Essays on the effectiveness of KAM disclosure in auditor's reports

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List of Abbreviations

Abs.	Absatz
AG	Aktiengesellschaft
AICPA	American Institute of Certified Public Accountants
ANCOVA	Analysis of covariance
ANOVA	Analysis of variance
AReG	Abschlussprüferreformgesetz
ASB	Auditing Standards Board
Art.	Artikel
AUP	Statement of audit practice
BGB	Bundesgesetzblatt
bspw.	beispielsweise
CEO	Chief Executive Officer
CFO	Chief Financial Officer
c.p.	ceteris paribus
DCF	Discounted cash flow
et al	et alia
e.g	exempli gratia
EG	Europäische Gemeinschaft
EPS	Entwurf eines Prüfungsstandards

EU	Europäische Union
EWG	Europäische Wirtschaftsgemeinschaft
FRC	Financial Reporting Council
GmbH	Gesellschaft mit beschränkter Haftung
KGaA	Kommanditgesellschaft auf Aktien
HGB	Handelsgesetzbuch
IAASB	International Auditing and Assurance Standards Board
i.d.R.	in der Regel
IDW	Institut der Wirtschaftsprüfer
i.e	id est
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
Inc	Incorporation
insb.	insbesondere
ISA	International Standard on Auditing
i.S.d	im Sinne des
i.V.m.	in Verbindung mit
KAM	Key Audit Matter
KWG	Kreditwesengesetz
No.	Nomber

o.g.	oben genannt
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entities
PS	Prüfungsstandard
RL	Richtlinie
S.	Seite
SAS	Statements on Auditing Standards
S.E.	Standard Error
SEC	United States Securities and Exchange Commission
sog.	sogenannt
Tz.	Textziffer
u.a.	unter anderem
UK	United Kingdom
Vgl.	Vergleiche
VO	Verordnung
Vol.	Volume
z.B.	zum Beispiel

1. Introduction

Over the last decade, the audit profession was confronted with significant revolutionary changes. One of the major revisions relates to the current auditor's reporting model. While the auditor's report is the only instrument for auditors to communicate the outcome of the audit to third parties, investors continuously criticize the nature of standardized reports by indicating the limited communicative value of the current pass/fail model (PCAOB, 2013). In response to the severe critiques to the auditor's reporting model, various institutions worldwide, such as the Public Company Accounting Oversight Board (PCAOB) and International Auditing and Assurance Standards Board (IAASB), have addressed investors' needs by releasing new and revised auditor reporting standards. One significant change in both amendments is the implementation of key audit matters (KAMs),[1] which are new disclosure requirements discussing areas of the audit that required a significant amount of professional judgment to evaluate appropriately the most difficulty in obtaining and evaluating audit evidence.

To date, the effectiveness of KAM disclosure in the auditor's report is subject to a controversial debate. Although standard setters and regulators emphasize the value-enhancing consequences for investors (PCAOB, 2013), audit firms and financial statement preparers fear a greater risk of legal liability due to greater transparency in company-specific audit processes (Tysiac, 2014). Further, many institutions worldwide have expressed concerns that KAM disclosure increases the risk that auditors disclose expanded auditor's report by simply using boilerplate language which would negatively affect the usefulness of the new audit regulation (IAASB, 2012). Due to the novelty of KAM disclosure a growing body of literature investigates the effects of KAMs in the light of various parameters, such as market reactions, auditor liability implications and investors' behavior. However, there is still much to be explored concerning the impact of KAM disclosure. Thus, this dissertation addresses some of these questions and seeks to shed light on the potential costs and benefits of the new audit regulation.

[1] In the PCAOB's proposal, regulators use the term "critical audit matters" for those matters that are of most significance for the auditor. The content among both amendments from the PCAOB and IAASB are similar. In this paper, we use the term "key audit matters".

