RELATIONSHIP BETWEEN COMPANY RISK AND KEY AUDIT MATTERS REPORTED IN INDEPENDENT AUDIT REPORTS

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ABSTRACT

This study examines whether company risk is a determinant for the disclosure of key audit matters (KAMs) in the independent audit reports (IARs) of Brazilian companies listed on B3 S.A. - Brasil, Bolsa, Balcão from 2016 to 2019. A total of 1,185 IARs and 3,339 KAMs were examined. Content analysis was performed in accordance with ACCA's (2018) six categories - Complex Issues, Sector-specific Issues, Assets, Impairments, Liabilities and Controls. Subsequently, the data were summarized, as proposed by Lennox et al. (2019) and Sierra-García et al. (2019), into two items: entity-level or account-level risk. Overall, an average of 2.80 KAMs per firm was reported, considering that 61.14% of the sample had been audited by Big Four firms. Most KAMs classified under Complex Issues (30%) and related to account-level risk (87%). A positive association was observed between risk, measured by the company's beta, and KAMs classified as account-level risk. Through quantile regression, we also found that auditors tend to reveal a higher quantity of KAMs in larger companies, with loss records in subsequent years, and less leverage. Thus, company characteristics (specifically risk) can be regarded as possible determinants of KAMs disclosure in the IARs of B3-listed companies.

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Keywords: Key Audit Matters; Risk; Audit Report.

RELAÇÃO DO RISCO DA EMPRESA COM OS KEY AUDIT MATTERS REPORTADOS NOS RELATÓRIOS DE AUDITORIA INDEPENDENTE

RESUMO

Este estudo tem por objetivo analisar se o risco da empresa é um fator determinante da divulgação dos key audit matters (KAM) reportados nos relatórios de auditoria independente (RAI) no período de 2016 a 2019 das empresas brasileiras listadas na B3 S.A. – Brasil, Bolsa, Balcão. Foram analisados 1.185 RAIs e 3.339 KAM. Procedeu-se com a análise de conteúdo dos KAM, categorizando conforme as seis classificações da ACCA (2018) – Assuntos Complexos, Assuntos Específicos do Setor, Ativos, Impairments, Passivos e Controles. Posteriormente, sumarizou-se seguindo as categorias propostas por Lennox et al. (2019) e Sierra-García et al. (2019), separando em dois itens: risco ao nível da entidade ou em nível da conta. De modo geral, foi reportado, em média, 2,80 KAM por companhia, e 61,14% da amostra foi auditada por big four. A maior parte dos KAM classifica-se como Assuntos Complexos (30%) e relacionados a risco em nível da conta (87%). Observou-se uma relação positiva entre o risco, mensurado pelo beta da empresa, e os KAM classificados como risco em nível da conta. Por meio da regressão quantílica, descobriu-se também que os auditores tendem a divulgar uma maior quantidade de KAM em empresas maiores, com registro de perdas em anos consecutivos e que apresentam menor alavancagem. Isso demonstra que as características da empresa (especificamente o risco) podem ser consideradas como possíveis determinantes da divulgação dos KAM nos relatórios de auditoria independente das empresas listadas na B3.

Palavras-chave: Principais Assuntos de Auditoria; Risco; Relatório de Auditoria.

1. INTRODUCTION

Independent auditing plays a prominent role within the quality of the reported accounting information, since it reviews and certifies financial information ascertained by the companies (Ferreira & Morais, 2020; Santos et al., 2020). Lau (2020) emphasizes that auditors, by having direct access to the corporate environment, hold the ability to obtain empirical evidence and indicate whether accounting estimates are accurate and fair. In other words, they do not offer significant risk to users. To support this informative role, in Brazil, a new reporting format has been adopted from December 2016, including paragraphs on key audit matters (KAMs).

Overall, KAMs emerge in the independent auditing context to address the gap between the information required by users on financial statements and audit and what is made available through the firm's audited financial statements and the auditor's report (Gold & Heilmann, 2019).

KAMs were included on Independent Auditor's Reports (IARs) after the issuance of the International Standard on Auditing 701 (ISA 701). It consists of a section that contemplates matters judged as most relevant by the auditor within the auditee's context (Ferreira & Morais, 2020). For each reported item, auditors present the matter, the reasons why it was considered relevant and procedures for its verification (Conselho Federal de Contabilidade - CFC, 2016). Therefore, KAMs disclosure, by presenting qualitative and quantitative data from the audited firms and audit procedures, have a significant and positive impact on auditor's communication (Gold & Heilmann, 2019).

ISA 701 prescribes that auditors investigate and report as KAMs, aspects related to the firm's significant areas, such as, risks of distortions, accounts including management judgment, and relevant events or transactions that occurred during the audit period (Ferreira & Morais, 2020; Wuttichindanon & Issarawornrawanich, 2020).

In Natura's group, in 2019, for instance, the single KAM mentioned the acquisition of The Body Shop including goodwill and indefinite-lived intangible assets. Their reasoning was that the determination of the recoverable amount derived from the acquisition implied uncertainties related to assumptions and estimates, posing a significant risk of material adjustments to accounting records. Therefore, a better understanding of the extent to which the identified and reported KAMs are related to the company's risks is required.

A firm's level of risk can impact the amount of audit hours (more work), since the higher the risk, the greater the extent of auditing procedures to: obtain reasonable assurance; execute a quality audit; and issue an opinion as to whether the statements are free of material misstatement (Castro et al., 2015). Vanstraelen et al. (2012) found that users expect auditors' reports to provide additional information on audit findings, such as key risk areas. Therefore, the risk of audited companies is expected to affect the auditor's judgment in defining the audit scope and materiality and, consequently, be a driver of the quantity and types of KAMs disclosed by the audit firm (Ferreira & Morais, 2020).

For Lennox et al. (2019), the new reporting model requires auditors to adress financial statement areas or relevant material misstatement risks that either caused a greater effect on the audit strategy or required especially challenging auditing judgment. In this context, the authors point that auditors must capture and reliably report risks that are material to financial statement users. As an example, any risk of material misstatement should be addressed and mitigated during the audit by performing appropriate audit procedures. This implies that new disclosures are not intended to qualify the auditor's opinion, meaning that risks - KAMs - may be reported even if auditors conclude that financial statements are free of material misstatement.

