

## Repositório ISCTE-IUL

---

Deposited in *Repositório ISCTE-IUL*:

2022-02-12

Deposited version:

Accepted Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Ascenso, T. & Pais, C. (2021). The consequences of key audit matters on users: The case of Spain. In Rocha, A., Adeli, H., Dzemyda, G., Moreira, F., and Correia, A.M.R. (Ed.), Trends and Applications in Information Systems and Technologies. Advances in Intelligent Systems and Computing. (pp. 452-462). Terceira Island, Azores: Springer, Cham.

Further information on publisher's website:

10.1007/978-3-030-72654-6\_43

Publisher's copyright statement:

This is the peer reviewed version of the following article: Ascenso, T. & Pais, C. (2021). The consequences of key audit matters on users: The case of Spain. In Rocha, A., Adeli, H., Dzemyda, G., Moreira, F., and Correia, A.M.R. (Ed.), Trends and Applications in Information Systems and Technologies. Advances in Intelligent Systems and Computing. (pp. 452-462). Terceira Island, Azores: Springer, Cham., which has been published in final form at [https://dx.doi.org/10.1007/978-3-030-72654-6\\_43](https://dx.doi.org/10.1007/978-3-030-72654-6_43). This article may be used for non-commercial purposes in accordance with the Publisher's Terms and Conditions for self-archiving.

---

### Use policy

Creative Commons CC BY 4.0

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a link is made to the metadata record in the Repository
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

---

# The consequences of key audit matters on users: the case of Spain

Tiago Ascenso<sup>1</sup> and Cláudio Pais<sup>2</sup>

<sup>1</sup> Accounting department, ISCTE-IUL, Lisboa, Portugal

<sup>2</sup> Accounting department, ISCTE-IUL, Lisboa, Portugal  
cafps@iscte-iul.pt

**Abstract.** The audit report has changed by adding a section to disclose the key audit matters (KAM), among other changes. The KAM disclosure may have incremental investor's usefulness. Thus, we study the influence of the KAM disclosure on investor usefulness using a short window and a year window market reaction, this is, a return and cumulative abnormal return model (CAR). Since most of the disclosure KAM studies are in a strong investor protection and common law system countries, we study the influence of the KAM disclosure in Spain. In Spain the audit report changes is mandatory for periods beginning on or after 17 June 2016. We find a one year market reaction and that the KAM disclosure is value relevant for investors, but not in a short market reaction to KAM disclosure. Albeit, finding a one year reaction, our findings are similar to the archival studies, which have found no market reaction to KAM disclosure. This may be due to the fact the information disclosure by KAM is already known by investors.

**Keywords:** KAM, audit report, return, CAR.

## 1 Introduction

The audit report was changed and one of the main changes was the inclusion of key audit matters (KAM) and mandatory for listed companies. KAM are defined as those matters which are more significant for the auditor's judgment, such as areas of higher assessed risks of material misstatement, areas in financial statements involving significant management judgment (including estimates) and the effect on the audit of significant events. The KAM were adopted by the European Union (EU) Regulation No. 537/2014 of the European Parliament and the Council in April 2014 (EU, 2014) (to be applied on EU for the periods beginning on or after 17 June 2016), and included on International Audit and Assurance Board (IAASB), the Public Company Accounting Oversight Board (PCAOB) and the Financial Reporting Council (FRC) projects to reinforce the usefulness of the audit report (Gold & Heilmann, 2019). Besides the inclusion of KAM, the main changes on the audit report were the prominent placement of the auditor's opinion and other entity-specific information, the report on going concern and other information.

