ РЕВИЗИЈСКИХ ПИТАЊА У РЕВИЗОРСКОМ ИЗВЈЕШТАЈУ

Summery: *The aim of this paper is to determine whether the disclosure of key audit matters in the auditor's report increased the communication and informational value of the auditor's report, the quality of financial statements and the quality of the audit through the analysis of the results of a large number of empirical studies. Most experimental studies show that key audit matters have the potential to effectively direct the attention of users of financial statements to relevant areas, influence the decisions of users of financial statements and reduce the tendency of managers to perform aggressive financial reporting. However, a larger number of studies have found that there is a lack of a broader capital market reaction to the disclosure of key audit matters and that the disclosure of key audit matters does not lead to a reduction in earnings management. Furthermore, most research show that the introduction of the obligation to disclose key audit matters does not lead to an increase in the audit fee and the auditor's report lag, but that there are possible negative effects of the introduction of the obligation to disclose this information in terms of managers' reluctance to share information about their accounting choices with auditors and the reduction of scepticism assessment and sceptical actions of auditors.*
Keywords: *Key audit matters (KAM), Investor behaviour, Quality of financial statements, Audit quality*
JEL classification: *M41, M42*

Резиме: *Циљ овог рада је да се кроз анализу резултата већег броја емпиријских истраживања утврди да ли се са објелодањивањем кључних ревизијских питања у ревизорском извјештају повећала комуникациона и информациона вриједност ревизорског извјештаја, квалитет финансијских извјештаја и квалитет ревизије. Већина експерименталих студија показује да кључна ревизијска питања имају потенцијал да ефикасно усмјере пажњу корисника финансијских извјештаја на релевантна подручја, да утичу на одлуке корисника финансијских извјештаја и да смање склоност менаџера да врше агресивно финансијско извјештавање. Ипак, у већем броју истраживања утврђено је да изостаје шира реакција тржишта капитала на објелодањивање кључних ревизијских питања и да објелодањивање кључних ревизијских питања не доводи до смањења управљања зарадом. Такође, већина истраживања показује да увођење обавезе објелодањивања кључних ревизијских питања не доводи до раста ревизорске накнаде и кашњења ревизорског извјештаја, али да постоје могући негативни ефекте увођења обавезе објелодањивања ових информација у смислу неспремности менаџера да дијеле информација о својим рачуноводственим изборима са ревизорима и смањења скептичног процјењивања и скептичног дјеловања ревизора.*
Кључне ријечи: *кључна ревизијска питања, понашање инвеститора, квалитет финансијских извјештаја, квалитет ревизије*
ЈЕЛ класификација: *M41, M42*

INTRODUCTION

The auditor's report is the most important output of the audit process. Through the auditor's report, the auditor communicates the results of the audit to the users of financial statements. The auditor's report is the only source of information about the conducted audit that is available to owners and other external stakeholders. In order to be more effective in communication, the auditor's report is standardized by containing a description of the financial statements that were the subject of the audit, a description of the audit itself and certain responsibilities of the management and the auditor, as well as the auditor's opinion on whether the audited financial statements provide a true and fair view of the achieved company performance.

The form and content of auditor's reports have been the subject of frequent criticism. Auditors have been criticized for using highly standardized language in the auditor's report (Asare and Wright 2012; Church et al. 2008; Cordoş and Fülöp 2015). When preparing the auditor's report, auditors respect the form and specific wording defined by audit standards. The use of standardized language has resulted in the fact that the text of different auditor's reports containing an unmodified audit opinion is almost identical (Church et al. 2008; Gray et al. 2011). Users value the audit opinion, but pay less attention to the other elements of the auditor's report because their content is familiar to them even without detailed reading (Turner et al. 2010).

