



## What matters in key audit matters: A disclosure analysis of listed companies in Nigeria

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### Abstract

This paper explores the extent, type, and characteristics of disclosure of Key Audit Matters (KAMs) in listed companies in Nigeria. The International Auditing and Assurance Standards Board (IAASB) developed KAMs to address demands for greater transparency and clarity in audit reports. This study employs an ex post facto research design, utilizing qualitative content analysis of 44 companies from various sectors and their 2024 financial statements. Findings revealed that KAMs per industry range from 1 to 4. The reported KAMs by 26 companies were 62, averaging 1.3 KAMs per company. Expected Credit Loss Allowance (ECL) on loans and advances to customers is common among all banks, accounting for 60% of the total reported issues. The predominant issue across all industries was revenue recognition. There were five instances where KAMs were not mentioned and three cases with no KAM reference. The Big Four auditing firms dominated the audits of sampled companies reporting 62 KAMs across four sectors. We recommend that issues and trends in KAM be communicated, and that regulators require auditors to provide necessary clarifications when KAMs are absent or not mentioned. Where there is a basis to modify the audit opinion, this should also be explicitly stated.

**Keywords:** Audit, Audit reports, Financial statements, International standards on auditing 701, Key audit matters, Listed companies.

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### Contribution of this paper to the literature

Many prior studies focused on the variables or firm characteristics affecting KAM while this study focused on disclosing matters that should keep the management and auditors “awake at night”. When properly addressed, these matters will reduce audit time and costs while improving stakeholder confidence. The latest available financial statement-2024- was used in this study.

## 1. Introduction

Financial statement as outputs of the accounting process are tools for communicating information from within the enterprise to the outside of the enterprise. An effective way of reducing the information risk in financial statements is independent auditing. The audit opinion at the end of the audit process is communicated through the independent audit report to all the stakeholders.

Financial crises in the recent past caused unprecedented damage to public confidence in the reliability and credibility of audited financial reports, leading to increased scrutiny of the informative value of the auditor’s report (Bedard, Gonthier-Besacier, & Schatt, 2014). This led to questioning the relevance of the audit reports adhering to the International Standards on Auditing (ISA). The traditional audit report has been subject to several criticisms and debates (Church, Davis, & McCracken, 2008). Some scholars argued that although the traditional audit report is highly standardized, it remains insufficient, uninformative, and lacking in transparency (Asare & Wright, 2012; Carcello & Li, 2013; Gold & Heilmann, 2019; International Auditing and Assurance Standards Board (IAASB), 2011). Information gaps are a leading problem of audit reports because the information reported by auditors cannot satisfy corporate financial statement users who would like to have more specific information about each corporation when making decisions (Vanstraelen, Schelleman, Meuwissen, & Hofmann, 2012). Regulators and professional bodies have worked together to come up with a better reporting system to increase the reliability of the audit report and to increase trust in the audit opinion (Ciğer, Vardar, & Kinay, 2019). Consequently, the International Auditing and Assurance Standards Board (IAASB) has introduced new audit report standards to overcome information asymmetry and the information gap between the independent auditors and the stakeholders.

The IAASB has issued several auditing standards to increase transparency and trust in the audit profession. In total, five standards were revised: ISA 700 *Forming an Opinion and Reporting on Financial Statements*, ISA 705 *Modifications to the Opinion in the Independent Auditor’s Report*, ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*, ISA 570 *Going Concern*, ISA 260 *Communication with Those Charged with Governance*. In addition, ISA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*, which is the most important in the context of the issues discussed. These changes were initiated under ISA 701 and refer to “key audit matters” (KAMs).

