

ANALYSIS OF REPORTING TRANSPARENCY IN FINANCIAL AUDIT THROUGH KAM AND GENDER DIFFERENCES

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Abstract

One of the dimensions of quality reporting in financial auditing is the transparency of information presented in audit reports by financial auditors. In recent years, in order to improve transparency in financial auditing, and thus increase the quality of audit reports, regulators have established that a separate section of the audit report is reserved for key audit matters (KAMs). KAMs are those matters which, based on the auditor's professional judgement, are of most importance to the audit of the financial statements for a period and are selected from among the matters discussed with those charged with governance. The quality of audit reporting, as measured by ensuring transparency, may also be influenced by the characteristics that women may have in comparison to men of being prudent, careful, rigorous and more analytical. This study investigates the relationship between gender differences and transparency in audit reporting by presenting Key Audit Matters that support the audit opinion. The sample consists of companies listed on the regulated market of the Bucharest Stock Exchange from 2016-2021, and the results show that there is an influence of gender differences on financial audit transparency, in that female auditors tend to present information that is more transparent and follows the accounting principle of prudence when detailing Key Audit Matters.

Keywords: *gender differences; audit report; transparency in audit reporting; key audit matters (KAM); conservatism; audit opinion.*

JEL Classification: C12, M41, M42, M48.

1. INTRODUCTION

The quality of reporting in financial auditing is influenced, among other things, by the transparency of information presented in audit reports. In order to ensure transparency of reporting in financial auditing, auditing standards have established that from 2016 onwards a separate section of the audit report is reserved for the presentation of key audit matters (KAM). The quality of reporting in auditing, as assessed by ensuring transparency, may also be influenced by the characteristics that women may have compared to men, of being more prudent, careful, rigorous and analytical.

The study investigates the relationship between gender differences and reporting transparency in financial auditing through key audit matters (KAM) and highlights that gender differences influence reporting transparency in financial auditing through key audit matters (KAM) and prudence as an accounting principle is influenced by gender differences in financial auditing. The research is further structured in sections. After this introductory part, the paper is structured in sections: section 2 is devoted to the literature review, section 3 considers the research methodology, section 4 is devoted to the results and discussion, and the final part is reserved for the conclusions.

2. LITERATURE REVIEW AND FORMULATING RESEARCH HYPOTHESES

2.1. Transparency of financial audit reporting

To meet the increasingly sophisticated expectations of stakeholders, in recent years, reporting by organisations has undergone a number of improvements. In this context, the role of the financial auditor has also been reconsidered, with the quality of audit reporting being supported and enhanced by the adoption of new auditing standards (Grosu, Robu and Istrate, 2020). Specifically, ISA 701, “*Communicating Key Audit Matters in the Independent Auditor's Report*”, required that beginning with the audit of financial statements for periods ending at the end of 2016, a separate section referring to Key Audit Matters (KAM) be included in the audit report. This requirement was of course aimed at improving the content of the audit report and increasing transparency in financial reporting (IAASB, 2020). In other words, ensuring greater transparency in audit reporting leading to increased communication value of the audit report to support stakeholders is supported by introducing KAM in the content of the audit report (Backof, 2015; Cordos and Fülöp, 2015; Köhler, Ratzinger-Sakel and Theis, 2020). According to the standards, key audit matters are those matters which, based on the auditor's professional judgement, are of most significance to the audit of the current period's financial statements and are selected from those matters discussed with the entity's management. In other words, the extent to which a number of matters require significant attention during the performance of the audit

is based on the auditor's professional judgement (Kachelmeier, Schmidt and Valentine, 2017). Some researchers have pointed out that there are different approaches of auditors to the average number of key audit matters described at report level, their nature, which are of course also influenced by the industry in which the audited companies operate (Fülöp, 2018; Levanti, 2019).