Users felt that auditor's reports did not have sufficient informational value (Church et al. 2008). Auditors were criticized for not explaining how they obtained the opinion given in the auditor's report, for not pointing out key areas of risk and for not communicating sufficiently with shareholders and potential investors whose interests they are supposed to protect (Vanstraelen et al. 2012; Cordoş and Fülöp 2015). A number of accounting scandals and the global financial crisis have led stakeholders, especially institutional investors and financial analysts, to want more information about the audit, auditor and financial statements (Mock et al. 2013). Stakeholders expect to receive information that will help them better understand the financial statements, as well as to assess the risks associated with the financial position and profitability of the company. They are aware of the fact that auditors have much more information about the audited company than they disclose in the auditor's report (Tušek and Ježovita 2018). Auditors, on the other hand, tend to minimize the risk of litigation by providing in their auditor's reports the minimum level of information required by auditing standards (Hegazy and Kamareldawla 2021). This indicates the existence of an information gap, i.e. the gap between the information users want about financial statements and audits and what is available through the company's audited financial statements and the auditor's report. The information gap is closely related to the expectation gap, which refers to the difference between users' expectations of an audit and what auditors perceive to be their responsibility (IAASB 2011). This created the need for making significant changes to the auditor's report in order to reduce misperceptions.

In response to expressed concerns that auditor's reports are not sufficiently transparent and do not have the expected communication and informational value for users, the International Auditing and Assurance Standards Board issued six revised and one new standard regarding auditor's reporting in 2015 (IAASB 2015a). Revised and new standards became effective for audits of financial statements for periods ending on or after December 15, 2016. The most significant change relates to the introduction of International Auditing Standards (IAS) 701: Communicating of Key Audit Matters in the Independent Auditor's Report. This standard requires the auditor of a listed company to disclose key audit matters in the auditor's report (IAASB 2015b).

Key audit matters (KAM) are matters that, according to the auditor's professional judgment, were of the greatest importance in the audit of the financial statements for the current period. They are selected from the matters that required significant attention of the auditor during the audit and about which the auditor communicated with those charged with governance. KAM include areas identified as having significant risks of material misstatement, involving significant judgment by the auditor or management, or where the auditor encountered significant difficulties during the audit. KAM may also include circumstances that required a significant modification of the auditor's planned approach to the audit. The description of KAM in the auditor's report should include an explanation of why a particular matter is considered highly significant in the audit, how the matter was addressed in the audit, as well as a reference to related disclosures in the financial statements.

The idea of auditor disclosure of KAM is not entirely new. Namely, since 2003, auditors in France have been required to provide comments in the auditor's report called "Justification of Assessments" (JOA). JOA are very similar to KAM in that auditors should provide information that will enable the users of the auditor's report to better understand the reasons that have led the auditor to form a particular audit opinion on the financial statements (Haut Conseil des Commissaires aux Comptes 2006). Since 2012, auditors in the United Kingdom have been required to disclose in their reports information regarding the significant risks of material misstatements (RMM) (FRC 2013). In 2017, the US Public Company Accounting Oversight Board (PCAOB) introduced the obligation to disclose critical audit matters (CAM) in auditor's reports. CAM is defined as any matter that the auditor communicates or should communicate to the audit committee as it relates to material accounts or disclosures and involves particularly challenging, subjective, or complex audit judgments (PCAOB 2017). The definitions of KAM, according to the provisions of the IAASB (2015b) and CAM, according to the provisions of the PCAOB (2017), differ to some extent, but the way in which they are determined is very similar.

KAM bring information specific to the audited company into the auditor's report. The goal of their inclusion in auditor's reports is to increase the transparency of the conducted audit, reduce information asymmetry and increase the communication and informational value of the auditor's report (IAASB 2015a). Auditing standard setters believe that this information will help "investors and other financial statement users focus on aspects of the company's financial statements that the auditor also found to be challenging" (PCAOB 2013) and that this information provides "…roadmap to help users better navigate complex financial statements and focus them on matters likely to be important to their decision-making" (IAASB 2011). The disclosure of KAM should reassure users that all significant matters have been identified and properly addressed during the audit (Gutierrez et al. 2018). Representatives of regulatory bodies also believe that including KAM in the auditor's report will encourage managers to think more carefully about the quality of processes and controls regarding financial reporting (Katz 2013). This means that the disclosure of KAM could not only increase transparency for users of financial statements, but also influence the behaviour of managers and the quality of financial statements. The standard setters also consider that the KAM disclosure could affect the auditor's behaviour in terms of increasing the auditor's professional scepticism (IAASB 2015c).