Previous studies have observed: i) an average of three KAMs per company in the first and/or second year of the standard's effectiveness (Marques & Souza, 2017; Santos et al., 2020a); ii) that KAMs can lead to the adoption of less aggressive accounting estimates and improve the quality of financial reports due to greater transparency and accountability (Santos et al., 2020); the particularities of the auditee and audit firms show a direct relationship to the quantity of KAMs (Ferreira & Morais, 2020; Lennox et al., 2019; Pinto & Morais, 2019; Ricquebourg & Maroun, 2022; Sierra-García et al., 2019); iii) KAMs have informational relevance to investors

(Alves Junior & Galdi, 2020; Christensen et al, 2014), usefulness to financial statement users (Cordos & Fülöp, 2015b; Sirois et al., 2018), creditors (Boolaky & Quick, 2016; Trpeska et al., 2017), analysts (Venturini et al., 2022) and other stakeholders (Velte & Issa, 2019); iv) KAMs disclosure protects auditors from litigation related to undetected misstatements (Brasel et al., 2016); KAMs pressure management to publish more risk information independently (egocentric theory), in the annual report of the same or next year, as managers are aware of KAMs before the IAR (Elmarzouky et al., 2022).

According to NBC ta 315, the auditors' analysis must start from the risks of material misstatement, considering the entity's context and its environment (CFC, 2021). Although this standard fails to specify how auditors should select a KAM, its reporting is expected to be fairly consistent with the risk analysis conducted by the auditor, in compliance with the requirements of NBC TA 315 (Zhang & Shailer, 2021). However, it remains unclear as to what extent KAMs are utilized for reducing auditors' scrutiny or liability exposure related to what is observed in the audited entity, in the Brazilian context. Thus, we intend to answer the following research question: What is the relationship between the company's risk and the disclosure of key audit matters reported by auditors? Our objective is to analyze whether company risk is a determining factor for the disclosure of key audit matters reported in the independent audit reports of Brazilian companies listed on B3 S.A. - Brasil, Bolsa, Balcão, from 2016 to 2019.

This analysis is relevant, as a positive reception of KAMs is shown by stakeholders in financial reporting (Boolaky & Quick, 2016; Christensen et al., 2014; Cordos & Fülöp, 2015b; Sirois et al., 2018; Trpeska et al., 2017; Velte & Issa, 2019; Venturini et al., 2022), except from auditors who consider it as something that may affect their reputation, considering the requirement of disclosing publicly the matters deemed internally relevant (Kim et al., 2016). Thus, unlike other studies that examined auditee and audit firm characteristics related to reporting KAMs (Ferreira & Morais, 2020; Lennox et al., 2019; Pinto & Morais, 2019; Ricquebourg & Maroun, 2022; Sierra-García et al., 2019), our study attempts to grasp the auditee's risk behavior versus the KAMs reported by auditors. Such relationship, if positive, presupposes benefit to auditors, as it signals that, the disclosure of KAMs, in the IARs, offers additional insights to accounting information users, which reinforces the importance of auditing in reducing informational asymmetry (Ricquebourg & Maroun, 2022) and, more specifically, the relevance of applying the KAMs standard, promoting better disclosure of the auditee's risk areas.

This study contributes to the state of the art on the information content of audit reports, especially with regard to the factors that determine the KAMs disclosed in audit reports. Also, it promotes a specific understanding of whether company risk is a key determinant of the information reported by auditors. Practically, it provides a better understanding to users on the audited company's risk and the information disclosed through KAMs, whether in entity or account-level. Furthermore, our findings present contributions and implications for stakeholders by demonstrating that risk can be considered a determinant of the quantity and nature of KAMs disclosed in the audit reports of B3 listed companies. This provides information to financial statements users on companies' characteristics that influence the quality of the auditee's report, as it shows categorical aspects of KAMs. For Gold and Heilmann (2019), the introduction of a KAMs section in the auditor's report can influence the perception and decisions of financial statements users, as well as the audit quality itself.

2. KEY AUDIT MATTERS AND THE AUDITED COMPANY'S RISK

Agency theory posits that firms operate in an uncertain environment, leading to potential information asymmetries between managers and outside investors. Such information asymmetries support the need for quality financial reports, that play an enlightening role on the company's economic and financial situation, assisting in stakeholder decision making (Lau, 2020).

In the context of informational asymmetry in financial market, in which stakeholders lack daily access to information on companies' economic and financial performance, auditors provide investors and other stakeholders with an investigation on the reliability and compliance of financial statements, in order to reduce information asymmetry (Santos et al., 2020). For Lin and Hwang (2010), external auditors are responsible for issuing an opinion on the financial statements to reasonably ensure that they reflect relevant information and faithfully describe the company's financial position. Therefore, auditors contribute to the quality of financial reporting (Santos et al., 2020; Watkins et al., 2004).

In order to improve audit quality, in 2016, the Brazilian Accounting Standard NBC TA 701 was issued, covering the judgment of KAMs found during the audit of financial statements. This standard emerged as a result of International Standards Auditing 700 - ISA, which guided auditors on the disclosure, in a specific paragraph of their audit report, of relevant matters during the audit work on financial statements (Matos et al., 2018). This standard made it mandatory for auditors to state KAMs for each audited company. That is, auditors should emphasize which issues required the most attention during the development of the audit work.

Therefore, the section of the report addressing KAMs shows potential usefulness for different users of accounting information. The highlighted elements may be associated with agency conflicts found in environments with informational asymmetry, enabling a better risk assessment by investors and other stakeholders, including auditors (Marques & Souza, 2017). Given this, as of 2016, auditors started to present matters that required more attention during audit work in their reports, mentioning their reasons for inclusion and an explanation of how these items were handled in audit checks (Alves Júnior & Galdi, 2020; Marques & Souza, 2017). The purpose of this new section is to bring more transparency to audit reports for stakeholders by communicating possible risk factors to users of accounting information. For example, Venturini et al. (2022) found that the amount of KAMs has a positive and significant relationship with analyst consensus on earnings per share forecast. Thus, the authors point out that additional information in the IARs, represented by KAMs, promote greater disclosure of credible information from auditors to analysts, reducing informational asymmetry between these agents.

According to Bédard et al. (2014), reporting KAMs contributes to the discussion on the informational content of accounting reports and provides greater transparency and accountability from managers and audited companies. Elmarzouky et al. (2022) found that the amount of KAMs is positively associated with the level of risk disclosed by management (word list) in their annual reports, given that managers are aware of KAMs in advance, since auditors hold frequent meetings with the auditing committee.