In addition to the key audit matters, transparency of reporting in financial auditing can also be assessed by the type of opinion issued: unqualified or unqualified but with insignificant observations (Robu, Istrate and Herghiligi, 2019). Academic research has also supported changes in audit reporting standards, supporting the development of the audit profession by enhancing the credibility offered by the auditor (Czerney, Schmidt and Thompson, 2014; Bédard, Besacier and Schatt, 2015). Transparency in reporting can also be considered to influence the performance of companies, as it has been found that firms for which audit reports have been issued mentioning issues related to going concern problems are more likely to report profits in subsequent periods than firms for which no such issues have been mentioned (Kim, 2021).

In addition, compared to previous findings, once auditors reported key audit matters in their reports in one period, the opinions issued in the audit reports of subsequent periods were predominantly unqualified. Then, the existence of key audit issues reported in a period, their number and the unqualified audit opinion will contribute to the improvement of the quality of the audit in the following period (Grosu, Robu and Istrate, 2020).

2.2. The influence of gender differences on reporting in financial auditing

Over time, there have been both theoretical and practical concerns about promoting gender equality in the workplace, particularly by supporting a balance of women and men in key positions within organisations (Grosser and Moon, 2008; United Nations, 2015; Dzubinski, Diehl and Taylor, 2019). There is also a focus on gender diversity to boost the sustainable performance of organisations and not just on employing women in leadership positions (McGuinness, Vieito and Wang, 2017).

From a practical point of view, only 12% of professional accountancy bodies in Romania have women on their boards, compared to 31% in Italy, for example (Del Baldo Tiron-Tudor and Faragalla, 2019). However, 78% of the accountants in Romania are women compared to only 32% in Italy. In 2022, the Romanian Chamber of Financial Auditors (RCAF) had more than 5,200 members, of which more than 4,200 were individuals. Of these, almost 3,000 were female auditors (CAFR, 2022). An analysis of the RCAF Annual Reports shows that, over time, the ratio of women to men in the auditing profession in Romania has been around 70%. In other countries (e.g. Spain), but also in previous periods, only 6% of the audit professional bodies were women (Carrera, Gutierrez and Carmona, 2001).

Among the determinants of gender entrepreneurship in the accountancy profession in Romania are both events within organisations and personal circumstances (Faragalla, Tiron-Tudor and Stanca, 2020). Studies over the years have looked at the extent to which women have been involved in *Big4* audit firm teams and less so female entrepreneurship (Tiron-Tudor and Faragalla, 2018). The fact is that it has been disproved that a feature of the traditional accountant stereotype is that they are male (Istrate, 2012). However, stereotypes of men and women in auditing cannot be generalised across the profession, and many studies have found gender differences (Reheul *et al.*, 2017). It is considered that if women are included in audit committees, the influence on performance is positive, but negative, however, on risk-taking (Tahir *et al.*, 2021). Another strong point made by researchers in favour of female accounting professionals is that the presence of women on audit committees leads to quality audit assignments, but at increased costs (Alderman, 2017; Lai *et al.*, 2017). Thus, the quality of financial audit engagements is influenced by gender differences, but once discretionary engagements are assessed, the quality differences between the two genders are reduced (Yang and Triana, 2017). However, audit teams that include women tend to limit the level of discretionary engagements and may thus have implications for the transparency of audit engagements and related reporting (Kung, Chang and Zhou, 2019).

Thus, the gender variable may explain some behaviours in terms of producing, validating, publishing and exploiting financial statement information. As previously stated, women accountants are more risk averse, engaging less in unethical behaviour to gain financial advantage, and are found to be more conservative, with lower reported results when they are the decision makers (Arun, Almahrog and Ali Aribi, 2015). On the other hand, according to some researchers, the psychological costs of female employees are higher than those of male employees (Becker, 1971).

Although more positive aspects associated with female accounting professionals are highlighted, when issues of negligence are found, female auditors are more frequently held accountable than men, as their negligence is often related to empathy towards the client, while male auditors are more often blamed for issues of financial dependence on a particular client (Alderman, 2017).

Based on the reviewed literature and, in particular, on patterns noted in some papers (Arun, Almahrog and Ali Aribi, 2015; Kung, Chang and Zhou, 2019; Tahir *et al.*, 2021), two research hypotheses are formulated.