The audit report is the method that the auditor has to communicate information about the audit of financial statements to users (IAASB, 2013). The change of the audit report was due to the fact that the previous audit report was viewed as a pass/fail report, highly standardised and so insufficiently useful (Church, Davis & McCracken, 2008; Mock, Bédard, Coram, Davis, Espahbodi & Warne, 2013). The 2008 financial crisis was the trigger to regulators, standard audit setters and investors to question the informative value of the audit report highlighting its limitations (Asare & Wright, 2012). There is a communication and information gap between what an audit is and user's expectation on an audit (Mock et al., 2013). Moreover, there is still an information gap between auditors and users of the audit report, because auditors have information that users do not have (Antle, 1982). These two issues could be solved by providing more information on the audit report (Boolaky & Quick, 2016).

The IAASB (2013) referred these changes on the audit report may have a positive impact on audit quality or users' perception of it, mainly to investors, analysts and other users. Thus, we study the influence of the changed audit report on investors in Spain.

The first published archival study of the influence of disclosure KAM on investor reaction is the Gutierrez, Minuta-Meza, Tatum and Vulcheva (2018) one. They study the influence on investor reaction and audit quality of disclosure KAM of nonfinancial listed companies in United Kingdom (UK) and find no short market reaction. Thus, we intend to study the market reaction, short and long as well the value relevance, to KAM disclosure by listed companies in Spain. The purpose is to study a country in which the investor protection is weak and not being a country classified as a common law system (but being a code law system country). The effect of the KAM increasing the quality of the financial statements, could be more present in a country of investors' weak legal protection, where auditors could decrease earnings management (Bédard, Gonthier-Beasier & Schatt, 2018)

In Spain was issued the Law No. 22/2015 on 20 July 20 to adopt the EU's Regulation No. 537/2014 of the European Parliament and the Council and the audit report was modified by the Norma Internacional de Auditoría (NIA)-ES 701 Comunicación de las cuestiones clave de la auditoría en el informe de auditoría emitido por un auditor independiente issued by the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) on December 23, 2016 (ICAC, 2016). The NIA-ES 701 is about communicating KAM on the audit report, to be applied to all companies regardless of being or not public-interest-entities (PIE) and applicable for periods beginning on or after 17 June 2016. The NIA-ES 701 is based on IAASB's International Standards on Auditing (ISA) 701 Communicating key audit matters in the independent auditor's report.

One important motivation to do this study is the lack of archival study in this very recent topic, mainly in the market reaction to KAM disclosure. The only published study (Gutierrez et al., 2018) analyzing the market reaction to KAM disclosure is developed in the UK, known as a common law country and having a strong investor protection, and thus we study a code law and weak investor protection country. The different setting can influence the market reaction to KAM disclosure. Another motivation is the importance given to the audit report since is the only method that the

auditor has to communicate information of the audit to users of the financial statements audited.

The sample includes Spanish listed companies for four periods between 2015 and 2018. We use two models to capture the short and long term reaction to KAM disclosure the cumulative abnormal return (CAR) and the return. Our results allow us to find some evidence, that the expanded audit report in Spain is associated to changes, on one of the two proxies used to capture user's reaction, what is the return model. But, we do not find in a short run any market reaction to KAM disclosure by the CAR model. Thus, we find some evidence that KAM disclosure has incremental information to investor in a one year reaction, showing that the KAM disclosure is value relevant since is associated with returns. In UK listed firms is found that the KAM disclosure do not provide incremental information, showing that maybe companies and auditors view the mandatory KAM disclosure only as a compliance exercise, however in the UK studies it is not used the return model. These findings show that KAM disclosure could be useful for investors but just in one year window investors' reaction.

This study shows that the type of country could influence the investor reaction to KAM disclosure, but only in one year window and not in a very short reaction. Maybe this is because investors have time to understand the implication of KAM, or the subject of the KAM is value relevant. A possible explanation for not find any short market reaction to KAM disclosure is that the KAM disclosure maybe be anticipated by other information and/or are previous known by the audit committee and adequately addressed by auditors. When it comes to market reaction to KAM disclosure, most of the studies are experiments (BooLaky & Quick, 2016; Craver & Trinkle, 2017; Christensen, Glover & Wolfe, 2014; Dennis, Griffin & Zehms, 2019; Köhler, Ratzinger-Sakel & Theis, 2016; Sirois, Bédard & Bera, 2018). Another contribution is for standard audit setters, confirming the usefulness of the KAM disclosure, although not being supported by a short model as it is used by Gutierrez et al. (2018) and Lennox, Schmidt and Thompson (2019) in the UK, and by Bédard et al. (2018) in France.