KAMs are “those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period” (International Auditing and Assurance Standards Board (IAASB), 2015). Specifically, ISA 701 allows the auditor to choose which KAMs to disclose in their report each year. The main objective for adding these KAMs is to allow more disclosure concerning the observations that the auditor thinks need to be disclosed, specifically those matters that are classified by the auditor as significant issues, events, and risks or require professional judgments (International Auditing and Assurance Standards Board (IAASB), 2015). Therefore, it is expected that disclosing KAMs will increase the communicative value of the audit report and will enable investors to focus on financial statements’ challenging items (Sirois, Bédard, & Bera, 2018). According to ISA 701, which came into force in December 2016, the auditor must disclose in the report any issues considered important that would be of value to the users of the financial statements. In relation to the stakeholder agency problem, it is expected that KAMs’ disclosure reduces information asymmetry and plays an important role in decreasing the expectation gap (Velte & Issa, 2019). The main aim of ISA 701 is to reduce the information gap through KAMs’ disclosure, as stakeholders, in general, may not have the adequate and appropriate experience and professional knowledge to analyze the financial statements. The Financial Reporting Council of Nigeria (FRC) issued Rule 9 on the application of ISA 701 to guide independent Auditors in Nigeria. The rule shall be applied by auditors of all: (i) Listed entities (as defined by ISA), Public companies (as defined by Companies and Allied Matters Act CAP C20, LFN 2004), Banks (excluding micro finance banks), Insurance companies (excluding Health Management Organization’s), Mutual Funds, Pension Funds. Private companies that are holding companies of any of the above entities. Auditors of listed companies are to apply this Rule for audit of financial statements ending on or after December 15, 2016; while auditors of all other entities listed in paragraph 4 above shall apply this Rule for audit of financial statements for periods ending on or after June 30, 2017. From above, the objectives of this study are to ascertain below for listed companies in Nigeria: (i) Key Audit Matters (KAMs) identified by the auditors, (ii) How many Key Audit Matters (KAMs) were identified by auditors (iii) Key Audit Matters (KAMs) that are industry specific (iv) Relationship of Key Audit Matters (KAM’s) across industries and (v) the role of the independent auditors. Based on agency and legitimacy theories, this study provides recent empirical evidence (using 2024 financial statements) concerning KAMs’ disclosure in Nigeria. Specifically, the current study provides evidence for standard setters about the status of KAMs reporting. It also provides relevant information for investors about industry particularities that affect KAMs’ disclosure, which should help enhance transparency and better understanding of the peculiarities of each industry. The remainder of this study is organized as follows. Section 2 provides a Conceptual review, while Section 3 is on literature review for related studies. Section 4 describes this research’s methodology, Section 5 presents the results of the research and Section 6 concludes the paper, including a discussion of the findings, implications, and conclusions

## 2. Conceptual Review

### 2.1. Key Audit Matters

This section discusses the pertinent provisions outlined in International Standard on Auditing (ISA 701). Key audit matter is those matters that, in the auditor’s professional judgment, were of most significance in the audit of

the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. That is, those matters that required significant auditor attention in performing the audit.

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency on the audit performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1–A4). The Standard is effective for audits of financial statements for periods ending on or after December 15, 2016. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

### *2.1.1. Communicating Key Audit Matters*

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters" (paragraph 11). The introductory language shall state that: (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33).

The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. It may be organized in order of relative importance, based on the auditor's judgment, or may correspond to the way matters are disclosed in the financial statements. (paragraph A32). When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1") (Paragraph A33). The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general-purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention (paragraph A59).

### *2.1.2. Determining Key Audit Matters*

Paragraph 9 provides that the auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this ISA does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period.

## *2.2. Financial Reporting Council of Nigeria (FRCN) Rule 9 Regulation*

In accordance with Sections 8(2), 30 and 53(2) of the Financial Reporting Council (FRC) of Nigeria, Act No. 6, 2011, (FRC Act, 2001) the Council issued Rule 9 to be applied by auditors of all Listed entities (as defined by ISA), Public companies (as defined by Companies and Allied Matters Act CAP C20, LFN 2004), Banks (excluding micro finance banks), Insurance companies, (excluding Health Management Organisations), Mutual Funds, Pension Funds, Private companies that are holding companies of any of the above entities. Auditors of listed companies are to apply this Rule for audit of financial statements for periods ending on or after December 15, 2016; while auditors of all other entities listed shall apply this Rule for audit of financial statements for periods ending on or after June 30, 2017. In instances where the auditor modifies his opinion, the law or regulation precludes public disclosure about the matter or where the auditor determines that the matter shall not be communicated in the auditor's report, the FRC shall be notified in writing by the auditor(s) providing details of such matter(s) before the audit is concluded.