The inclusion of KAMs provides more information on the auditor's work, which, in other words, improves the communication of audit reports to its users (Ferreira & Morais, 2020). Thus, KAMs render a less standardized audit report, regarding specific information on the audited firm and, promote greater transparency on the performance of both audited and auditor (IAASB, 2015). Given this, the amount of KAMs disclosed in audit reports affected the auditors' remuneration in the first year of the standard's implementation (Colares et al., 2021).

Changes in audit reports, introduced by NBC TA 701, improved transparency, as it required disclosing not only areas that require greater attention, but also the risks associated with the company and how these were managed by the auditor (Ferreira & Morais, 2020). From this perspective, Alves Junior and Galdi (2020) presented evidence of informational relevance in the content of audit reports after the inclusion of KAMs. The requirement of KAMs in such reports provide more information on key risk areas (Lennox et al., 2019). In Zhang and Shailer's (2021) opinion, there is a possibility that auditors change their disclosure in IARs as a differentiation or obfuscation tactic, rather than due to changes in the audited entity's risk assessments.

KAMs are positively received by financial statement users (Cordos & Fülöp, 2015b; Sirois et al., 2018), creditors (Boolaky & Quick, 2016; Trpeska et al., 2017), general investors (Christensen et al., 2014), financial analysts (Venturini et al., 2022), and other stakeholders (Velte & Issa, 2019). Also, by providing more informational content on the audited company, KAMs tend to improve the quality of earnings (Li et al., 2019) and protect auditors from litigation related to undetected distortions (Brasel et al., 2016). When auditors report accounting estimates as KAMs and provide the appropriate explanations, informational quality of accounting reports can be enhanced (Gaynor et al., 2016; Lau, 2020). KAMs disclosure is associated with auditor (e.g., audit fee, audit firm size) and client (e.g., industry, business complexity, firm size) characteristics (Ferreira & Morais, 2020; Lennox et al., 2019; Pinto & Morais, 2019; Sierra-García et al., 2019).

According to Ferreira and Morais (2020), the quantity of disclosed KAMs is associated with some factors, such as: auditor's litigation risk and characteristics of the audited company. Significant firm aspects include its complexity, profitability, and sector. Thai companies audited by Big Four exhibited more KAMs reporting than those audited by non-Big Four (Wuttichindanon & Issarawornrawanich, 2020). Also, the Big Four audit firms played an important role in the quantity and nature of KAMs. The company's inherent risk and transactions over the examined period, were also considered determinants by Big Four auditors reporting KAMs in Thailand. More specifically, Big Four firms were prone to disclose more KAMs. Thus, it is reasonable to assume that the Big Four firms' audit reports provide more information than those of non-Big Four.

KAMs are issues that have drawn the auditor's attention in the context of the audited entity, usually related to complex areas in which there is considerable room for managerial judgment in reporting financial information (Sierra-García et al., 2019). Therefore, KAMs disclosure provides financial statement users with a better understanding of the company's inherent risk and presents information on the areas that hold greater risks of material misstatement or risks of significance as identified in ISA 315 (Ferreira & Morais, 2020; Wuttichindanon & Issarawornrawanich, 2020).

Pinto and Morais (2019) investigated the determinants of the amount of KAMs based on 142 observations from three countries (France, the Netherlands, and the United Kingdom). Results show that the number of KAMs is higher for large firms with businesses that span multiple industries (higher firm complexity). On the other hand, the number of KAMs is lower in the financial sector and in high-profit firms.

Sierra-García et al. (2019) reported that apart from firm characteristics, auditor characteristics also influence the extent and nature of reported KAMs. The authors surveyed firms listed on the Financial Times Stock Exchange 100 from 2013-2016 (280 firm-year observations) and noted that the extent and amount of KAMs are correlated with accounting items (i.e., revenue; inventory; fixed assets; goodwill and intangible assets), industry, firm characteristics (i.e., size, complexity, business model, and environment), and auditors (i.e., audit evidence).

In general, the opinion issued in the audit report can be influenced by a number of characteristics, both from the audit and the audited entity. Reports from more complex, riskier companies, audited by Big Four firms and presenting unmodified opinions, tend to exhibit a higher number of KAMs (Ferreira & Morais, 2020; Wuttichindanon & Issarawornrawanich, 2020).

In preparing reports, auditors employ compensatory risk reduction strategies and these influence their choices in reporting information. As such, the disclosure of KAMs in audit reports is influenced by the consequences perceived by auditors in the trade-off between the likelihood of litigation exposure and loss of reputation versus the likely cost of losing a client. Given this, the characteristics of audited companies (including company risk) and the relationship between auditors and audited companies are expected to be significant determinants of the amount of KAMs reported (Ferreira & Morais, 2020).

Auditors are more willing to disclose an opinion on risk if the company is less profitable (Lee et al., 2005; Menon & Schwartz, 1987); shows high levels of leverage (Raghunandan & Rama, 1995); low liquidity (Menon & Schwartz, 1987; Raghunandan & Rama, 1995), and is smaller in size (Mutchler et al., 1997). Moreover, loss records in consecutive years is also considered an indicator for auditors when assessing the company's risk (Gallizo & Saladrigues, 2016).

In Lau's (2020) view, accounting estimates, increasingly present in financial statements, are associated with two fundamental issues: measurement uncertainty and management bias. According to the author, if managers are free to estimate, auditors need to provide assurance that these estimates are accurate and fair. Therefore, measurement uncertainties pose risks, as accounting estimates, such as valuations and impairment estimates, require management judgment, assumptions, and are prone to measurement uncertainty and estimation errors, which may result in opportunistic earnings management. Thus, an inadequate estimation may compromise the usefulness of accounting information.

Wuttichindanon and Issarawornrawanich (2020) stress that KAMs reporting, provides financial statement users with a better understanding of the inherent risk of the firm. Sierra-Garcia et al. (2019) state that KAMs relates to risk characteristics, either at the account-level or entity-level. Lennox et al. (2019) emphasize that auditors have access to a great deal of private information about their clients' financial statements and are, therefore, in a unique position to report unexpected risks for investors. In addition, auditors are required to be independent of client management, which means that their risk disclosures may be more reliable than those of management (Köhler et al., 2020).

The main notion is that in order to protect their reputation and reduce the risk of litigation, auditors are likely to disclose more KAMs for companies that are considered risky. Auditors' increased efforts to mitigate their liability tends to improve audit procedures and, therefore, increase the amount of reported KAMs. Thus, the higher the risk, the greater the amount and detail of KAMs in IARs. Given this premise, the hypothesis of our research (H1) emerges:

H1: there is a positive association between company risk and key audit matters disclosed in the IAR of B3-listed companies.