The question arises whether the expected effects from the introduction of KAM in the auditor's report are really realized in practice. This paper deals with this question. The aim of the paper is to determine whether the communication and informational value of the auditor's report, the quality of financial statements and the quality of the audit increased with the disclosure of KAM in the auditor's report, through the analysis of the results of a large number of empirical studies. With that in mind, the rest of the paper is structured as follows. In the second section, the impact of KAM disclosure in the auditor's report on the behaviour of investors is analysed. In the third section, the impact of their disclosure on the behaviour of managers and the quality of financial statements is considered. In the fourth section, the impact of the obligation to disclose KAM in the auditor's report on auditor behaviour and audit quality is considered. The fifth section includes concluding remarks.

1. THE INFLUENCE OF THE KAM DISCLOSURE ON THE INVESTORS' BEHAVIOUR

Ideally, KAM should improve investors' understanding of what auditors do to reach an audit opinion on financial statements. Through KAM, auditors disclose identified risks and their responses to those risks. Through this information, investors become better acquainted with the work of auditors, which should increase their trust in auditors and audit opinion. Also, investors receive additional information about the company whose financial statements are subject to audit. This is information related to areas of the financial statements that are subject to managerial judgment and increased uncertainty regarding the existence of material misstatements. The inclusion of such information in the auditor's report should contribute to the reduction of information asymmetry and should be reflected on the behaviour of investors when making decisions.

However, researchers examining the impact of KAM disclosure on the aggregated reactions of financial markets have come to conflicting results. On the one hand, Alves Júnior and Galdi (2019) and Altawalbeh and Alhajaya (2019) found that financial markets react to the KAM disclosure in auditor's reports. Namely, Alves Júnior and Galdi (2019) determined that the KAM disclosure affects abnormal returns on the financial market, on a sample of Brazilian public companies. Altawalbeh and Alhajaya (2019) found that the KAM disclosure in auditor's reports affects the abnormal trading volume, on a sample of Jordanian public companies. These two studies show that KAM have an informational value for investors and influence their behaviour in the capital market.

On the other hand, a large number of studies have shown that the financial market does not react to the disclosure of KAM or similar information. Bédard et al. (2014) found that JOA disclosure does not affect either the abnormal return or the abnormal trading volume, on a sample of public companies in France. Gutierrez et al. (2018) as well as Lennox et al. (2018) found that RMM disclosure also does not affect either abnormal return or abnormal trading volume, on a sample of UK companies. Li (2017) found that KAM disclosure does not affect abnormal return, on a sample of Chinese companies, and Kitipong et al. (2020) found that KAM disclosure does not affect either abnormal return or abnormal trading volume, on a sample of Thai companies. Also on a sample of Thai companies, Boonyanet and Promsen (2018) found that KAM disclosure has little impact on share prices. Based on the results of these studies, it could be concluded that the inclusion of KAM in the auditor's report has a symbolic value rather than an informational value (Bédard et al. 2014).

Obtaining conflicting results can be explained in several ways. Lennox et al. (2018) believe that the information disclosed as KAM is reliable, but that the financial market does not react to it because that information was already available to investors from other sources. Examining the first year of KAM disclosure in New Zealand, Al-mulla and Bradbury (2022) found that investors considered risks even before they were disclosed in auditor's reports as KAM. Wei et al. (2017) found that in Australia, one-third of matters disclosed as KAM in the first year of IAS 701 implementation had already been disclosed in the previous year's annual report of audited companies. This means that for certain investors the information disclosed as KAM is not completely new.