The *first* paper ("Does the Disclosure of Key Audit Matters Reduce the Audit Expectation Gap?") examines whether the new audit reporting regulations are able to contribute to a reduction of the audit expectation gap. Arising from the difference between what financial statement users believe auditors are responsible for and what their actual responsibility is, the audit expectation gap has been shown to be a global phenomenon that exists within the audit profession for many decades. However, given the fact that many regulatory initiatives to narrow the expectation gap have mainly failed (Gold, Gronewold, & Pott, 2012), it is an open question whether KAM disclosure may influence the persistence of the gap. On the one hand, standard setters and regulators suggest that the "new" auditor's report including KAM disclosure will be far clearer, particularly concerning auditor's responsibilities to users. On the other hand, Vanstraelen, Schelleman, Meuwissen, & Hofmann (2012) argue that the expectation gap which in their opinion is primarily subject to an educational gap will always exist when users are not aware of auditor's responsibilities, even in the presence of KAMs. Given opposite views, we address this void by conducting a 2x2 experiment with investors and auditors as control group. Participants randomly receive an auditor's report with KAM disclosure or an auditor's report including only auditor and management responsibility. In line with Gold et al. (2012), we find that there is still an expectation gap between investors and auditors who receive an auditor's report only including auditor and management responsibility. Second, our findings show that financial statement users who received an auditor's report including KAM disclosure ascribe significantly higher responsibility toward the auditor and lesser responsibility to the management than auditors do themselves, indicating a persistence of the gap. Taken together, our results reveal that KAM disclosure may not serve as a beneficial tool to narrow the audit expectation gap. Thus, our results provide useful implications for standard setters and regulators when discussing the effectiveness of KAM disclosure in the light of investors' perceptions.

The primary objective of KAMs is to enhance the informational value of the auditor's report by disclosing company-specific information about the audit that was performed. However, prior research has shown that information is only valuable for investors' decision-making processes when it is relevant and easy to process (Semin & Fiedler, 1988). These suggestions imply that the effectiveness of the new audit regulation may primarily depend on how the auditor carries out the new responsibility in terms of format and content. While prior studies investigated investors' willingness to invest in a company (Christensen, Glover, & Wolfe, 2014) and investors' information acquisition efficiency (Sirois, Bédard, & Bera, 2018), in the presence of KAMs, relatively to the absence, little is known about the effectiveness of underlying characteristics of information in KAM disclosure on investors' decision-usefulness. Thus, the *second* paper ("The Impact of Information precision in Key Audit Matters for Non-Professional Investors") addresses this issue by examining whether information precision influences investors' behavior in two ways: investors' tendency to scrutinize managerial decision-making and investors' willingness to invest.

Prior textual risk disclosure literature on information precision shows that investors respond more strongly to firm-specific risk information than to standardized language (Campbell, Chen, Dhaliwal, Lu, & Steele, 2014; Hope, Hu, & Lu, 2016; Kravet & Muslu, 2013). Theoretical work in psychology supports this notion suggesting that individuals perceive precise language as more informative and contextualized, because it provides greater informational content and leaves less room for interpretation (Semin & Fiedler, 1988, Simon, 1978). Drawing on theoretical implications as well as on findings in accounting research, we presume that investors' ability to process information varies with the degree of information precision in KAM disclosure. Thus, we argue that firm-specific information in KAM disclosure may lead to increased second-guessing of managerial decision-making, because investors feel more competent and skillful to act. Further, we expect that increased knowledge about accounting issues due to greater information precision in KAM may also increase investors' wariness to invest in the company. Thus, we presume that investors are less willing to invest in the company as a result of reduced comfort when information precision in KAM disclosure is high. While our findings show no significant differences for investors' tendency to scrutinize managerial judgment making, we find that investors who received an auditor's report with firm-specific information are less willing to invest in the company than investors who received an auditor's report with standardized language. Our findings are important for standard setters as well as for regulators showing that the format and the content of KAMs are incrementally valuable for investment-related judgment and decision-making.