The paper proceeds as follows. First and in the section two, we provide an overview of the development on audit report by the IAASB, in the EU and in Spain. In the next section (three) we summarize the studies on the influence of the KAM on users' perception of audit quality and develop the hypothesis. In section fourth we present the results and discussion. In the final section we present the conclusions.

## **2 Audit background**

To enhance the communicative value of the audit report, international and country audit standard setters have begun initiatives. One of the first countries to require disclosure of the KAM (but the one related to risks of material misstatements) was the UK through publication in 2013 of the ISA 700 (UK and Ireland) by the FRC, mandatory for audits of financial statements of companies with a premium listing of equity shares on London Stock Exchange (LSE) and for periods beginning on or after 1 October 2012 (FRC, 2013; Gutierrez et al., 2018). Besides the disclosure of KAM it

should be disclosure materiality and an explanation of the audit scope. Based on IAASB's ISA 701 the FRC published ISA 701 (UK and Ireland) required for audits on or after 17 June 2016 (FRC, 2016).

The IAASB project to change the content and structure of the audit report and thus enhancing its usefulness began in May 2011 with the issuance of the consultation paper (CP), *Enhancing the value of auditor reporting: exploring options for change* (IAASB, 2011). In July 2013 the IAASB issued an exposure draft (ED), *Reporting on audit financial statements: proposed new and revised International Standards on Auditing*, proposing a new ISA for KAM and revising four ISA to improve the auditor's report on audited financial statements (IAASB, 2013). The IAASB finished its project in January 2015 issuing the new ISA 701 on communicating KAM, as well the revised ISA 700 (Revised) on forming an opinion and reporting on financial statements, ISA 570 (Revised) on going concern, ISA 705 (Revised) on modifications of the opinion, and ISA 706 (Revised) on emphasis of matter paragraphs, to be applied for periods ending on or after 15 December 2016 (IAASB, 2015). The main change of the IAASB's project was to add a new section to disclosure KAM for listed companies. Furthermore, is mandatory for listed companies the disclosure of the name of the engagement partner. Other changes and for all audits includes the presentation of the opinion section first followed by the basis for opinion section, a separate section for going concern issues, an affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities.

The EU's project began with the release of the green paper *Audit policy: lessons from the crisis* (UE, 2010), questioning the role of the statutory audit. In April 2014 the EU issued the Regulation No. 537/2014 and Directive 2014/56/EU, by the European Parliament and of the Council to be applied for accounting periods beginning on or after June 2016. The main changes were the prohibition and capping of non-audit services, mandatory firm rotation, auditor reporting (the main change is the inclusion of a description of the most significant assessed risks of material misstatement, which is one type of KAM), new definitions (for example of PIE), independence and objectivity, quality assurance and adoption of ISA (UE, 2014a; UE, 2014b).

In Spain the adoption of the EU's Regulation No. 537/2014 was done by the issuance of the Law No. 22/2015 *Ley de auditoría de cuentas*. In Spain it was already mandatory to use the IAASB's international standards on audit for the periods beginning on or after 1 January 2014. The audit report was changed to include the KAM disclosure by the NIA-ES 701, the Spanish audit standard based on the IAASB's IAS 701. The provisions of this new NIA-ES 701 are mandatory for all audits and for periods beginning on or after 17 June 2016.

### **3 Literature review and hypothesis development**

The information gap between what an audit is and user's expectation on an audit, and auditors and users, could be reduced by providing additional and more information on the audit report (Booak & Quick, 2016).