Furthermore, investors cannot be seen as a homogeneous group and it cannot be expected of all of them to react in the same way to the disclosure of certain information. Investors have different levels of risk aversion. Velte and Issa (2019) point out that risk-averse investors might leave the company due to risk information disclosed as KAM, while risk-neutral and risk-seeking investors might respond to increased transparency by investing more in the company. Li (2020) and Köhler et al. (2020) believe that the different levels of professional abilities of investors affect the possibility of interpreting and therefore using the information contained in the auditor's report. It follows that the individual characteristics of investors are very important for explaining the impact of KAM disclosure on investor behaviour and that investigating the aggregated reaction of the financial market is not sufficient. It is necessary to investigate the perception and reactions of individual investors or certain categories of investors.

Using an experimental method, Köhler et al. (2020) investigated whether KAM disclosure has informational value for professional and non-professional investors. They found that professional investors' assessments of the company's economic situation are influenced by disclosed KAM and that KAM have no informational value for non-professional investors because they have difficulty interpreting this information. Carver and Trinkle (2017), Sirois et al. (2018), Christensen et al. (2014), Rapley et al. (2021) and Moroney et al. (2021) focused their attention only on non-professional investors, also using the experimental method. Carver and Trinkle (2017), as well as Köhler et al. (2020), found that for non-professional investors, CAM disclosure reduces the readability of the auditor's report and does not affect their assessments. On the other hand, Sirois et al. (2018) found that KAM have the role of directing users' attention. They found that non-professional investors pay more attention to disclosures in financial statements that are mentioned in the auditor's report as KAM than to other components of financial statements. This shows that KAM has the potential to help non-professional investors navigate complex financial statements and focus their attention on relevant issues. Therefore, auditors must choose KAM carefully. Christensen et al. (2014) found that non-professional investors who received an auditor's report with CAM were more likely to change their investment decision compared to investors who received a standard auditor's report or received this information in management reports. Rapley et al. (2021) found that, relative to situations where no CAM was identified by auditors, CAM disclosure reduces the investment intentions of non-professional investors. Moroney et al. (2021) determined that the auditor's report has a communication value for non-professional investors only in the case when the audit was performed by a Non-Big 4 audit firm. According to these authors, the communication value of the auditor's report is manifested in the form of an increase in the perceived value of the audit and the perceived credibility of the auditor. They also determined that in the case when the audit was performed by a Big 4 audit firm, the perceived value of the audit and the credibility of the auditor are equally high, regardless of whether KAM is included in the auditor's report, because stakeholders believe that the Big 4 audit firms perform a higher quality audit compared to Non-Big 4 audit firms.

Whether KAM will have informational value for investors and other users of financial statements depends on the characteristics of KAM themselves. Prasad and Chand (2017), as well as Kitiwong and Sarapaivanich (2020), found that the informational value of KAM can be reduced or even lost if KAM are too general and stated in a standardized form. Li (2017) points out that the KAM disclosed in the auditor's reports of different companies belonging to the same industry are almost the same. Such disclosures may not provide specific information about areas of the financial statements that require the special attention of users of financial statements. KAM should be specific for each subject of audit, regardless of whether they belong to the same or different industry. Furthermore, Li (2020) points out that although the situation with audited companies changes from year to year, it is not uncommon for auditors to disclose the same KAM every year. Prasad and Chand (2017) argue that the informational value of KAM can be reduced in the case of disclosing a large number of KAM and giving too extensive explanations of KAM. In this case, the users cannot understand the essence of the KAM and the audit opinion. Kohler et al. (2020) indicate that KAM can be incomprehensible to users because they are complex and contain technical terms. With all of the abovementioned in mind, Pries and Scott (2018) state that although auditors in their auditor's reports meet the specific requirements of IAS 701, they still do not seem to meet the objective of the standard.Text…