In addition to investors' behavior, another essential benefit recognized by regulators and standard setters, but largely ignored in the vigorous debate is the influence of KAM disclosure on financial reporting behavior. Since audit significant issues have been previously discussed with internal parties and were not disclosed externally, standard setters and regulators indicate that greater transparency in the auditor's report may lead management to think more carefully about their companies' financial reporting (Katz, 2013). Although prior studies have investigated the effectiveness of KAMs in the light of investors' decision-making processes and auditor legal liability, KAM research on managerial behavior is limited. Thus, the *third* paper ("Do Key Audit Matters Impact Financial Reporting Behavior?") provides insights into whether KAM disclosure may serve as a beneficial tool to enhance financial reporting quality.

Prior research shows that managers use the flexibility in accounting choices to intentionally influence the outcome of financial reports to gain personal benefits especially when financial statement users' ability to detect earnings management activities is low (Cassel, Myers, & Seidel, 2015; Hirst & Hopkins, 1998; Lee, Petroni, & Shen, 2006). Drawing on these findings as well as on accountability theory from psychology, we expect that second-guessing concerns caused by greater transparency through KAM disclosure increases the level of managerial accountability and thus, improve financial reporting quality. Further, we examine how information precision influences our predictions. Consistent with prior findings in textual risk disclosure literature, we argue that the level of managerial accountability increases with information precision, because financial statement preparers anticipate investors' increased ability to second-guess managerial judgment making. Consistent with theoretical predictions, our results show that managers engage less in earnings management activities when the level of informational content in KAMs increases. However, we do not find significant effects for KAMs that convey non-firm specific content. Taken together, our results contribute to the growing research on KAM disclosure providing evidence that KAM disclosure may serve as a beneficial mechanism to reduce earnings management, but only when KAMs provide firm-specific risk information.

However, while empirical evidence on the effectiveness of KAM disclosure continuously increases, it is still an open question what financial statement users can expect from mandatory KAM disclosure. In Germany, the new EU Audit legislative (No. 537/2014) is transformed into national law by the Abschlussprüferreformgesetz (AReG) and is effective for companies' audits whose fiscal years begin on or after June 17, 2016. Hence, auditor's reports with financial years ending on June 30, 2017 are already issued in accordance with the new requirements. Although prior studies exist analyzing KAM disclosure in auditor's reports from German voluntary International Standard on Auditing (ISA) adopters, there is limited evidence on the format and content of mandatory KAM disclosure. Thus, the *fourth* paper ("Key Audit Matters - Early Evidence from German Expanded Auditor's Reports") examines expanded auditor's reports of thirty CDAX listed companies with deviating fiscal years (as of June 30, 2017 and beyond) in Germany. Our final sample comprises twenty-eight auditor's reports from (corporate only) annual financial statements including forty-nine KAMs and twenty-nine consolidated financial statements including eighty KAMs.

Overall, we provide evidence that auditors disclose a wide variety of matters specific to the individual company as well as matters that appeared at a number of companies. For example, in consolidated auditor's reports, goodwill impairment testing and revenue recognition are the most commonly disclosed risk in KAM disclosure, because both accounting issues involve high complexity and management judgment increasing the risk of uncertainty and thus, of misstatements. Other areas that were determined as KAMs relate to uncertainties of taxation, pension provision, impairment of assets and transactions. When analyzing the content of KAM disclosure in (corporate only) annual auditor's report, we find that nearly half of the accounting topics identified as KAMs is reported correspondently in consolidated auditor's report. Further, we find that the description of corresponding KAM topics show similar wording in both auditor's reports. Given standard setters and regulators' concerns of boilerplate language in KAM, it is questionable whether and to what extent of this practice can help to increase the value of auditor's reports for investors. Taken together, on the one hand our results show that expanded auditor's reports in Germany increase in individuality. On the other hand, we also find that boilerplate and standardized language still exists increasing the risk of investors' information overload and thus, decreasing the effectiveness of the new audit regulation. Thus, our findings are important for standard setters as well as for regulators suggesting that the format and the content of KAMs are incrementally valuable for investment-related judgment and decision-making.