3. METHODOLOGY

Our sample consists of non-financial companies listed on B3 that presented KAMs in the IARs in at least one of the assessed years from 2016 to 2019. This verification was performed in January 2021, amounting to 1,185 IARs. The timeframe selection complies with the standard that established the mandatory reporting of critical matters by audit firms as of 2016 (CFC, 2016).

In the examined reports, we manually collected issues reported as KAMs and audit firms. Subsequently, content analysis was performed by classifying the KAMs according to ACCA's (2018) six categories - Sector-specific Issues, Assets, Impairments, Liabilities, Complex Issues, and Controls. Lastly, we summarized the data following Lennox et al. (2019) and Sierra-García et al. (2019), distinguishing into two categories: i) entity-level risk, which includes issues related to the risk of the firm as a whole, for example, tax provisions and information technology; and ii) account-level risk, which covers specific items in financial statements, such as revenues, intangibles, property, plant, and equipment, inventories, and asset impairments. Figure 1 illustrates this summary.

ACCA (2018)	**Lennox et al. (2019) & Sierra-García et al. (2019)**
Sector-specific Issues	Account-level risk
Assets	

Impairments	
Liabilities	
Complex Issues	
Complex Issues	Entity-level risk
Controls	

Figure 1 – Adopted KAMs categories
Source: developed from ACCA (2018); Lennox et al. (2019) and Sierra-García et al. (2019).

As an example, we cite, briefly, a 2017 KAM entitled "Evaluation of the judgment and estimate for recording provisions for labor, tax and civil risks" from Azevedo e Travassos S.A. - Industrial Goods/Construction and Engineering sector. On this matter auditors report that: "As described in Note 21.c, the Company presents liabilities in labor, tax and civil lawsuits arising from the normal course of its activities (...). This topic was considered a critical and, therefore, a risk area in our audit approach, given the relevance, complexity, and judgment involved in the assessment, measurement, and definition of when the provisions for labor, tax, and civil contingencies should be recognized. Additionally, at the end of fiscal year 2017, the company's financial situation, combined with Brazil's economic growth, led management to lay off a large number of employees. This measure caused a significant rise in the number of labor lawsuits that, if not properly controlled and assessed as to their likelihood of materialization, could have a significant impact on the individual and consolidated financial statements". Thus, in this KAM auditors alert users to monitor the possible amount of contingencies concerning this company. According to Lau (2020), this prevents estimation errors from implying opportunistic earnings management. As for its classification, this issue was considered a liability at account-level risk..

The classification of the KAMs (Figure 1) was initially performed manually. Subsequently, in a group review, the items were discussed and consequently ratified or reclassified in order to reduce the subjectivity of inference and interpretation. This group review was conducted by two researchers, Master's students, under the supervision of an Accounting Professor. In addition, to correctly categorize the KAMs, we obtained assistance ("categorization review") from experts (financial analysts and PhD accounting professors), as well as by reviewing the Explanatory Note(s) indicated in the description of each KAM. The experts' qualifications are detailed in Figure 2.

Expert	Number	Professional Expertise	Professional Practice Areas
Financial Analyst	1	Over 30 years of experience in capital markets in a financial consulting firm. Held management positions at the Association of Capital Market Analysts and Investment Professionals. Accounting Professor at undergraduate and graduate levels. Author of scientific articles and book chapters in the financial field.	Capital Markets and Corporate Governance, Risk Management and Derivatives, Accounting, Expertise and Corporate Finance.

Professor	2	Professional experience in Accounting and Controllership. Undergraduate and graduate Accounting Professors. Authors of scientific articles and book chapters in the financial field.	Controllership, external user information, especially issues related to accounting information quality.

Figure 2 - Experts' qualification
Source: based on survey data.

Table 1 illustrates variables used in the research.

Table 1 - Variables of the research

Description	Abbreviation	Measurement	Expected Sign	Theoretical Basis
DEPENDENT VARIABLES				
Type of KAMs	TPAA	constant communication in KAMs, as categorized into 6 strata by ACCA (2018) and, into 2 groups by Lennox et al. (2019) and Sierra-García et al. (2019)		ACCA (2018); Lennox et al. (2019) and Sierra-García et al. (2019)
KAMs Quantity	QKAM	total KAM reported by company		Wuttichindanon & Issarawornrawanich (2020)
INDEPENDENT VARIABLE OF INTEREST				
Company Size	TAM	refers to the size of firm i, in period t, given by the natural logarithm of market value	+	Wuttichindanon & Issarawornrawanich (2020)
Company risk	BETA	company's return sensitivity in relation to market return	+	Passos et al. (2017); Zucchi (2021)
INDEPENDENT CONTROL VARIABLES				
Big four	BIGF	dummy regarding whether company i in period t was audited by big four (1), otherwise 0 (zero)	+	Wuttichindanon & Issarawornrawanich (2020)
Loss in the previous year	PREJ	dummy indicating if the company had a loss in the previous year, being 1 in case of loss and 0 otherwise	+	Alves Júnior & Galdi (2020); Lennox et al. (2019)
Sector	SETOR	dummy specifying the economic sector to which the company belongs at B3	+/-	Wuttichindanon & Issarawornrawanich (2020)
Leverage	ALA	gross debt divided by total assets	+	Pinto & Morais (2019)

Source: elaborated by the authors (2021).

Equation 1 demonstrates the relationship between the company's risk and the amount of reported KAMs.

$$QKAM_{it} = \beta_0 + \beta_1 BETA_{it} + \beta_2 TAM_{it} + \beta_3 BIGF_{it} + \beta_4 PREJ_{it} + \beta_5 SETOR_{it} + \beta_6 ALA_{it} + \varepsilon \quad (1)$$

Equation 2 demonstrates the relationship between the company's risk and the types of KAMs reported by the auditors.

$$TPAA_{it} = \beta_0 + \beta_1 BETA_{it} + \beta_2 TAM_{it} + \beta_3 BIGF_{it} + \beta_4 PREJ_{it} + \beta_5 SETOR_{it} + \beta_6 ALA_{it} + \varepsilon \quad (2)$$

Results were interpreted in a descriptive-argumentative approach using descriptive statistics (mean, median, minimum, and maximum), correlation between variables, and quantile regression with panel data structuring. Importantly, following Lennox et al. (2019), if auditors are reporting relevant risks as KAMs, the coefficients of the independent variable of interest (firm beta) are expected to be significantly higher as auditors disclose more risks on the audited firms.