2. THE IMPACT OF KAM DISCLOSURE ON THE BEHAVIOUR OF MANAGERS AND THE QUALITY OF FINANCIAL STATEMENTS

Agency theory assumes the existence of a conflict of interest between managers and owners. This theory assumes that managers will engage in actions that maximize their own utility at the expense of owners in situations where they assume that their behaviour will not be discovered (Gold et al. 2020). Fields et al. (2001) argue that managers consciously use inherent market imperfections, such as information asymmetry, to mislead owners about the company's underlying performance. Managers do this by using flexibility in accounting choices to intentionally influence the outcome of financial statements (Gold et al. 2020). They do this in order to gain personal benefit in the form of retaining managerial positions, preserving their reputation and obtaining larger bonuses. Personal benefits accrue due to owners' limited ability to detect earnings management.

Accountability theory assumes that the expectation that managers will be called upon to justify their position to owners and other stakeholders affects their judgment and the quality of their decisions (Gold et al. 2020). Presumably, in such circumstances, they feel more pressure to provide justifiable explanations. Because of this, they are ready to put more effort into judgment and decision-making. With this in mind, Gold et al. (2020) assume that in the case of KAM disclosure, managers expect their estimates to be more scrutinized by auditors, investors and other users of financial statements compared to the case of an unmodified auditor's report that does not contain KAM. This means that greater transparency can reduce the likelihood of earnings management due to a higher risk of detection by owners and other market participants (Barghathi et al. 2021). In other words, greater transparency of auditor's reports should increase the level of management responsibility and lead to an improvement in the quality of financial statements.

Gold et al. (2020) believe that if the auditor once disclosed a certain matter in the auditor's report as KAM, it is reasonable to assume that this area of financial statements will be the subject of the auditor's interest in the audits that will be carried out in the following years. Managers may expect the auditor to spend additional time and resources auditing those matters (Reid et al. 2019). Furthermore, managers could change their reporting behaviour also because the possibility of disclosing certain areas of financial statements as KAM gives auditors more bargaining power compared to managers. Reid et al. (2019) believe that auditors could ask managers to give up aggressive financial reporting in exchange for no longer highlighting a certain area of financial statements in the auditor's report as an area of increased risk of misstatement. As a result, managers may use a more conservative approach in areas of financial reporting that require managerial judgment to avoid the auditor commenting on those matters in a negative light.

Gold et al. (2020) also believe that managers could change their behaviour in financial reporting due to the increased attention of investors. As already mentioned in the previous section, Sirois et al. (2018) found that investors pay more attention to disclosures in financial statements that are mentioned in the auditor's report as KAM. This means investors will examine matters identified as KAM more closely, which could increase their ability to detect earnings management. Therefore, managers could abandon earnings management and opt for conservative financial reporting, thereby improving the quality of financial reporting (PCAOB 2017).

Li (2020) found that KAM disclosure affects managers' willingness to communicate more with the auditor. Cade and Hodge (2014) found that managers share less information with auditors about their accounting choices when they are told that the auditor will disclose such choices. This is a potentially negative effect of disclosing KAM in the auditor's report. Gold et al. (2020), using the experiment method, empirically confirmed that managers' propensity to make aggressive financial reporting decisions is reduced in situations where KAM is disclosed in auditor's reports compared to situations where auditor's reports do not contain KAM. Reid et al. (2019) also found that RMM disclosure is associated with a reduction in opportunistic earnings management, which leads to an improvement in the quality of financial statements. They also found that investors believe that the quality of financial reporting is better after the implementation of audit standards that require the disclosure of RMM. These authors also examined whether the quality of financial statements is affected by the actual disclosure or the threat of disclosure of RMM. If the actual disclosure of RMM affects the quality of financial statements, one would expect the quality of financial statements to be higher when more RMM are disclosed. However, the authors did not find empirical confirmation of this.