Hypothesis 1: *Gender differences influence reporting transparency in financial audit through key audit matters (KAM).*

Hypothesis 2: *Conservatism, as an accounting principle, is influenced by gender differences in financial auditing.*

3. RESEARCH METHODOLOGY: POPULATION, SAMPLE, DATA SOURCE, DATA ANALYSIS METHODS

The population is represented by all companies listed on the Bucharest Stock Exchange (BSE), *the sample* analysed comprises 70 companies listed on the regulated market in the period 2016-2021 (420 observations), and *the data source* is represented by the audit reports of the companies included in the sample. *The variables* identified are qualitative variables and refer to: gender of financial auditors, type of financial auditors, existence of key audit matters (KAM), number of key audit matters (KAM), type of key audit matters (KAM), going concern problems, inefficient internal control system, but also the type of opinion issued by the financial auditor. Their description is given in table 1. *Analysis methods* consider descriptive statistics, but also multivariate data analysis methods (Pintilescu, 2007), such as Multiple Correspondence Factor Analysis (MCFA).

Table 1. List of identified variables and their description

Variable symbol	Variable description	Value
<i>Gen_FA</i>	Gender of the financial auditor	Male (M)
		Female (F)
<i>Type_FA</i>	Type of financial auditor	Big4
		NonBig4
<i>Exist_KAM</i>	Existence of key audit matters	Yes
		Not
<i>Nr_KAM</i>	Number of key audit matters	Without KAMs
		Between 1 and 5
		Between 6 and 10
		More than 10
<i>Type_KAM</i>	Type of key audit matters	Capitalisation of expenses
		Impairments
		Provisions
		Revenue recognition
<i>Go_conc</i>	Going concern problems	Reassessment
		Yes
<i>SCI_inef</i>	Inefficient internal control system	Not
		Yes
<i>Op_Type</i>	Audit opinion type	Unqualified
		Qualified

Source: own processing

After presenting the results of the descriptive statistics, aspects that validate the research hypotheses formulated are discussed.

4. RESULTS AND DISCUSSIONS

After analysing the data and presenting descriptive statistics (see Table 2), the main results aim to identify associations between the variables identified, in different variants, in order to demonstrate that gender differences influence reporting transparency in financial auditing, taking into account key audit matters (KAM), but also that conservatism as an accounting principle in financial auditing is influenced by gender differences.