## *2.3. Theoretical Framework*

Various theories have been adopted to give clarity on the concept, quality and impact of auditing of financial statements of an organization. Some of the theories were: the agency theory, signaling theory, legitimacy theory and theory of inspired confidence. This study is anchored on agency theory and legitimacy theory.

### *2.3.1. The Agency Theory*

The theory applies where agency relationship ('principal-agent') occurs when principal delegates work to an agent who performs the work with the objective of firm's shareholder wealth maximization but checked through separation of the management and control (Ferguson, Green, Vaswani, & Wu, 2013). Jensen and Meckling (1976) illustrated that a method to mitigate the agency problem was to subject a firm to monitoring activities. In this way, auditing is seen as a critical line of defense against the agency problem. With the introduction of added KAM disclosures enhancing the transparency of an audit, principals will gain further comfort that agents of the business are utilising the capital provided correctly. Disclosures surrounding how the audit was conducted to ensure that management has accounted for their actions correctly will reduce agency costs associated with information

asymmetry (Morris, 1987). Therefore, the theory is relevant to this study since it emphasizes the importance of understanding the agency relationship and its implications in bridging the expectation gap between the principal (users or shareholders) and agent (management) by providing relevant KAMs that would guide users in better understanding management operations.

### **2.3.2. The Legitimacy Theory**

The theory posits that organizations must align their actions and disclosures with societal norms and expectations to maintain their legitimacy and continue operating successfully. The concept of social contract gave birth to legitimacy theory as an explanation of corporate actions, activities, and responses as a social member (Deegan, 2002; Gray, Kouhy, & Lavers, 1995). Successful companies will satisfy and serve social expectations because they are a part of society. The theory can be used to explain how KAM reporting is used to reduce or close the legitimacy gap between corporate actions and social expectations. Like other information reporting, legitimacy theory can explain why companies would provide KAM reporting. They must behave in ways that support society and community, promoting ongoing corporate success (Deegan, 2002). Thus, reporting is used to legitimize corporate actions to their social expectations as the companies would like to show their compliance (Branco & Rodrigues, 2008). Auditors use KAM reporting to respond to social and community expectations. Moreover, companies will allow auditors to provide KAM reporting in their annual reports if top management believes that the information reporting is demanded by society and community (De Villiers & Van Staden, 2006).

## **3. Literature Review**

Hui (2020) studied the format, content, and quantity of disclosure of key audit matters and analyzes the disclosure of key audit matters of China's A-share listed companies from 2016 to 2018. The author summarized the impact of disclosure from three aspects: users of financial reports, auditors, and the audited entity. The most popular topic was revenue recognition. The second was accounts receivable allowance. Different subjects involved in key audit matters were classified into the following two aspects. The first category is directly related to the financial report: i) areas of significant risk assessed by the auditor; ii) areas of management's major judgments designed in financial reports. The second category is directly related to the auditor's work: i) areas that occupy more of the auditor's time and energy; ii) areas involving the auditor's important professional judgment, such as goodwill, financial instruments, revenue recognition, etc.

Tazegül (2021) analysed the key audit matters in manufacturing companies listed in Borsa Istanbul since 201. The study addressed the development of key audit matters over three years and comparatively analyzed the change/transformation of key audit subjects in independent audit statements over the years on a company basis. The capital-intensive-structure of the manufacturing sector, the high level of tangible fixed assets, and the large volume of the inventories reflected on the key audit matters. Especially inventories, revenues, tangible fixed assets, and trade receivables were frequently among the KAM of businesses. Revenue item was the most emphasized issue among the KAM in the manufacturing sector, followed by receivables, tangible fixed assets, and inventories.