It should also be noted that a certain number of authors who examined the relationship between the disclosure of KAM and measures indicating the existence of earnings management in financial statements did not find empirical confirmation that the disclosure of KAM in the audit report leads to a decrease in earnings management (Gutierrez et al. 2018; Wei et al. 2017; Al-mulla and Bradbury 2022).

Given that standardization of information potentially reduces the informational value of KAM, Gold et al. (2020) examined whether disclosure of non-firm-specific KAM, compared to disclosure of firm-specific KAM, has less impact on managerial behaviour and the quality of financial statements. They assumed that in situations where investors are provided with less precise information, their ability to evaluate managerial estimates and identify earnings management is reduced, which is why they pay less attention to that information and that managers are aware of it. However, they did not find empirical confirmation of this. Even in the case of KAM disclosures with non-firm-specific content, managers show a lower tendency to make aggressive financial reporting decisions compared to managers who received an auditor's report without KAM. This means that the mere presence of KAM in the auditor's report, regardless of its content, can serve as a mechanism for reducing aggressive financial reporting and improving the quality of financial statements. This result may seem logical, bearing in mind that at the time of making decisions on accounting estimates, managers do not know what the auditor will disclose in his/her auditor's report. The very possibility or threat of KAM disclosure can influence management behaviour, as Reid et al. (2019) confirmed. However, it should be borne in mind that managers try to influence the auditors and the content of their auditor's reports. In a study conducted by Barghathi et al. (2021), auditors employed by Big 4 audit firms confirmed that the disclosure of KAM in the auditor's report led to a reduction of earnings management practices, while auditors employed by Non-Big 4 audit firms indicated that they were under great pressure from clients and their own management to hide earnings management practices in order not to lose clients. This shows that only including KAM in the auditor's report is not enough to reduce earnings management practices. It is necessary for regulatory bodies to adopt stricter rules that will ensure uniformity in auditing practices.

3. THE IMPACT OF KAM DISCLOSURE ON AUDITORS' BEHAVIOUR AND AUDIT QUALITY

While the impact of KAM disclosure on investor behaviour is directly aligned with the goals of implementing ISA 701, the question arises whether identifying and disclosing KAM affects auditor behaviour and audit quality. Bédard et al. (2019) believe that the requirements placed on auditors regarding the disclosure of additional information in auditor's reports increase their sense of responsibility. Kitipong et al. (2020) point out that increased accountability should encourage auditors to obtain more and better audit evidence and to exercise more professional scepticism in their audits. Hasen and Ozlanski (2016) believe that the KAM disclosure requirement leads auditors to expand audit procedures to minimize audit risk. This should lead to an improvement in audit quality, whereby audit quality refers to the auditor's ability to detect the existence of material misstatements and his/her willingness to report on them.

Whether the introduction of the obligation to disclose KAM in the auditor's report led to auditors performing the audit more thoroughly, the researchers determined by examining the impact of KAM disclosure on the amount of the audit fee and the auditor's report lag. The amount of the audit fee reflects the audit costs. Audit costs are correlated with the volume of activities performed by members of the audit team. Auditor's report lag refers to the time between the financial statements date and the auditor's report date. It is suggested that auditors may increase the scope of substantive audit procedures and implement quality control processes associated with identifying and disclosing KAM, in response to increased risk (IAASB 2012). Also, audit managers and partners could review the work of junior members of the audit team in more detail and spend more time discussing with the audit client management about the form and content of KAM (Kitipong et al. 2020). This could increase the cost of the audit. Further, the auditor's report lag could be increased because the activities of identifying and documenting KAM are performed as part of the final audit (PCAOB 2013). Also, discussing the form and content of the KAM with the management of the audit client before issuing the auditor's report can delay the issuance of the auditor's report (Bédard et al. 2014). The auditor's response to additional work may be to reduce efforts on other audit activities, increase the number of audit team members, or delay the issuance of the auditor's report.