Table 2. Descriptive statistics on the variables analysed

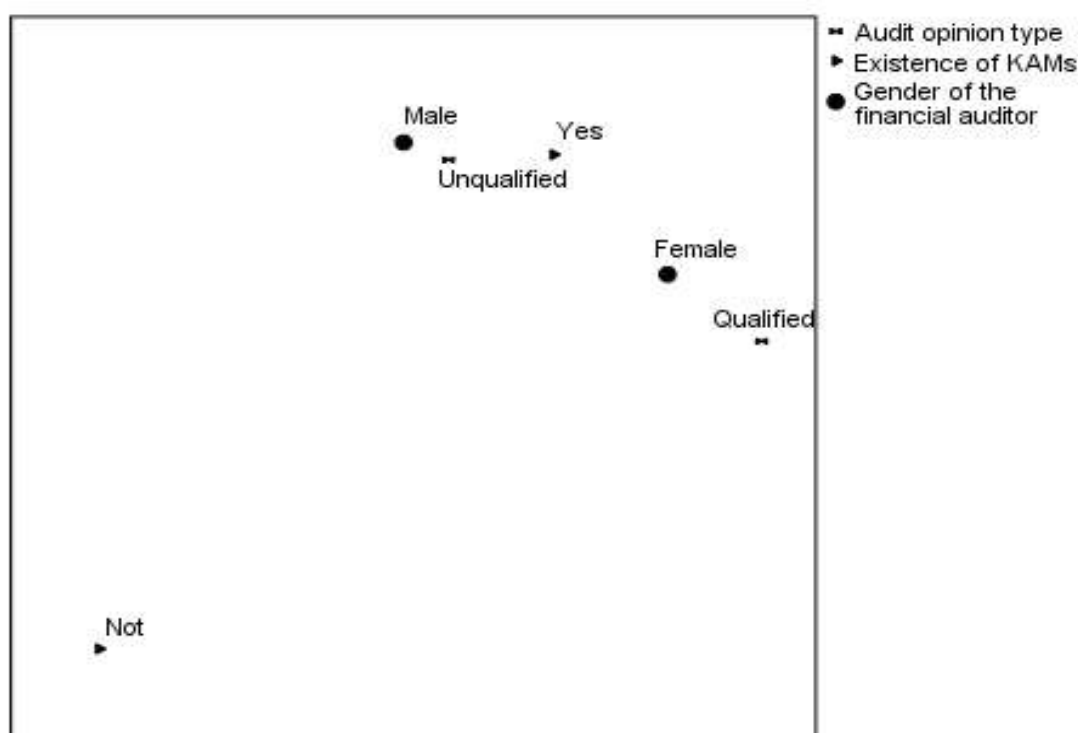
Variable		Value	Frequency of occurrence
Gender of the financial auditor		Male	58%
		Female	42%
Type of financial auditor		Big4	31%
		Non-Big4	69%
Existence of key audit matters		Yes	91%
		Not	9%
Number of key audit matters		Without KAMs	9%
		Between 1 and 5	79%
		Between 6 and 10	10%
		More than 10	2%
Type of key audit matters	Capitalisation of expenses	Yes	6%
		Not	94%
	Impairments	Yes	54%
		Not	46%
	Provisions	Yes	24%
		Not	76%
	Revenue recognition	Yes	48%
		Not	52%
	Reassessment	Yes	12%
		Not	88%
Going concern problems		Yes	31%
		Not	69%
Inefficient internal control system		Yes	4%
		Not	96%
Audit opinion type		Unqualified	79%
		Qualified	21%

Source: own processing

From Table 2, it can be seen that the financial auditors of the sampled companies are about 70% Non-big4 and the signatory of the audit report is mostly male. More than 90% of the audit reports report key audit issues, the most frequent, in terms of number, being between 1 and 5 issues (almost 80%). In terms of the type of audit issues reported by the financial auditors in their reports for the

period analyzed (2016-2021), the highest percentage is held by the existence of impairments, as a key audit issue (in 54% of cases), followed by revenue recognition with a percentage of 48%. Financial auditors report continuity issues in 31% of the reports issued by them for the 420 observations, and the control system characterized as effective is noted in 96% of the cases (year-firm). This last aspect can be considered to render the opinion issued unfounded in approximately 80% of cases.