Çiğer et al. (2019) investigated key audit matters on listed firms in CEE countries and Turkey in the manufacturing sector to determine whether there is a divergence or convergence between the CEE countries and Turkey. Three CEE countries were chosen according to their economic development levels (Romania, Poland and the Czech Republic). Among the 28 sub-headings determined, the first five reported KAMs sub-headings by country in the manufacturing sector, respectively, are: In the Czech Republic, goodwill, other KAMs, intangible assets, provisions, and contingent liabilities. In Poland, other KAMs, revenue, inventories, tangible assets, business combinations, and trade receivables. In Romania, revenue, inventories, other KAMs, tangible assets, trade receivables, and deferred tax. In Turkey, revenue, trade receivables, tangible assets, inventories, deferred tax. It is determined that revenue is the most widely reported KAMs, and it is mostly reported in the first order in all countries, while goodwill and business combinations KAMs have priority in economically developed economies such as Australia, New Zealand, Switzerland, Hong Kong, and Singapore.

Camelia-Daniela (2020) analysed the key audit matters in financial services companies to highlight the most common matters reported. The sample consisted of 12 financial services companies listed on the main market at Bucharest Stock Exchange for the period 2016 to 2019. Qualitative research method was used to analyze the content of the information published by companies in the independent auditor's report and individual financial statements. The average number of key audit matters was 1.67, being higher in the case of banks where the most common matter identified were the depreciation of loans and advance to customers, than in the case of other financial services companies where the valuation of financial assets had the largest share. It was found that there were matters common to both categories of companies: Litigation provisions and Business combinations. No close correlations were identified between the variables, which means that the reporting of key audit matters is not greatly influenced by the variables analyzed. The differences between the key audit matters identified by the auditor are more influenced by the characteristics of the companies such as the field of activity and profitability, and less by the characteristics of the auditor.

Ecim, Maroun, and Duboise de Ricquebourg (2023) analyzed the key audit matters (KAMs) reported in South Africa by assessing 356 Johannesburg Stock Exchange (JSE)-listed entities with audit reports from 2017 to 2020. Qualitative content analysis was used to identify the core KAM themes and classifications. The findings suggest the most common KAM disclosures are related to business combinations and impairments of goodwill, followed by measurement and impairment considerations for nonfinancial assets. Key audit matters disclosed predominantly have a micro-level focus on core account-level issues. Differences in KAM disclosures between Big 4 and non-Big 4 firms are not that pronounced, which signals an increased market credibility perception for second-tier firms.

Małgorzata and Jędrzejczyk (2024) identified and characterize the key audit matters (KAMs) indicated during an audit of the financial statements of the largest companies in the Polish market. They analyzed the KAMs presented in the verification of the consolidated financial statements of the 30 largest companies listed on the main market of the Warsaw Stock Exchange for 2014–2022. The number of KAMs reported in individual years did not fluctuate significantly, and the average number disclosed for one audit coincides with general global trends. The

auditors reported the riskiest areas were for entities from the insurance sector, media and telecommunications, and the fuel industry. The most important KAMs include contingent liabilities, revenue, long-term assets, and goodwill.

Dusadeedumkoeng, Gandía, and Huguet (2023) examined if company and audit characteristics affect the number and type of KAM using a sample of Thai listed companies for the period 2016-2020. The results showed that company size, company complexity, and company liquidity and solvency have a significant effect on KAMs. The results also show that the presence of going concern issues affects KAMs; however, in contrast to the findings in prior literature, no significant differences exist among auditors based on auditor size. The findings show that KAM reporting is mostly homogeneous regardless of auditor characteristics, supporting the idea of a high competitiveness in the audit market.

Porumbăcean and Tiron-Tudor (2021) identified relevant drivers influencing the Key Audit Matters (KAMs) disclosed in the audit report, based on a review of the articles published in top accounting journals. The results revealed that the audited company itself especially influences the disclosure of the KAMs, emphasizing the size of the company, the complexity of the business, the applicable regulation of the industry in which the company operates, all of which impact the overall client-risk level. Other relevant factors are the accounting standards with which the company must comply and on which it must report the audit company (Big Four or not) and the audited company's location.

### 3.1. Directions of Current Research in the Field of KAM Reporting

Changing the method of reporting and disclosing KAMs has become an area of analysis not only for practitioners but also for researchers. The Association of Chartered Certified Accountants (ACCA) (2018) assessed the content of KAMs in 560 auditors' reports issued in 10 different countries where the new rules were implemented.