Some believe that including KAM in the auditor's report will not significantly increase audit costs because KAM is nothing new to auditors (PCAOB 2011). Even before the introduction of the obligation to disclose KAM in the auditor's report, auditors were obliged to pay attention to what is defined as KAM during the audit. The difference is that before it was the internal information of the auditor, and now the auditors are obliged to share this information with the users of financial statements and the auditor's report. Bédard et al. (2014) believe that the same activities can be performed with different clients and that the audit firm has the ability to standardize these activities, which will lead to a reduction in costs. The same KAM can appear at the same audit client year after year. Therefore, in the coming years, auditors can spend less effort on identifying and documenting KAM as well as discussing with managers about KAM, which should also affect the reduction of audit costs.

Researchers have obtained contradictory results regarding the impact of the obligation to disclose KAM and similar information (JOA and RMM) in auditor's reports on the amount of the audit fee and the auditor's report lag. Li et al. (2019) and Kitipong et al. (2020) found empirical evidence that in the period after the introduction of the KAM disclosure obligation, there was a significant increase in audit fees compared to the period before the introduction of this obligation for auditors. Wei et al. (2017) found that audit fees increased only for Non-Big 4 audit firms. On the other hand, Al-mulla and Bradbury (2022), Bédard et al. (2019), Gutierrez et al. (2018), Pries and Scott (2018) and Reid et al. (2019) found that the KAM disclosure does not affect the amount of the audit fee. Pries and Scott (2018) stated that at the time covered by the research, the audit market in Australia, where the research was carried out, was quite competitive and this may have influenced the fact that there was no increase in audit fees. Reid et al. (2019) indicate that the introduction of the obligation to disclose KAM in the auditor's report led to an improvement in the quality of financial statements without creating additional audit costs. They point out that the improvement in the quality of financial statements is not a consequence of performing additional audit procedures, but rather a change in the behaviour of managers concerning financial reporting due to the threat of disclosure of KAM in the auditor's report. Regarding the impact of the KAM disclosure obligation on the auditor's report lag, Kitipong et al. (2020) found that after the introduction of this obligation for auditors, the audit report lag increased, while Al-mulla and Bradbury (2022), Bédard et al. (2019) and Reid et al. (2019) found no evidence of this. Kitipong et al. (2020) state that the inconsistency of evidence on the impact of KAM disclosure on audit fees and auditor's report lag may be due to country-level factors and the application of different research methodologies.

Ratzinger-Sakel and Theis (2019) and Asbahr and Ruhnke (2019) found that the disclosure of KAM in the auditor's report can have a negative impact on auditor behaviour and audit quality. Although it was assumed that the obligation to disclose KAM would positively influence auditor judgment and lead to an increase in professional scepticism (AASB,2015c), Ratzinger-Sakel and Theis (2019), using an experimental method, found that auditors show less professional scepticism when they are required to consider KAM than when they do not consider KAM. Namely, auditors, under the conditions of KAM disclosure, are more willing to agree to the accounting treatment that their clients want. The authors of this study believe that it is acceptable for auditors to be biased when users of financial statements are forewarned of the potential inaccuracy of accounting estimates. The results of an experimental study conducted by Asbahr and Ruhnke (2019) show that identifying and disclosing KAM does not affect the auditor's assessment of the reasonableness of accounting estimates, i.e. the scepticism of his/her assessment, but rather affects the scepticism of his/her actions. Namely, the auditors showed less willingness to insist on correcting the amount in the financial statements or demanded a smaller amount of correction when the performed accounting assessment was reported in the form of KAM. This shows that auditors may unconsciously perceive the KAM disclosure as a substitute for the need to adjust amounts in the financial statements. The results of these two studies are important for auditor standard setters. They indicate the possibility that the KAM disclosure has side effects, that is, unwanted consequences on the auditor's behaviour, his/her judgment and the quality of the audit.