Some of the experimental studies show a reaction of investor on KAM disclosure. Christensen et al. (2014) find that a KAM, about uncertainty of fair value estimates in the audit report, influences more investors (business school graduates acting as non professional investor in the US) than disclosure that information solely in the financial statements notes. Sirois et al. (2018) find evidence that KAM influence positively the attention devoted by junior financial analysts (postgraduate accounting students in Canada) to KAM related disclosure and find them faster. Köhler et al. (2016) find for professional investors in German, on assessment the economic situation of a company, that they are influenced by variations of KAM disclosure. However, it appears that KAM disclosure do not have any communicative value for nonprofessional investors which may be due to the lack of understanding of the KAM disclosure information. However, Dennis, Griffin and Zehms (2019) find, for nonprofessional investors in the US (business school alumni and labor market), that the disclosure of material measurement uncertainty by both, the auditor and management, reduces information asymmetry, thus they discount price/earnings multiples, but not when only one of these is presented.

However, Boolaky and Quick (2016) do not find any effect of KAM disclosure on bank directors' perception of audit quality and reporting and credit granting decisions. These finds could be explained by the fact that in German the auditor liability is limited, the public oversight of auditors is weak and they analyse creditors' behavior. Carver and Trinkle (2017) also find, and for non-professional investors in the US, no influence of the KAM disclosure on their valuation judgement.

In spite of the most studies of KAM influence on investors reaction are experimental ones, there are also initial evidence of some archival studies. Gutierrez et al. (2018) studying nonfinancial UK listed companies do not find any short market reaction (using cumulative absolute abnormal returns and abnormal trading volume) to KAM disclosure. The reasons for these conclusions could be the auditor KAM disclosure being anticipated by other information, the market believes the auditor is dealing adequately with the KAM issues or simply the market does not understand the implication of the KAM disclosure. Bédard et al. (2018) for French listed companies and justifications of assessment (JOA) (which are similar to KAM and mandatory in France since 2003), do not find a significant short market reaction to JOA disclosure. Lennox et al. (2019), examining as well nonfinancial UK listed companies, but new KAM disclosure information, do not find any short and long market reaction. The lack of incremental information content may be due to the fact that this new information could be already be known by other means.

Contrasting to the above findings, Almulla and Bradbury (2018), for a New Zealand setting, find an association between KAM disclosure and investor uncertainty.

The findings of the influence of the KAM disclosure on users are mixed, as experimental and as archival studies and most of the settings are from stronger investor protection and common law system countries, thus we present the following hypothesis:

- H1. The KAM disclosure in Spain has incremental information for investors.

## 4 Methodology

### 4.1 Sample and data collection

The KAM disclosure in Spain is mandatory for the periods beginning on or after 17 June 2016. Thus, we study listed Spanish companies for four periods from December 2015 to December 2018, encompassing two years before and two years after the KAM disclosure adoption in Spain. We choose randomly 50 nonfinancial companies of the Madrid Stock Exchange of those which were listed during the periods mentioned and used the Spanish audit standards.

### 4.2 Research design

We want to test whether the KAM disclosure influences investors in a short term, thus we use two models, an association model and an event model. Our main proxies for market reaction, i.e investor reaction, are the return and the CAR. For the association model we use the following ordinary least squares (OLS) regression:

$$RET_{it} = \beta_0 + \beta_1 POST_{it} + \beta_2 EPS_{it} + \beta_3 \Delta EPS_{it} + \beta_4 YD_{it} + \beta_5 ID_{it} + \varepsilon_{it} \quad (1)$$

where, for company  $i$  and year  $t$ , the dependent variable  $RET$  is the share return, measured by the quotient between the variation of the end price and the end price of the previous year. The variable of interest is  $POST$  that is a dummy variable of a period before and after the KAM disclosure, taking the value of one after KAM disclosure and zero otherwise.  $EPS$  is earnings per share and  $\Delta EPS$  is the change on earnings per share. The  $YD$  and  $ID$  are dummy variables for controlling years and industry fixed effects. If there is any association between the KAM disclosure and return the coefficient of  $POST$  is statistically significant and we expect that the signal is negative meaning that the association is negative.