The most important risk areas reported by statutory auditors include asset impairments (other than goodwill), revenue (not mentioning fraud), allowance for doubtful debt, goodwill impairment, and taxation, including deferred tax. The analysis indicated that the problem of impairment losses on assets occurred in almost 30% of the reports. Overall, the number of KAMs per audit ranged from 1.9 in Nigeria to 4.1 in the UK, with most within a range of two to three KAMs per audit.

Similar conclusions can be drawn from the Financial Reporting Council (FRC) analysis of the British market, where the new form of auditor reporting was implemented first (Financial Reporting Council (FRC), 2022). The study covered 396 reports of enterprises listed on the main market of the London Stock Exchange. It found that auditors most often described issues related to revenue recognition, which is presumed to be a fraud risk by the auditing standards.

Other common KAMs were related to financial statements, where estimation uncertainty and management judgment created heightened risks for manipulative financial reporting – investments, asset impairments, financial instruments, and goodwill. Most reports included three KAMs, but there was significant variation between reports. While several reports included many KAMs, the number of reports with only one KAM (12%) was greater than the number with six or more (10%).

There are other studies focused on Nigerian listed firms, but mostly on various determinants of Key Audit Matters (KAM) disclosure, including exploring the relationships between firms' characteristics and KAM disclosures. Some of the studies are Ugwu (2020), Ebirien and Chukwu (2021); Odugbemi (2023) and Soyemi, Oluwatuyi, and Adeyemi (2025).

## 4. Methodology

The research design was *ex-facto*. This study used the content analysis of the corporate annual report based on a sample of public listed companies on the Nigerian Stock Exchange (NGX). Content analysis is considered a primary tool for analysing published information (Jose & Lee, 2007). To achieve the proposed objective, the qualitative research method was used by analyzing the content of the information published by companies in the independent auditor's report and individual financial statements.

The chosen sectors are: Banking, Manufacturing and Telecommunication, and Agriculture Sectors. There is no "Manufacturing Sector" on the Nigerian Stock Exchange (NGX), but it comprises the following sectors: Industrial Goods, Consumer Goods, and the Pharmaceutical Sectors. The four sectors chosen are considered critical and represented 69% of the equities capitalization of NGX as of 31 December 2024.

Total sampling of the population of companies in the four sectors were intended but those with no annual reports for 2024 were eliminated. At the end, the final sample of companies were 44 from a population of 52 representing 85%. The distribution of the population and sample are as follows: Manufacturing (P: 31, S:26); Banking (P:13, S:12); Telecommunications (P:3, S3), Agriculture (P:5, S: 5). For the manufacturing sector, the followings are excluded for lack of financial statements: MultiTrex, Morrison Industries, DN Tyre & Rubber, and Golden Guinea Breweries.

The data were collected manually from the reports published by them. In the first stage, the auditors' reports issued to the individual and consolidated financial statements were identified to determine which of them will be analyzed in the next stage. In the second stage, the KAMs presented for the chosen sample were identified, after which they were analyzed together with indicators that reflect the characteristics of auditors and companies to highlight whether any of the firm's characteristics influence the number and subject of KAMs.

## 5. Results and Analysis

This section presents the findings from the data analysed.

Table 1 presents the minimum and maximum reported KAM for each industry.

**Table 1.** Descriptive statistics of reported KAM's.

| Industry           | Minimum | Maximum |
|--------------------|---------|---------|
| Manufacturing      | 1       | 3       |
| Banking            | 1       | 4       |
| Telecommunications | 1       | 4       |
| Agriculture        | 1       | 4       |

The number of reported KAMs ranges from 1 (minimum) to 4 (maximum) for each industry. Accesscorp Holding and MTN are the two companies with a maximum of 4 KAMs.

Table 2 presents reported number of KAM for each industry.