4. RESULTS

Regarding the general descriptive statistics, presented in Table 2, considering the entire examined period, the standard deviation values of almost all variables proved to be low, except for the variable Size (2.3804), which showed a high dispersion around the mean. Thus, the average is not a good representation of the actual size of the examined companies.

Table 2 - Variables' general descriptive statistics

Variables	Mean	Standard Deviation	Minimum	Maximum
QKAM	2,8068	1,4575	0	8
Beta	0,5902	0,5913	0	3,1316
Leveareg	2,0317	1,8526	0,0217	19,9536
Complex Issues	0,8273	0,7908	0	4
Specific Issues	0,1250	0,3760	0	3
Assets	0,6670	0,8035	0	4
Controls	0,1864	0,4205	0	2
Impairment	0,4670	0,5237	0	2
Liabilities	0,5341	0,6703	0	7
Account-level risk	1,9250	1,4001	0	8
Entity-level risk	0,4898	0,6762	0	4
Size	14,0795	2,3804	7,6647	19,8249
Big Four	0,6114	0,4877	0	1
Loss	0,6640	0,4726	0	1

Source: elaborated by the authors (2021).

After conducting the normality, asymmetry and kurtosis tests and preparing the boxplot, confirming the presence of outliers and the high heterogeneity of the dependent variable, indicating an asymmetric distribution, quantile regression was considered more appropriate, since it is based on the median, showing less sensitivity to outliers than the mean. In addition, quantile regression provides a better understanding of whether riskier firms, as perceived by auditors, have more specific (quantitative) types of KAMs as reported by audit firms in a given period of time. Table 3 presents the descriptive statistics for the variable QKAM, which comprises the dependent variable of Equation 1.

Table 3 – Variables' descriptive statistics per year

Quantityof KAM					
Year	Mean	Median	Standard Deviation	Maximum	Minimum
2016	2,43	2	1,69	8	1
2017	2,47	2	1,55	7	1
2018	2,44	2	1,60	8	1
2019	2,07	2	1,52	6	1

Source: elaborated by the authors (2021).

In 2016 and 2018, some companies reported a total of 8 KAMs, indicating greater details on the companies' specific issues, as perceived by the auditors during this period. However, we identified audit reports with only 1 KAM, providing little detail on financial or non-financial information, from the auditor's perspective, for certain Brazilian companies, in this period. A maximum of 8 KAMs occurred in 2016 and 2018, being respectively found in the following sectors, according to B3's classification: i) Oil, gas and biofuels; and ii) Health. In 2017 a maximum of 7 items was reached, also in the Oil Gas and Biofuels sector, and for the same company as in the previous year, Petrobras. However, in 2019, a maximum of 6 items was reported in the Cyclical Consumption, Industrial Goods, Non-Cyclical Consumption, and Oil Gas and Biofuels sectors. Considering the minimum of one subject, in 2016, we found that this figure was observed in all B3 listed sectors, with the exception of Information Technology, with a total of 39 companies presenting this value. In 2017, we verified the same sectors as in 2016, and also Other, totaling 37 companies. In 2018, we observed the same sectors as in 2017 and Health, with a total of 36 organizations with the minimum. On the other hand, in 2019, all of the ten examined sectors contemplate the minimum of a reported item, which was verified in 62 companies.

Overall (Table 2), an average of 2.80 KAMs per company was reported, with 61.14% of the companies in the sample audited by a Big Four firm. This indicates a decrease in the amount of matters detailed in the reports and a preference of the studied companies for Big Four firms. This quantitative in Brazilian companies complies with the literature, from two to seven items (Cordoş & Fülöp, 2015b), and has been verified in national (Marques & Souza, 2017; Santos et al., 2020a; Venturini et al., 2022) and international studies (Lennox et al., 2019; Sierra-Garcia et al., 2019). Table 4 illustrates the detailing of the number of KAMs, broken down by sector and year, considering the ACCA (2018) items.

Table 4 - KAMs by sector and year as per ACCA (2018)

Sector	Complex Issues				Assets				Liabilities				*Impairments*				Controls				Sector-Specific Issues				Total KAM			
	16	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**
Cyclical Consumption	63	55	72	82	71	69	70	47	34	43	35	29	33	30	33	32	15	19	20	13					216	216	230	203
Industrial goods	39	44	55	45	55	47	44	33	29	27	31	19	37	32	33	29	23	20	23	10	14	11	11	3	197	181	197	139
Public Utility	54	51	43	38	33	36	24	18	46	50	39	26	22	25	19	14	12	8	2	2	32	36	37	27	199	206	164	125
Basic Materials	21	18	14	18	29	26	26	22	16	13	12	14	13	10	11	14	5	6	6	4		1			84	74	69	72
Non-cyclical consumption	23	28	30	33	13	18	22	15	9	16	11	9	8	10	12	8	5	7	6	3					58	79	81	68
Health	14	15	18	22	15	16	10	8	3	8	14	7	9	8	10	12	4	4	4	3					45	51	56	52
Oil, Gas and Biofuels	7	11	5	5	6	6	9	4	10	11	9	9	8	7	7	6	2		2	1				1	33	35	32	26
Information Technology	10	8	8	10	4	2	4	3	2	3	3	2	4	4	4	4	1								21	17	19	19
Communication	5	6	7	9		2			1	3	4	3	3	4	4	2		3	3						9	18	18	14
Other				7				2				1				4				2								16
Total	**236**	**236**	**252**	**269**	**226**	**222**	**209**	**152**	**150**	**174**	**158**	**119**	**137**	**130**	**133**	**125**	**67**	**67**	**66**	**38**	**46**	**48**	**48**	**31**	**862**	**877**	**866**	**734**
Year %	**27**	**27**	**29**	**37**	**26**	**25**	**24**	**21**	**17**	**20**	**18**	**16**	**16**	**15**	**15**	**17**	**8**	**8**	**8**	**5**	**5**	**5**	**6**	**4**	**100**	**100**	**100**	**100**

Source: elaborated by the authors (2021).