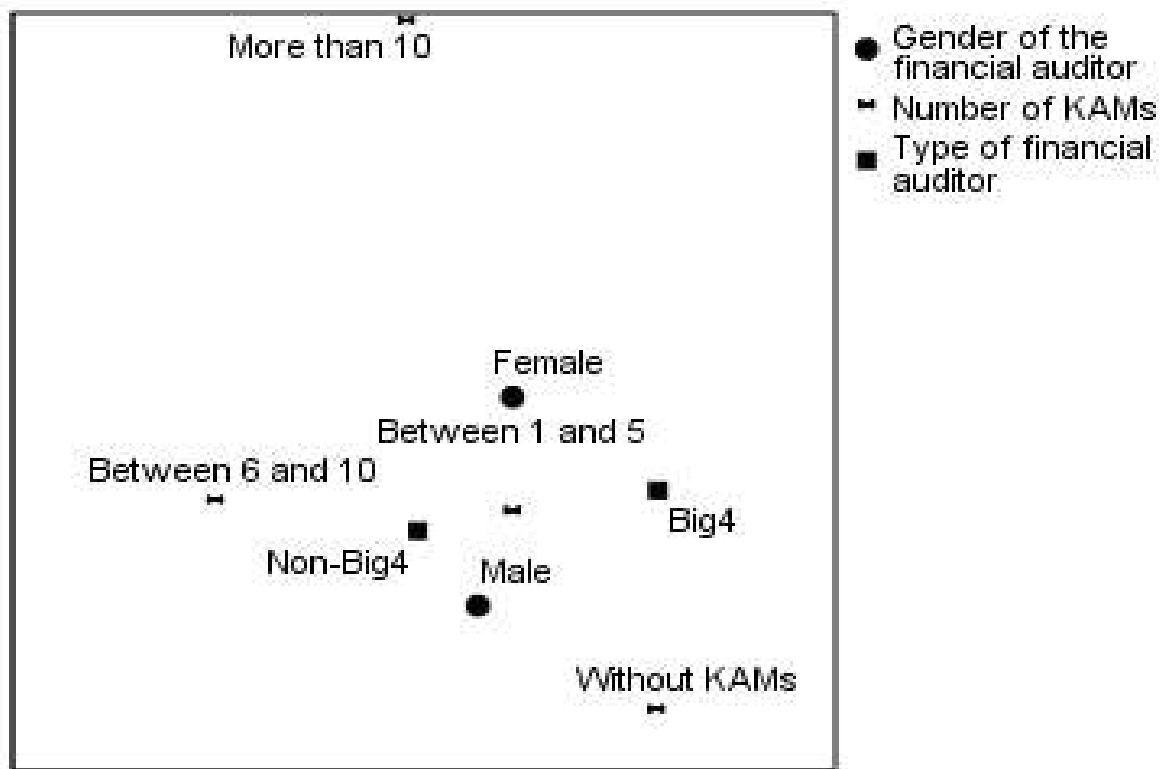
To test Hypothesis 1: *Gender differences influence reporting transparency in financial audit through key audit matters (KAMs)*, auditor gender is associated with the existence of KAMs and opinion type, on the one hand, and with the number of KAMs and auditor type, on the other hand, using the Multiple Correspondence Factor Analysis (MCFA) method, as shown in figures 1 and 2.



Source: own processing

Figure 1. Association between auditor gender, existence of KAMs and type of audit opinion

From Figure 1 it can be seen that female financial auditors tend to formulate modified audit opinions when reporting on key audit matters more than male financial auditors. As regards the existence of key audit matters, no gender differences are reported.

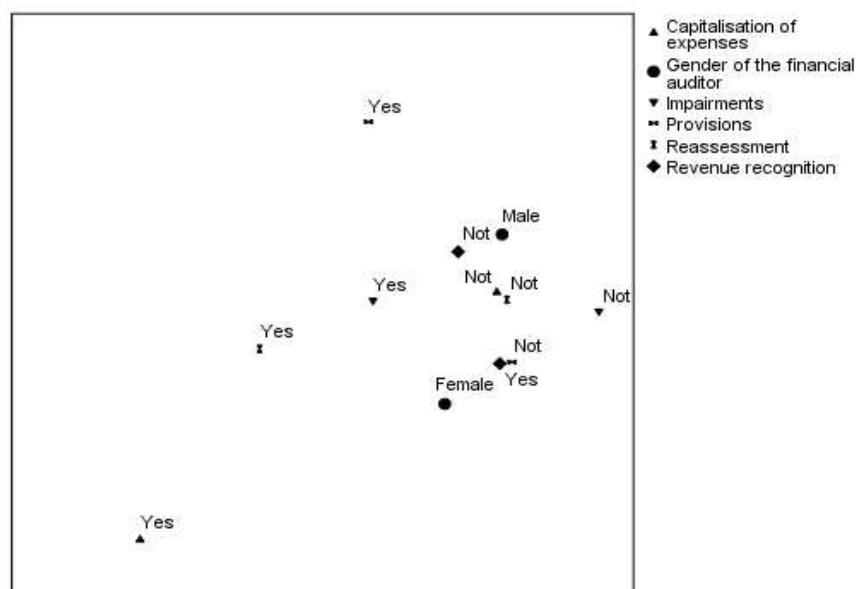


Source: own processing

Figure 2. Association between auditor gender, number of KAMs and auditor type

In terms of the number of key audit matters, it can be noted that female auditors tend to be more transparent than male auditors, in that they report more key audit matters, regardless of whether they are part of the Big4 or not. Then, audit reports where key audit matters are not reported are more likely to be written by male auditors. These results highlight that gender differences influence reporting transparency in financial auditing, in the sense that female auditors report more analytically in audit reports, which also confirms the results of other studies ((Kung, Chang and Zhou, 2019; Tahir *et al.*, 2021).