**Table 2.** Number of KAM's per industry.

| Industry           | No. of Companies | No. of KAM's | Avg. KAM per Industry |
|--------------------|------------------|--------------|-----------------------|
| Manufacturing      | 26               | 26           | 1.0                   |
| Banking            | 12               | 20           | 1.7                   |
| Telecommunications | 3                | 7            | 2.3                   |
| Agriculture        | 5                | 9            | 1.8                   |
| Total              | 46               | 62           | 1.3                   |

There are 62 reported KAM's for 26 companies translating to 1.3 for the sample. The Telecommunication industry has an average KAM of 2.3 followed by Agriculture at 1.8.

Table 3 presents instances where there is no reported KAM for each industry.

**Table 3.** NIL reporting of KAM in auditor's report.

| Industry           | No. of Times of Occurrence |
|--------------------|----------------------------|
| Manufacturing      | 5                          |
| Banking            | 0                          |
| Telecommunications | 0                          |
| Agriculture        | 1                          |
| <b>Total</b>       | <b>6</b>                   |

There are instances of 5 companies in the Manufacturing Sector (Cadbury, Fidson, Nascon, PZ Cusson, and Cutix) and 1 company in the agriculture sector (Livestock Feeds).

Table 4 presents instances where there is no explicit reference to KAM in the Auditor's Report.

**Table 4.** Presents no explicit reference to KAM in auditor's report.

| Industry           | No. of Times of Occurrence |
|--------------------|----------------------------|
| Manufacturing      | 3                          |
| Banking            | 0                          |
| Telecommunications | 0                          |
| Agriculture        | 0                          |
| <b>Total</b>       | <b>3</b>                   |

There are 3 cases in the Manufacturing industry. The External Auditor's report did not mention KAM for BUA Foods, International Breweries, and Vitafoam. There was no explanation provided for this.

Table 5 presents the topics/issues disclosed in KAM in the manufacturing sector.

**Table 5.** Topics of KAM's reported in the manufacturing industry.

| S/N | Topic/Issue  | No. of Times | %           |
|-----|--|--------------|-------------|
| 1   | Recognition and Measurement of Revenue               | 5            | 20%         |
| 2   | Property, Plant & Equipment as a significant balance | 3            | 12%         |
| 3   | Valuation of Inventories                             | 3            | 12%         |
| 4   | Impairment of Trade and Other Receivables            | 3            | 12%         |
| 5   | Returnable Packaging Materials                       | 2            | 8%          |
| 6   | Provision for Decommissioning Liabilities            | 1            | 4%          |
| 7   | Recoverability of Export Expansion Grant             | 1            | 4%          |
| 8   | Carrying amount of investment in subsidiaries        | 1            | 4%          |
| 9   | Large, manual balances in Trade and Other Payables   | 1            | 4%          |
| 10  | Inventory Obsolescence                               | 1            | 4%          |
| 11  | Valuation of Biological Assets                       | 1            | 4%          |
| 12  | Measurement of Long-Term Benefits                    | 1            | 4%          |
| 13  | Transition from historical cost model to revaluation | 1            | 4%          |
| 14  | Fair value of subsidiary acquired                    | 1            | 4%          |
|     | <b>Total</b>   | <b>25</b>    | <b>100%</b> |

There were 14 issues in 25 instances for the 26 companies sampled. The commonly reported issues were Recognition and Measurement of Revenue, Property, Plant & Equipment, Valuation of Inventories and Impairment of Trade and Other Receivables. The 4 issues represented 56% of total reported KAM's. The 4 issues are closely related to significant balances/matters in the manufacturing industry.

Table 6 presents the topics/issues disclosed in KAM in the banking industry.

**Table 6.** Topics of KAMs reported in the banking industry.

| S/N | Topic/Issue   | No. of Times | %           |
|-----|---|--------------|-------------|
| 1   | Expected Credit Loss Allowance (ECL) on loans and advances to customers       | 12           | 60%         |
| 2   | Valuation of Derivatives Instruments  | 3            | 15%         |
| 3   | Re-measurement of the financial statements of a subsidiary in another country | 1            | 5%          |
| 4   | Accounting for business combinations and acquisition of subsidiaries          | 1            | 5%          |
| 5   | Implication of new core banking application impacting financial reporting     | 1            | 5%          |
| 6   | Valuation of Goodwill   | 1            | 5%          |
| 7   | Impairment assessment of Ghana Debt Securities                                | 1            | 5%          |
|     | <b>Total</b>  | <b>20</b>    | <b>100%</b> |

A total of 7 issues were reported 20 times across 12 companies in the sample. The issue common to all the banks reported in 12 instances is Expected Credit Loss Allowance (ECL) on loans and advances to customers. This is 60% of total reported issues. The next issue was the Valuation of Derivatives Instruments in 3 reported instances (15%).