Based on Table 4, the sectors of cyclical consumption, industrial goods and utilities presented the largest quantities of KAMs in audit reports. This provides greater detail and transparency on the auditee in the auditor's view for users of information from these sectors (Lau, 2020).Also, most of the examined KAMs were classified as "Complex Issues." This category contemplates areas of financial statements that required significant managerial judgment, including accounting estimates identified as having high uncertainty (Lennox et al., 2019; Sierra-García et al., 2019). Thus, we can infer that the auditors reviewed and performed audit procedures seeking to obtain reasonable assurance that the complex matters were free from material misstatement and error.

Table 5 presents the total amount of KAMs disclosed in all the examined companies by year.

Table 5 - Quantity of KAM disclosed per year

Year	Total KAM
2016	862
2017	877
2018	866
2019	734

Source: elaborated by the authors (2021).

An increase in the amount of KAMs is observed from 2016 to 2017 and a decrease from 2017 to 2019, peaking in 2017. One possible explanation is that

2017 succeeds the first year of the KAMs submission requirements, considering that audit firms went through an adaptation period in 2016 and, in 2017, were better prepared for the new framework, as well as, had benchmarks for same-sector firms. This finding may also be linked to the alternation of audit firms during the examined period, implying different quantities of KAMs each year per firm. According to Ricquebourg & Maroun (2022), the amount of added or subtracted KAMs varies significantly when companies switch audit firms.

During the assessed period, 235 audit firm switches were reported, with 49.36% from 2016 to 2027; 25.96% from 2017 to 2018; and 24.68% from 2018 to 2019. For Ferreira and Morais (2020) and Wuttichindanon & Issarawornrawanich (2020), when a Big Four performs the final audit report, a higher number of reported KAMs is expected. In addition, the KAMs standard indicates that the matters are determined by the auditor's view, i.e., the audit firm can influence on how many and which KAMs are reported (Ferreira & Morais, 2020). Combining this information with that contained in Table 3, we find that the most reported issues are Complex Issues, Assets and Liabilities.

In further analysis, the amount and type of KAMs reported per audit client shows little change when audit firms are maintained. This reiterates the concern that the addition of a KAMs section in audit reports may lead to providing standardized information to stakeholders (Brasel et al., 2016). Ricquebourg & Maroun (2022) reported that only when audit firms alternate, material changes in disclosed KAMs are observed..

Table 6 presents information on the amount of KAMs distributed by sector and year, considering the classification of Lennox et al. (2019) and Sierra-García et al. (2019).

Table 6 - reported KAMs according to Lennox et al. (2019) and Sierra-García et al. (2019)

Sector	Account-level risk				Entity-level risk				Total KAM			
	16	**17**	**18**	**19**	**16**	**17**	**18**	**19**	**16**	**17**	**18**	**19**
Cyclical Consumption	183	184	188	192	33	32	42	13	216	216	230	205
Industria Goods	169	152	155	129	28	29	42	10	197	181	197	139
Public Utility	184	190	156	123	15	16	8	2	199	206	164	125
Basic Materials	70	60	55	66	14	14	14	4	84	74	69	70
Non-cyclical consumption	45	65	63	65	13	14	18	3	58	79	81	68
Health	35	42	44	49	10	9	12	3	45	51	56	52
Oil, Gas and Biofuels	28	29	28	25	5	6	4	1	33	35	32	26
Information Technology	17	15	17	19	4	2	2		21	17	19	19
Communication	9	15	13	14		3	5		9	18	18	14
Other				14				2				16
Total	**740**	**752**	**719**	**696**	**122**	**125**	**147**	**38**	**862**	**877**	**866**	**734**
Year %	**86**	**86**	**83**	**95**	**14**	**15**	**17**	**5**	**100**	**100**	**100**	**100**

Source: elaborated by the authors (2021).

Annually, most reported KAMs were related to account-level risk, above 80%. Sierra-García et al. (2019) identified 60% of their sample related to account-level risk. Entity risk related matters are also relevant, but to a lesser extent, since the purpose of independent auditing is providing a level of reasonable assurance on financial statements.

In general, it appears that auditors consider KAMs to be more related to accounting items than to entity items. Thus, users receive more information on accounting aspects. For Sierra-García et al. (2019), the reporting of more KAMs of certain types can be regarded as auditors providing further information on those clients' characteristics.

To demonstrate the correspondence relationship between the variables, Table 7 presents Spearman's correlation matrix.

Table 7 - Spearman's Correlation Matrix

	1)	**2)**	**3)**	**4)**	**5)**	**6)**	**7)**	**8)**	**9)**	**10)**	**11)**	**12)**	**13)**	**14)**
1)	1													
2)	0,0571	1												
3)	-0,0706	-0,0662	1											
4)	0,4889	0,0201	0,0314	1										
5)	0,2113	-0,1150	-0,0167	-0,0198	1									
6)	0,4703	0,0737	0,0661	-0,0047	-0,1238	1								
7)	0,1873	0,0395	-0,2632	-0,1566	-0,0183	0,0168	1							
8)	0,3282	0,0904	0,0381	0,0375	-0,0551	-0,0430	0,0028	1						
9)	0,4748	-0,0081	-0,0647	0,0182	0,1534	0,0013	-0,0444	-0,0009	1					
10)	0,6779	0,0501	0,0222	0,3937	0,1610	0,3372	-0,1030	0,2330	0,3984	1				
11)	0,3391	0,0551	-0,2132	0,3417	-0,1109	0,0194	0,5799	0,0629	-0,0672	-0,0181	1			
12)	0,2219	0,0530	0,2412	0,2967	0,1603	-0,0092	-0,2053	0,0631	0,1472	0,2381	0,0949	1		
13)	0,1112	0,0482	0,2321	0,1597	0,0998	0,0671	-0,1478	0,0579	-0,0029	0,0800	-0,0107	0,5105	1	
14)	0,0196	-0,1239	0,4184	0,1988	0,1309	-0,0533	-0,1866	-0,0767	0,0273	0,0570	-0,0263	0,4248	0,2477	1

Source: elaborated by the authors (2021).

Note. (1) QKAM; (2) Beta; (3) Leverage; (4) Complex Issues; (5) Sector-specific Issues; (6) Assets; (7) Controls; (8) *Impairments*; (9) Liabilities; (10) Account-level risk; (11) Entity-level risk; (12) Size; (13) *Big Four*; (14) Loss.

Table 7 shows the correlation between the variables quantity of KAMs (QKAM) and account-level risk, positive and with a coefficient of 0.6779. This confirms that most KAMs refer to issues classified as account-level risk.