This dissertation is a cumulative work consisting of the following four individual papers related to audit disclosure. Please note that some papers are already published, under review or will soon be in the review process for publication. Therefore, it is likely that further adaptions of individual paper versions presented in this dissertation will take place afterwards. Later versions of the papers will be available in the respective journals or at scientific platforms after publication. Thus, please make sure to cite only the latest versions of the papers.

2. Does the Disclosure of Key Audit Matters Reduce the Audit Expectation Gap?

2.1 Publication Details

This study investigates the effectiveness of Key Audit Matters as mandated by the revised ISA 700 and the new ISA 701 auditor's report in reducing the audit expectation gap. German auditors and students participated in an experiment where they received a summary of a company's financial statements and an auditor's report which was manipulated as being the 'complete auditor's report' with KAMs and a 'responsibilities-only' version without KAMs. We examined the perceptions of financial statement users compared to auditors regarding ascribed auditor's responsibilities, management's responsibilities, and financial statement reliability. We find strong evidence for a persistent expectation gap regarding the auditor's and management's responsibilities. In contrast, the expectations regarding the financial statement reliability just differ marginally between auditors and financial statement users. Most remarkably, we observe that the disclosure of KAMs does not result in significant different expectations of financial statement users indicating that KAMs may not serve as an instrument to reduce the audit expectation gap. Overall, our results suggest that the disclosure of KAMs is ineffective in closing the audit expectation gap.

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2.2 Introduction

The International Auditing and Assurance Standards Board (IAASB) recently released new requirements to improve the auditor's report (IAASB, 2015c). On 15 January 2015, the IAASB adopted new and revised standards relating the auditor's report with the objective to enhance the confidence in the audited financial statements. The most significant innovation is the disclosure of Key Audit Matters. According to the new International Standard on Auditing (ISA) 701 'Communicating Key Audit Matters in the Independent Auditor's Report', the auditor shall determine matters, which were, in the auditor's professional judgment, most significant in the audit. Besides the IAASB, the Public Company Accounting Oversight Board (PCAOB), the Financial Reporting Council (FRC) in the United Kingdom, and the European Commission have all taken similar proposals to enhance the auditor's report.

With the revised auditor's report models, standard setters and regulators react to long lasting criticism concerning the informative value of the auditor's report and the audit expectation gap. Since the 1970s, there have been numerous discussions about potential modifications of the auditor's report. Particularly, the financial crisis and financial scandals (e.g. Enron, WorldCom) raised doubts about the role of the auditor and the informative value of the auditor's report. Financial statement users did not regard the standardized language and structure as sufficiently informative and asked for more company-specific information (Church, Davis, & McCracken, 2008; Turner, Mock, Coram, & Gray, 2010; Vanstraelen et al., 2012). Critics have argued that the auditor only informs internal users about significant findings in the audit whereas external users are not able to access specific information about the scope of the audit, audit procedures and important findings (Church et al., 2008; IAASB, 2011). Moreover, the standardized pass/fail model of the auditor's report has been in focus of criticism. Financial statement users do not get insights into audit procedure because of the homogeneous language in the auditor's report resulting in a gap between what is done during the audit and what financial statement users suppose it is done (IAASB, 2011). This phenomenon is commonly termed as audit expectation gap. Numerous studies confirmed the existence of the audit expectation gap internationally, despite several attempts to close this gap (e.g. Chong & Pflugrath, 2008;

Gold et al., 2012). Expectations of financial statement users and auditors still diverge regarding the responsibilities of the auditor and the function of an audit. Recent studies reveal that financial statement users have exaggerated expectations of auditor's responsibilities (Porter, Ó Hogarthaigh, & Bakersville, 2012a; Ruhnke & Schmidt, 2014). Furthermore, financial statement users exhibit higher expectations on various aspects of the audit like disclosure, internal controls, and illegal operations compared to auditors. They are often not aware that an audit merely provides a reasonable level of assurance and assume absolute assurance that material errors will be detected (Epstein & Geiger, 1994; McEnroe & Martens, 2001).