Table 7 presents the topics/issues disclosed in KAM in the Telecommunication industry.

**Table 7.** Topics of KAMs reported in the telecommunication industry.

| S/N | Topic/Issue                           | No. of Times | %           |
|-----|---------------------------------------|--------------|-------------|
| 1   | Prepaid and Mobile Money Revenue      | 1            | 14%         |
| 2   | Mobile money restricted cash          | 1            | 14%         |
| 3   | Classification of legal matters       | 1            | 14%         |
| 4   | Devaluation of Nigerian Naira         | 1            | 14%         |
| 5   | Modification of Lease liability       | 1            | 14%         |
| 6   | Recoverability of Accounts Receivable | 1            | 14%         |
| 7   | Payment of Liabilities                | 1            | 14%         |
|     | <b>Total</b>                          | <b>7</b>     | <b>100%</b> |

There are 7 reported issues with each issue cited in 1 instance each for the 3 sampled companies. Revenue recognition also featured in the issue reported.

Table 8 presents the topics/issues disclosed in KAM's in the Agriculture industry.

**Table 8.** Topics of KAMs reported in the agriculture industry.

| S/N | Topic/Issue  | No. of Times | %           |
|-----|--|--------------|-------------|
| 1   | Valuation of Biological Assets                     | 2            | 22%         |
| 2   | CPO loading Plant in PPE                           | 1            | 11%         |
| 3   | Rights issue not yet registered with the regulator | 1            | 11%         |
| 4   | Disruption of activities during the year           | 1            | 11%         |
| 5   | Revenue Recognition                                | 1            | 11%         |
| 6   | Recoverability of Accounts Receivable              | 1            | 11%         |
| 7   | Inability to repay liabilities                     | 1            | 11%         |
| 8   | Acquisition of subsidiary                          | 1            | 11%         |
|     | <b>Total</b>                                       | <b>9</b>     | <b>100%</b> |

There are 8 reported KAM's in 9 instances by the 5 companies. Valuation of Biological Assets was reported in 2 of the 9 instances (22%) while the other issues were mentioned once. The higher percentage of Valuation of Assets is understandable given that this is for companies involved in agricultural production.

Table 9 presents the different auditors and reported KAM's to determine the association between both variables.

**Table 9.** Auditors and reported KAM's.

| Auditor                    | No. of Coys | % Audited   | No. of KAM's Reported | % of KAM's Reported | Avg. KAM per Auditor |
|----------------------------|-------------|-------------|-----------------------|---------------------|----------------------|
| Deloitte                   | 9           | 20%         | 15                    | 24%                 | 1.7                  |
| KPMG                       | 8           | 17%         | 13                    | 21%                 | 1.6                  |
| PwC                        | 11          | 24%         | 5                     | 8%                  | 0.5                  |
| PKF                        | 1           | 2%          | 2                     | 3%                  | 2.0                  |
| EY                         | 8           | 17%         | 13                    | 21%                 | 1.6                  |
| Grant Thornton             | 1           | 2%          | 1                     | 2%                  | 1.0                  |
| BDO                        | 2           | 4%          | 2                     | 3%                  | 1.0                  |
| Deloitte & Grant Thornton  | 1           | 2%          | 2                     | 3%                  | 2.0                  |
| Baker Tilly                | 2           | 4%          | 5                     | 8%                  | 2.5                  |
| David Ugiage & Co.         | 1           | 2%          | 1                     | 2%                  | 1.0                  |
| Ngozi Monica Okonkwo & Co. | 1           | 2%          | 0                     | 0%                  | 0.0                  |
| Olabode Akande & Co.       | 1           | 2%          | 3                     | 5%                  | 3.0                  |
| <b>Total</b>               | <b>46</b>   | <b>100%</b> | <b>62</b>             | <b>100%</b>         | <b>1.3</b>           |

The Big Four (Deloitte, KPMG, PwC and EY) audited 78% of the companies sampled. They reported 46 (74%) of the reported 62 KAM's across the different 4 sectors sampled. In terms of average KAM per auditor, the indigenous audit firms were leading at 3.0 and 2.5 while PwC has the lowest at 0.6 meaning that it reports less given the number of companies audited.