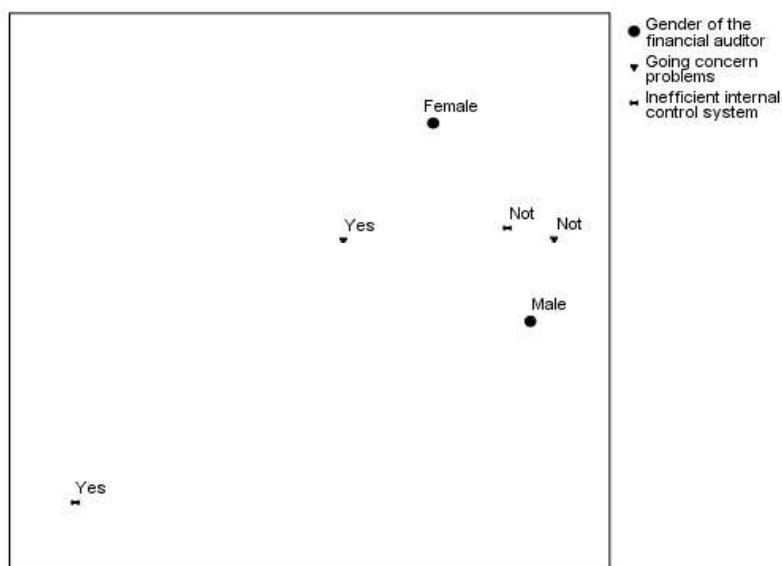
To test Hypothesis 2: *Conservatism, as an accounting principle, is influenced by gender differences in financial auditing*, the auditor's gender is associated with the type of KAMs, on the one hand, and with going concern problems and the efficiency or inefficiency of the internal control system, on the other hand, using the Multiple Correspondence Factor Analysis (MCFA) method, as shown in Figures 3 and 4.



Source: own processing

Figure 3. Association between auditor gender and KAM type

Figure 3 shows that female auditors are more likely to present impairment and revenue recognition or non-recognition aspects as key matters in the audit report, showing that they are more conservative than male auditors.



Source: own processing

Figure 4. Association between auditor gender, going concern problems and internal control system

Also, female auditors sign financial audit reports where going concern problems are raised more than male auditors. As regards the efficiency of the internal control system, gender views are approximately the same. The conclusion is that female auditors are more conservative, in line with the results of other studies (Arun, Almahrog and Ali Aribi, 2015).

5. CONCLUSIONS

The transparency of the information presented in the audit report influences the quality of company reporting. Gender differences influence the transparency of reporting in financial auditing through key audit matters (KAM), but also conservatism as an accounting principle. Given the results, it can be concluded that there is an influence of gender differences on transparency in financial auditing in the sense that female auditors tend to report more transparently. Gender differences also influence conservatism as an accounting principle, with women auditors reporting more going concern problems than men in the audit reports they provide.

In the context of the new sustainability reporting standards (EY Romania, 2022) - which at EU level will impact 50,000 entities, compared to 11,700 entities at present, and at Romanian level will impact 6,000 entities, compared to 750 entities at present - the financial auditor of an entity must provide limited assurance on the sustainability information reported by a company, which will consequently change the audit report. There is, however, also the option to move to a reasonable assurance engagement for non-financial information as well, but at a later stage. All these changes indicate that audit reporting is constantly evolving and there is still room for improvement. The present study also has limitations due to the small sample size, but it also adds value by considering the influence of gender differences on conservatism in financial auditing compared to other research.

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