And for the event study we use the following OLS regression:

$$CAR_{it} = \beta_0 + \beta_1 POST_{it} + \beta_2 LMKT_{it} + \beta_3 ROA_{it} + \beta_4 LOSS_{it} + \beta_5 MTB_{it} + \beta_6 LEV_{it} + \beta_7 YD_{it} + \beta_8 ID_{it} + \varepsilon_{it} \quad (2)$$

where,  $CAR$  is the three-day cumulative abnormal return centered on the date of the annual report containing an audit report is released to investors. The  $POST$  variable is one for periods after 2016 and zero otherwise as in return equation (1). The others variables are control variables.  $LMKT$  is the natural logarithm of total market value.  $ROA$  is the return on assets measured by the quotient between net income and total assets.  $LOSS$  is a variable dummy that takes the value of one if the net income is negative and zero otherwise.  $MTB$  is market to book value measured by the quotient between the equity market value and book value.  $LEV$  is the leverage measured by the quotient between total liabilities and total assets. This list of control variable is based on controls variable used by Gutierrez et al. (2018). If the KAM disclosure is informative, we expect the market to react negatively to the auditor's disclosure of KAM.

## 5 Results

We present the descriptive statistics on Table 1 for the variables of the two models. The test of difference in means across before and after adoption rejects the null hypothesis of no difference at the 10% level but only for the return variable. The reduction of the return confirms our expectation. The higher mean of the variable *CAR* after adoption is as expected, however difference of means is not statistical significant at the conventional levels. The mean of the earnings per share is negative before adoption (4.336) (however the median is positive of 0.447) and positive after adoption (0.850) (and the median is higher and 0.623), which is in a certain way shown on the frequency of *LOSS* (decreasing from 21% to 14%). All the other variables confirm the increasing in earnings (*ROA* and *MTB*).

**Table 1.** Descriptive statistics

Panel A: Descriptive statistics for quantitative variables

Variables	Before adoption			After adoption			t-test	Before and after adoption (N=200)		
	Mean	Median	Std. dev.	Mean	Median	Std. dev.		Mean	Median	Std. dev.
Dependent variable										
<i>RET</i>	0.138	0.085	0.378	0.035	-0.012	0.479	1.688*	0.087	0.028	0.434
<i>CAR</i>	0.001	0.002	0.044	0.008	0.001	0.041	-1.118	0.004	0.001	0.042
Independent variables										
<i>EPS</i>	-4.336	0.447	44.481	0.850	0.623	1.822	-1.165	-1.743	0.549	31.508
$\Delta$ <i>EPS</i>	-3.652	0.040	39.890	0.289	0.044	2.533	-0.986	-1.681	0.040	28.261
Control variables										
<i>LMKT</i>	14.241	14.615	1.943	14.418	14.661	1.854	-0.658	14.330	14.640	1.896
<i>ROA</i>	0.011	0.026	0.150	0.037	0.035	0.115	-1.357	0.024	0.030	0.134
<i>MTB</i>	2.947	2.175	5.173	12.034	2.235	85.689	-1.059	7.490	2.185	60.720
<i>LEV</i>	0.601	0.627	0.237	0.603	0.612	0.262	-0.057	0.602	0.623	0.249

Panel B: Descriptive statistics for qualitative variables

Variables	Before adoption		After adoption		t-test	Before and after adoption	
	Frequency	Frequency	Frequency	Frequency			
Control variables							
<i>LOSS</i>	1	21%	14%		-0.370	18%	
	0	79%	86%			82%	

Panel A of this table includes descriptive statistics for quantitative variables and Panel B for qualitative variables and for the two models, the return and *CAR* model. *RET* is the share return. *CAR* is the cumulative abnormal return. *POST* is one for periods after 2016 and zero otherwise. *EPS* is earnings per share.  $\Delta$ *EPS* is the change on earnings per share. *LMKT* is the natural logarithm of total market value. *ROA* is the return on assets. *LOSS* takes the value of one if the net income is negative and zero otherwise. *MTB* is the market to book value ratio. *LEV* is the quotient between total liabilities and total assets. \*\*\* significant at 0.01; \*\* significant at 0.05; \* significant at 0.10.