## 6. Conclusions and Recommendations

The auditing standard setters have recently introduced significant changes to the auditor's report that have led to the implementation of KAMs' disclosure to aid decision-makers and enhance the informational value of financial information and the relevance of financial auditing. The objective of the paper was to highlight the number and key topics in KAM's disclosure for companies listed on the Nigerian Stock Exchange and if there is any relationship/correlation in disclosures amongst different industries. The theories adopted for this study are agency theory and legitimacy theory as they are most relevant to the scope of this study.

The results identified that KAMs range from 1 (minimum) to 4 (maximum) for each industry. There are 62 reported KAMs for 26 companies, translating to an average of 1.3 per company. The Telecommunications industry has an average KAM of 2.3, followed by Agriculture at 1.8. The commonly reported issues were Recognition and Measurement of Revenue, Property, Plant & Equipment, Valuation of Inventories, and Impairment of Trade and Other Receivables. These four issues accounted for 54% of the total reported KAMs. They are closely related to significant balances and matters in the manufacturing industry. The issue common to all banks, reported in 12 instances, is Expected Credit Loss Allowance (ECL) on loans and advances to customers, representing 60% of total issues. This is because loans and advances constitute a significant portion of each bank's total assets, and the model involves complex models, assumptions, and management judgment. The next most reported issue was the Valuation of Derivative Instruments in three instances (15%). Revenue recognition was also reported in the Telecommunications industry, while biological assets featured in the Agriculture industry.

The main issue that cuts across all industries/sectors is the accuracy and recognition of revenue. There were five instances where there was no mention of KAM in the auditors' report and three cases when the auditors' report did not reference KAM. The Big Four (Deloitte, KPMG, PwC, and EY) reported 62 KAMs across the four sampled sectors. In terms of average KAM per auditor, indigenous audit firms led with 3.0 and 2.5, while PwC had the lowest at 0.6, indicating it reports less given the number of companies it audits.

This research will be relevant for standard-setters, regulators, management, auditors, and users of audit reports interested in how ISA 701 is being implemented and the state of KAM disclosures in an emerging economy. The main conclusions from the study are that listed companies mainly comply with ISA 701 requirements, with few exceptions, and that revenue recognition cuts across all industries. The expected credit loss (ECL) model is prominently featured in the banking industry. It is also concluded that the nature of KAM is largely influenced by industry characteristics. However, the reporting of KAM trends is not widely observed among sample companies.

### 6.1. Recommendations

The following recommendations are made in line with the findings and conclusions of this study. It is recommended that Paragraph A11 of ISA 701 that specify reporting of KAM trend should be communicated to be strictly followed as we only noted this in one instance (Airtel Africa) in our sample. The paragraph states "it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period"

As part of its oversight function, we recommend that the regulator requires necessary response from Auditors where it is found that there is no KAM or where KAM is not even mentioned at all in the Auditors report. Where there is a basis to modify audit opinion, this should be used rather than be hidden in KAM.

It is important that regulators continue to encourage auditors so that the benefits of KAMs can be realized. There is a risk that a regulatory approach focusing on the precise requirements of auditing standards may lead auditors to treat KAMs as a compliance exercise rather than an opportunity to communicate more effectively with audit committees and stimulate better reporting.

### 6.2. Limitations/Areas for Future Research

This paper contributes to knowledge by examining latest trends in KAM reporting for the benefits of users of financial statements, the independent auditors and the regulators making appropriate recommendations.

An area of future research could track the evolution of the KAMs disclosed for the same company across multiple time periods, to assess whether KAM disclosures have changed in their presentation and content to enhance the relevance of information portrayed. The sample size can also be further enhanced with the addition of more listed industries.

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