A positive correlation is also observed for the variable size, both in relation to account-level risks (0.2381), as well as to the quantity of KAMs (0.2219), signaling that these variables follow the same direction, that is, the larger the company, the greater the quantity of reported KAMs addressing account-level risk issues. Ferreira and Morais (2020) also identified more KAMs in the audit reports of complex, riskier companies that are audited by Big Four.

Quantile regression was performed considering the quantiles 25, 50 and 75. However, the quantiles 25 and 75 failed to present statistical significance for the variables of interest, therefore, we present the results at quantile 50, exclusively. The quantile regression results of quantile 50, applied to Equation 1, are presented in Table 8, that reports the findings considering the dependent variable quantity of KAMs (QKAM). The p-value found for the beta variable, which was used as a measure of the audited company's risk, indicating the sensitivity of the company's return in relation to the market's return, was not statistically significant. Thus, the influence of risk, measured from beta, on the number of key audit matters disclosed by audit firms in the IARs was not confirmed..

Table 8 - Quantile regression result at quantile 50 considering the amount of disclosed KAM

QKAM	Coef.	Standard Deviation	t	P-value	[95% Conf.	Interval]
Beta	0,1294	0,0886	1,4600	0,1450	-0,0445	0,3034
Leverage	-0,0828	0,0282	-2,9400	0,0030	-0,1381	-0,0274
Size	0,1614	0,0276	5,8500	0,0000	0,1072	0,2155
Big Four	0,0930	0,1240	0,7500	0,4530	-0,1504	0,3365
Loss	-0,3218	0,1252	-2,5700	0,0100	-0,5675	-0,0761
_cons	0,7091	0,3375	2,1000	0,0360	0,0468	1,3715

Source: elaborated by the authors (2021).

Table 8 shows that the independent variables leverage and loss in the previous year (Loss) have a statistically significant relationship at 1% with the quantity of key audit matters disclosed in companies' reports. Thus, we infer a negative relationship between these variables and the quantity of KAMs released in IARs, suggesting that the higher a company's leverage, the lower the amount of KAMs. The same applies to the presence of losses in the previous year.

These results were also evidenced by Gallizo and Saladrigues (2016), who noticed the record of losses in consecutive years as a marker in the company's risk assessment process. Pinto and Morais (2019) and Sierra-García et al. (2019) observed a lower number of KAMs in companies with high profits, meaning that less profitable companies (lower leverage), tend to show more KAMs reported by auditors.

Furthermore, the positive relationship found for the size variable presented a p-value with statistical significance of 1% indicating a possible association between company size and the amount of reported KAMs. Thus, it seems that in large Brazilian companies, auditors tend to disclose more KAMs, presenting more details in their IARs.

Our results differ from Ferreira and Morais (2020); Lennox et al. (2019); Pinto and Morais (2019) and Sierra-García et al. (2019), who identified a positive association between KAMs disclosure and auditor characteristics (audit fee and audit firm), as well as client characteristics (industry and business complexity).

Table 9 presents the results obtained from the quantile regression at quantile 50, considering as dependent variable, KAMs reported as account-level risk.

Table 9 - Results of the quantile regression at the 50th quantile considering the KAM reported as account-level risk

Account-level risk	Coef.	Standard Deviation	t	P-value	[95% Conf.	Interval]
Beta	0,2223	0,1008	2,2100	0,0280	0,0246	0,4201
Leverage	-0,0201	0,0321	-0,6300	0,5320	-0,0830	0,0429
Size	0,1761	0,0314	5,6200	0,0000	0,1146	0,2377
Big Four	-0,0820	0,1410	-0,5800	0,5610	-0,3588	0,1948
Loss	-0,1317	0,1423	-0,9300	0,3550	-0,4111	0,1477
_cons	-0,7025	0,3837	-1,8300	0,0670	-1,4556	0,0506

Source: elaborated by the authors (2021).

As presented in the literature, results presented in Table 9 suggest that there is a positive and statistically significant association between risk and KAMs disclosed in audit reports on account-level risk aspects. A large proportion of the KAMs reported by the firms in our sample fell into the "account-level risk" category (a minimum of 86% of the total KAMs reported in each year, according to Table 6). Importantly, when assessing whether a reported matter is a KAM, the auditor considers (i) the risk of material misstatement, (ii) whether or not there were significant estimates and judgments, and (ii) any significant events and transactions that occurred during the reporting period (Ricquebourg & Maroun, 2022). Thus, disclosure of KAMs can provide stakeholders with a better understanding of the company's inherent risk as it presents insights into the areas that pose higher risk of material misstatement or significant risks identified in accordance with ISA 315 (Ferreira & Morais, 2020).

Sierra-Garcia et al. (2019) reported that KAMs disclosure is related to risk characteristics, both in account and entity-level risk. Results described in Table 9, in the Brazilian context, showed that there is a positive and statistically significant association at 5% only between company risk and KAMs disclosed on account-level risk matters. This suggests that when the company is riskier, auditors tend to disclose a greater amount of KAMs on account-level risk matters.

This classification includes most of the examined KAMs, reaching 95% of the critical issues disclosed in 2019 (Table 6). Thus, it appears that account risks evidenced in financial statements are verified by auditors and subsequently reported as KAMs. Thus, as the capital market presents informational asymmetry, KAMs may contribute to risk assessment by investors and other stakeholders (Marques & Souza, 2017).

Evidence from this study complements Elmarzouky et al. (2022), who observed an increase in the management's interest in disclosing more risk information when auditors report more KAMs. Thus, the reporting of more risk information by auditors (KAMs) on financial accounts and by management (management report) provides a better understanding to shareholders of how KAMs affect risk disclosure.

It is worth noting, as an example, that the new accounting standard CPC 06 (R2) - Leases (IFRS 16 - Leases), effective from January 1, 2019, was included as a KAM in the company Alpargatas, as it introduced complex accounting requirements as a basis for measuring an asset's right-of-use as well as the lease liability. Therefore, it addressed risk aspects at the account-level for this company. In addition, the auditor reports that this matter was considered significant due to the judgment related to the measurement process of contract assets and lease liabilities, as well as to the fact that variations in adopted assumptions could significantly impact the individual and consolidated financial statements. Therefore, a new standard regulating the measurement and disclosure of accounting elements, can be a detetminant for new KAMs.

Furthermore, the p-value of the variable size also showed a positive and statistically significant relationship with KAMs classified account-level, indicating that IARs from larger companies tend to present KAMs related to the inherent risk of the company's accounting records.