Table 2 shows the Pearson (for quantitative variables) and Spearman (for qualitative variables) correlations and for the two models (Panel A for the return model and Panel b for the CAR model). We use this correlation matrix to examine whether multicollinearity is a potential issue. All the correlations are below 0.80 except between net income per share and its variation, which is expectable, however is not statistically significant. To confirm that collinearity does not affect our results we perform a multicollinearity test and we find that all variance inflation factors (VIF) (excluding for the variables *EPS* and  $\Delta EPS$ ) are below the standard acceptable level of three (Judge, Hill, Griffiths, Lutkepohl & Lee, 1988). We can see that the variable of interest *POST* is negatively/positively related to the return/CAR variable as expected.

**Table 2.** Correlation matrix

Panel A: Return model

Variables	<i>RET</i>	<i>POST</i>	<i>NI</i>	$\Delta NI$
<i>RET</i>	1			
<i>POST</i>	-0.183***	1		
<i>EPS</i>	0.002	0.105	1	
$\Delta EPS$	0.035	0.014	0.985	1

Panel B: CAR model

Variables	<i>CAR</i>	<i>POST</i>	<i>LMKT</i>	<i>ROA</i>	<i>LOSS</i>	<i>MTB</i>	<i>LEV</i>
<i>CAR</i>	1						
<i>POST</i>	0.007	1					
<i>LMKT</i>	0.149**	0.041	1				
<i>ROA</i>	-0.022	0.109	0.207***	1			
<i>LOSS</i>	-0.181**	-0.092	-0.0422***	-0.588**	1		
<i>MTB</i>	-0.014	0.051	-0.075	-0.008	-0.127*	1	
<i>LEV</i>	-0.039	-0.003	0.040	-0.313***	0.239***	0.0658	1

Panel A of this table is the correlation matrix for the return model and the Panel B for the CAR model. *RET* is the share return. *CAR* is the cumulative abnormal return. *POST* is one for periods after 2016 and zero otherwise. *EPS* is earnings per share.  $\Delta EPS$  is the change on earnings per share. *LMKT* is the natural logarithm of total market value. *ROA* is the return on assets. *LOSS* takes the value of one if the net income is negative and zero otherwise. *MTB* is the market to book value ratio. *LEV* is the quotient between total liabilities and total assets. \*\*\* significant at 0.01; \*\* significant at 0.05; \* significant at 0.10.

Table 3 presents the main results of the OLS regressions about the influence of the KAM disclosure on market reaction, proxy by the return and CAR. The return model confirms our descriptive statistics results, showing that the KAM disclosure reduces the return, since the coefficient of the variable *POST* is negative (-0.142) and statistically significant (-1.683) at a 10% level. This result confirms our hypothesis that the KAM disclosure influences the investor decision. However, using an event study, the CAR model, we cannot conclude that there is a market reaction to KAM disclosure, because the coefficient of the *POST* variable is statistically insignificant (0.009,  $p > 0.10$ ). Concerning the other variables, which are control variables, the ones that are statistically significant are the *ROA* that has the estimated sign and the *LOSS* that has the opposite sign from predicted.

The results of the CAR model are in line with the ones of Gutierrez et al. (2018), Bédard et al. (2018) and Lennox et al. (2019). This could be because the information provided in the KAM could already be known by investors. Not meaning that the information is not value relevant, but only that is already known. Another reason could be that the text of the KAM could be not very understandable by users.