CONCLUSIONS

So far, a number of research studies have been conducted in which the effects of KAM disclosure in the auditor’s report have been examined. In these studies, conflicting results and conclusions are often obtained regarding the impact of KAM disclosure on the behaviour of investors, managers and auditors. Most experimental studies show that KAM have the potential to effectively direct the attention of users of financial statements to relevant areas, influence the decisions of users of financial statements and reduce the tendency of managers to perform aggressive financial reporting. These results are promising. Auditors should be aware of the guiding role of KAM in audit reports and carefully decide what to disclose as KAM. Also, the auditing standard setters should bear in mind that users may inappropriately rely on the auditor's disclosures as a substitute for reading financial statements. This can lead to discarding otherwise useful information in financial statements that is not mentioned in the auditor's report, while placing too much emphasis on information that is explicitly stated in the auditor's report.

In addition to this, it should be borne in mind that in the majority of studies that examined the aggregated reaction of the financial market to the disclosure of KAM, it was determined that the broader reaction of the capital market to the disclosure of this information is absent. Furthermore, in the majority of studies that examined the relationship between the disclosure of KAM and measures indicating the existence of earnings management in financial statements, no empirical evidence was found that the disclosure of KAM in the auditor’s report leads to a reduction in earnings management. The question arises as to what is the real economic significance of including this information in the auditor’s report.

Most research show that the introduction of the KAM disclosure obligation does not lead to an increase in the audit fee and the audit report lag. This means that in most cases the auditors do not perform the audit more thoroughly due to the disclosure of KAM, that is, identifying and disclosing KAM does not increase the efforts and scope of the auditor's work. It could be concluded from this that the introduction of the KAM disclosure obligation did not lead to an increase in audit costs. For some, this could be reason enough to retain KAM disclosures in auditor’s reports regardless of uncertainty about the benefits to be achieved. However, it should be borne in mind that the inclusion of too much information in the auditor’s report can reduce the overall effectiveness of the auditor's communication and that certain studies point to possible negative effects of the introduction of the KAM disclosure obligation in terms of managers' reluctance to share information about their accounting choices with auditors and the reduction of sceptical assessment and sceptical action of auditors.

In order to be able to see the real effects of KAM disclosure in the auditor’s report, it is necessary to determine the reasons for obtaining contradictory results in studies on the impact of KAM disclosure on investor behaviour, the quality of financial statements and audit quality. One of the possible reasons is the application of a different research methodology. Obtaining conflicting results may be a consequence of the fact that the research is conducted in countries with different institutional frameworks, different degrees of financial markets development, different levels of financial reporting quality and audit quality. The results of the research may be influenced by specific characteristics of investors, managers or auditors or characteristics of KAM disclosure. Most of the studies in which no empirical confirmation of the impact of KAM disclosure on investor behaviour on the financial market was found were carried out in developed countries, while studies in which the impact of KAM disclosure on investor behaviour was confirmed were carried out in developing countries. It is believed that the absence of financial market reactions to the disclosure of KAM is due to the fact that this information was available to investors even before the publication of the auditor’s report. It is possible that investors in developed countries are better informed, that is, that they have a greater volume and better quality of information at their disposal compared to investors in developing countries, and that this is reflected in the effects of KAM disclosure. The informational value of KAM can be reduced or even lost if KAM are too general and stated in a standardized form, if the same KAM are stated every year even though the circumstances of the audited client change from year to year, if a large number of KAM are disclosed and too extensive explanations are given and if KAM are complex and contain technical terms.

Additional research needs to be carried out. It is necessary to apply the same research methodology to different samples, the samples of different categories of investors, managers and auditors, to apply it in countries characterized by different institutional frameworks, different degrees of financial markets development, financial reporting quality and audit quality, and that the obtained results are compared. The researchers should focus on the factors that determine whether certain effects of KAM disclosure in the auditor’s report will be manifested.

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