Findings in Table 9 may have also shown a positive association, as the account-level risk category includes accounting records that may be subject to management bias and opportunistic earnings management. This is due to the fact that uncertainty measurement adversely affects the decision on accouting estimates (Lau, 2020). Therefore, this association demonstrates that auditors play a relevant role in ensuring that issues related to measurement uncertainties (and management bias, if any) are properly identified, addressed, and verified (Lau, 2020). This contributes to the economic trade-off between the likelihood of ligitation exposure and loss of reputation, on one hand, and the expected cost of losing a cliente, on the (Ferreira & Morais, 2020), meaning that auditors include in their reports more KAMs related to accounting records, which will already be disclosed by the company to the market.

Thus, based on our findings, there is evidence of a possible association between the company's characteristics and key audit matters disclosed in audit reports of companies listed on B3.

5. CONCLUDING REMARKS

The main reason standard-setters and regulators proposed to change the traditional audit reporting model to a more individualized and detailed one was to meet the information required by financial statement users (Santos et al., 2020). As such, auditors are likely to report a greater amount of KAMs in companies perceived as risky. Also, the increased efforts by auditors to reduce their liability tend to improve audit procedures and, therefore, the detailing of KAMs. Our proposal was to assess whether company risk, estimated by its carachteristics (company’s beta), is a determinant of disclosure of key audit matters (KAMs) in independent audit reports (IARs), from 2016 to 2019, in brazilian companies listed on B3 S.A. – Brasil, Bolsa, Balcão. To this end, we verified both quantity and types of reported KAMs, using quantile regression with panel data structuring.

Overall, findings show that auditors, on average, disclose 2.80 KAMs per company, and that 61.14% of our sample had been audited by Big Four firms. Also, most KAMs classified under "Complex Issues" with an annual average of 27% and related to account-level risk, over 80% per year. The low disclosure of KAMs may signal that auditors are only seeking to comply with the standard, rather than reporting KAMs to present greater insight on the company's financial statements and its risks. Furthermore, the concentration of KAMs rated as "Complex Issues" may be related to the auditors' conservatism, who seek to warn accounting information users about the statements.

By using quantile regression, we found a positive association between KAMs classified as account-level risk and company risk (measured by its beta). This highlights that, for example, when auditors report accounting estimates as KAMs and provide the necessary descriptions and explanations by performing assurance work, the informational quality of accounting reports may be improved (Gaynor et al., 2016; Lau, 2020).

As for the control variables in assessing the determinants of the amount of KAMs, a positive and significant association was found with the company's size and a negative association with companies that presented loss in the previous year and higher leverage. Thus, we infer that company size, prior year loss and high leverage are determinant factors of the amount of KAMs reported by auditors.

Similarly, our findings denote that disclosing KAMs in the brazilian context reports the risks of material misstatement of the audited entity, specifically those related to accounts or elements that are material to financial statements and include particularly challenging, subjective, or complex auditor judgement. Therefore, auditors, in performing audits in larger companies, have sought to identify risks and report them as KAMs. This allows stakeholders to consistently evaluate information reported as KAMs in a positive way (Boolaky & Quick, 2016; Christensen et al., 2014; Cordos & Fülöp, 2015b; Sirois et al., 2018; Trpeska et al., 2017).

KAMs communication, as to the audited company's risks, may be favorable to users of financial statements, as it allows for an accounting record that has drawn the auditor's attention on financial statements to be compared to the auditor's opinion. As cited in the Natura example, related to the acquisition of The Body Shop, this specific KAM allows the verification of the auditor's checking procedures (for example, cash flow projection analysis; comparison with market information, etc) and to compare them with the description of the acquisition (company's version). The auditor's report can add new elements, given the possibility of external confirmation (comparison with market information).

Thus, it seems reasonable to assume that KAMs have the potential to contronf the risks that stakeholders perceive in accounting reports with the auditor's disclosure, as well as mitigate the perception of material misstatement in the measurement of accounting elements. Therefore, KAMs increase the usefulness and quality of information for both auditor and auditee, reducing the informational assymetry of accounting records.

From our results, we seek to contribute to the understanding that some characteristics of companies, such as: risk (beta), size, loss in the previous year and leverage can be considered determining factors of the amount and nature of KAMs disclosed by independent auditors who assessed companies listed on B3, from 2016 to 2019. This makes users of financial statements aware of the quality of audit work in Brazil, meaning that the standard is being followed and risk areas are being addressed in their KAMs. However, it is not possible to infer that the informational content addressed in the KAMs is sufficient for stakeholders to understand the company's risk from the auditor's perspective.

This research also provides evidence that supports the state of the art on how the informational content of audit reports helps to reduce the informational asymmetry of financial market relationships and, more specifically, fills the gap regarding the role of KAMs in explaining the risk perceived by the auditor within the audited firm. This allows to assess the risk perceived by the auditors and its relationship with the information included in their report. Practically, this study provides greater understanding to users of information regarding disclosure – by auditors – on companies' inherent risk through classified KAMs, either at entity or account-level, aspects not reported by the auditors in IARs before 2016.

We verified auditors who disclosed the same KAMs in more than one year for the same firm. It can be assumed that the company continued to present that issue/risk for more than a year, that is, there are risks that are part of normal activities and, possibly, will be recurrently presented as KAMs for some companies. A risk factor can be considered by the auditor and addressed in two consecutive years with similar audit effort, but changes in reported KAMs from year to year can be attributed to an alteration in an entity's circumstances or in the auditor's knowledge on the auditee (Zhang & Shailer, 2021).

From year to year, auditors can adjust the rationale for considering a particular item as KAM, for example, monetary connotation and/or perceived qualitative elements in a company's examination. These aspects may be relevant to users of accounting information and be a starting point for obtaining more evidence and/or assurance that this risk has already been addressed by the audit and, therefore, the accounting reports are free of material misstatement. On the other hand, the consistency of the KAMs in consecutive years can alert to the standardization of reported information (Brasel et al., 2016), when there is no change of audit firm, considering that, when there is rotation, there is a significant variation in reported KAMs, according to Ricquebourg & Maroun (2022).

In addition, auditors may be reporting as account-level risks, items previously known through financial statements in quantitative terms, to a greater extent than entity-level risk, given that the latter covers internal aspects such as controls and business continuity, that is, strategic data. Thus, future studies may investigate whether there are more entity-level risk matters that were previously discussed with the auditee's governance, and whether there was restriction to its disclosure.

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