Results of the return model show that the information of KAM is value relevant, at least the subject of the information disclosure by KAM.

**Table 3.** OLS results of the return and CAR regressions

Variables	Prediction	Return	CAR
		Coefficient (t-stats)	Coefficient (t-stats)
Intercept		0.069 (0.780)	-0.018 (-0.675)
<i>POST</i>	-	-0.142 (-1.683)*	0.009 (1.182)
<i>EPS</i>	+	-0.015 (-2.659)***	
$\Delta$ <i>EPS</i>	+	0.017 (2.712)***	
<i>LMKT</i>	-		0.002 (1.071)
<i>ROA</i>	-		-0.068 (-2.431)**
<i>LOSS</i>	+		-0.029 (-2.736)***
<i>MTB</i>	-		-0.000 (-0.233)
<i>LEV</i>	+		-0.008 (-0.643)
<i>YD</i>		Included	Included
<i>ID</i>		Included	Included
N		200	200
Adjusted R <sup>2</sup>		0.070	0.036
F-value		2.653***	1.931*

This table shows the coefficients and t-statistics for the return and CAR models. *RET* is the share return. *CAR* is the cumulative abnormal return. *POST* is one for periods after 2016 and zero otherwise. *EPS* is earnings per share.  $\Delta$ *EPS* is the change on earnings per share. *LMKT* is the natural logarithm of total market value. *ROA* is the return on assets. *LOSS* takes the value of one if the net income is negative and zero otherwise. *MTB* is the market to book value ratio. *LEV* is the quotient between total liabilities and total assets. \*\*\* significant at 0.01; \*\* significant at 0.05; \* significant at 0.10.

## 6 Conclusions

To adopt the EU's Regulation No. 537/2014 of the European Parliament and the Council, Spain has issued the Law No. 22/2015 on 20 July 20 and thus, the audit report was changed by the NIA-ES 701, becoming the KAM disclosure mandatory for the beginning on or after 17 June 2016. This big change on the audit report is expected to influence the investor and therefore we study whether the KAM disclosure influences the investors' perception of usefulness of the audit report. Furthermore, the findings are mixed since most of the archival studies show no investor reaction to KAM disclosure (Bédard et al., 2018; Gutierrez et al., 2018; Lennox et al., 2019), however most of the experimental studies show an investor reaction on KAM disclosure (Christensen et al., 2014; Dennis et al., 2019); Köhler et al., 2016); Sirois et al., 2018).

We study Spanish listed companies for periods of 2015 to 2018 and we use two proxies to measure the market reaction, the return and the CAR. Our study includes two years before and two years after the introduction of the new audit report. We find some evidence that the KAM disclosure is value relevant since in a one year window the KAM disclosure is associated with returns. This finding could be because the subject of the KAM is value relevant. However, we cannot conclude that the KAM disclosure influence CAR. This result could be because the information disclosure by KAM is already known by investors.

This study has some limitations. One is the number of the firms studied as well the short period of the sample, thus KAM are a very recent topic.

## References

- Almulla, M., & Bradbury, M. (2018). Auditor, client, and investor consequences of the enhanced auditor's report. Working paper.
- Antle, R. (1982). The auditor as an economic agent'. *Journal of Accounting Research*, 20(2) 503-27.
- Asare S., & Wright A. (2012). Investors', auditors', and lenders' understanding of the message conveyed by the standard audit report on the financial statements. *Accounting Horizons*, 26(2), 193-217.
- Bédard, J, Gonthier-Besacier, N., & Schatt, A. (2018). Consequences of justifications of assessments in French expanded audit reports. Working paper.
- Boalaky, P., & Quick, R. (2016). Bank directors' perceptions of expanded auditor's reports. *International Journal of Auditing*, 20, 158-174.
- Carver B., & Trinkle B. (2017). Nonprofessional investors' reactions to the PCAOB's proposed changes to the standard audit report. Working paper.
- Christensen, B., Glover, S., & Wolfe, C. (2014). Do critical audit matter paragraphs in the audit report change nonprofessional investors' decision to invest? *Auditing, A Journal of Practice & Theory*, 33(4), 71-93.
- Church, B., Davis, S., & McCracken, S. (2008). The auditor's reporting model: a literature overview and research synthesis. *Accounting Horizons*, 22(1), 69-90.

- Dennis, S., Griffin, J., & Zehms, K. (2019). The value relevance of managers' and auditors' disclosures about material measurement uncertainty. *The Accounting Review*, 94(4), 215-243.
- European Union (EU) (2014a). Regulation No. 537/2014 of the European Parliament and the Council.
- European Union (EU) (2014b). Directive 2014/56/EU of the European Parliament and the Council.
- European Union (UE) (2010). Green Paper audit policy: Lessons from the crisis. Available at: [http://ec.europa.eu/nance/consultations/2010/greenpaper-audit/index\\_en.htm](http://ec.europa.eu/nance/consultations/2010/greenpaper-audit/index_en.htm).
- Financial Reporting Council (FRC) (2013). International Standard on Auditing (UK and Ireland) 700. The independent auditor's report on financial statements. London, England: Financial Reporting Council.
- Financial Reporting Council (FRC) (2016). Communicating key audit matters in the independent auditor's report. London, England: Financial Reporting Council.
- Gold, A., & Heilmann, M. (2019). The consequences of disclosing key audit matters (KAMs): A review of the academic literature. *Maandblad voor Accountancy en Bedrijfseconomie*, 93(1/2), 5-14.
- Gutierrez, E., Minutti-Meza, M., Tatum, K. W., & Vulcheva, M. (2018). Consequences of adopting an expanded auditor's report in the United Kingdom. *Review of Accounting Studies*, 23(4), 1543-1587.
- Instituto de Contabilidad y Auditoría de Cuentas (ICAC) (2016). NIA- ES 701 Cuestiones Claves de Auditoría, Madrid: ICAC.
- International Auditing and Assurance Standards Board (IAASB) (2013). Reporting on audited financial statements: proposed new and revised International Standards on Auditing (exposure draft). Available at: <https://www.iaasb.org/publications/enhancing-value-auditor-reporting-exploring-options-change-1>.
- International Auditing and Assurance Standards Board (IAASB) (2015a). International Standard on Auditing (ISA) 701 Communicating key audit matters in the independent auditor's report. Available at: <https://www.ifac.org/publications-resources/international-standard-auditing-isa-701-new-communicating-key-audit-matters-i>.
- International Auditing and Assurance Standards Board (IAASB) (2011). Enhancing the value of auditor reporting: exploring options for change, (consultation paper). Available at: <https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international>.
- International Auditing and Assurance Standards Board (IAASB) (2015): At a glance: new and revised auditor reporting standards and related conforming amendments. Available at: <http://www.ifac.org/system/files/uploads/IAASB/Audit%20Reporting-At%20a%20Glance-final.pdf>.
- Köhler A., Ratzinger-Sakel, N., & Theis, J. (2016). The effects of key audit matters on the auditor's report's communicative value: experimental evidence from investment professionals and non-professional investors. Working paper.
- Lennox, C., Schmidt, J., & Thompson, A. (2019). Are expanded audit reports informative to investors? Evidence from the U.K. Working paper.
- Mock, T., Bédard, J., Coram, P., Davis, S., Espahbodi, R., & Warne, R. (2013). The audit reporting model: current research synthesis and implications. *Auditing: A Journal of Practice & Theory*, 32(1), 323-351.
- Sirois, L-P., Bédard, J., & Bera, P. (2018). The informational value of key audit matters in the auditor's report: evidence from an eye-tracking study. *Accounting Horizons*, 32(2), 141-162.