The first objective of this study is to empirically assess the current state of the audit expectation gap under the revised auditor's report. Inspired by the study of Gold et al. (2012), an experiment was conducted to investigate the existence of the audit expectation gap in Germany in 2017. Therefore, undergraduate accounting students and experienced auditors were asked to participate in an online survey. After receiving background information on a fictitious company including a short company's description and the company's balance sheet, they were asked to read an unqualified ISA 700 (revised) auditor's report. Next, participants responded to a set of questions related to the perceived auditor's and management's responsibilities and the reliability of the audited financial statements. The concept of the audit expectation gap suggests that financial statement users would ascribe different responsibilities toward management and auditors and have different expectations of the audited financial statements than auditors have themselves.

The second objective of this study is to empirically investigate the impact of the presence of KAMs in the auditor's report as required by the ISA 701 on the audit expectation gap compared to the absence of KAMs. As a result of greater disclosure, financial statement users (e.g. investors, bankers, and financial analysts) ultimately obtain additional information about the audit that may help to understand significant matters and to identify potential risks from this more company-specific audit report. These amendments raise the question of whether the additional disclosures in the auditor's report can reduce the audit expectation gap. Therefore, we manipulated the auditor's report in our experiment in two ways: the 'complete auditor's report' with KAMs as mandated by the new ISA 701 versus a 'responsibilities-only' version consisting of the audit opinion and the responsibilities of management and auditors without disclosing KAMs (such as communicated before the new ISA 701 was issued). A reduced gap between auditors' and financial statement users' expectations based on the complete auditor's report (with KAMs as required by the ISA 701) would indicate a positive effect of the disclosure of KAMs. In contrast, an unchanged or even wider gap would indicate that the disclosure of KAMs is ineffective regarding the different perceptions of auditors and financial statement users on the responsibilities of auditors and management and the reliability of the audited financial statement.

Our experimental results provide strong evidence for a persistent expectation gap regarding the auditor's and management's responsibilities under the revised ISA 700 and the new ISA 701. Consistent with our predictions, financial statement users ascribed significantly higher responsibility toward the auditor (and lower responsibility toward the management) than auditors did themselves. Meanwhile, perceptions regarding the financial statement reliability just differed marginally. Most notably, the disclosure of KAMs did not affect the expectation gap between auditors and financial statement users indicating that KAMs may not serve as a compelling tool through which the audit expectation gap might be reduced.

Our findings are important for following reasons. First, our study contributes to evaluating the effectiveness of the current regulatory developments regarding the modification of the auditor's report. Although several studies recently examined the effects of the disclosure of KAMs in the auditor's report in terms of investor's reactions and assessments (Christensen et al., 2014; Köhler, Ratzinger-Sakel, & Theis, 2016; Lennox, Schmidt, & Thompson, 2018, Sirois et al., 2018), audit quality and audit costs (Bédard, Gonthier-Bescacier, & Schatt, 2018; Gutierrez, Minutti-Meza, Tatum, & Vulcheva, 2018), auditor's liability (Backof, Bowlin, & Goodson, 2018; Brasel, Doxey, Grenier, & Reffett, 2016; Gimbar, Hansen, & Ozlanski, 2016; Kachelmeier, Schmidt, & Valentine, 2018)[2] and bank directors' perceptions (Boolaky & Quick, 2016), this is, to our knowledge, the first study to directly investigate the effectiveness of KAMs in reducing the expectation gap between auditors

[2] For a detailed literature review on the effects of KAMs, see Bédard, Coram, Espahbodi, & Mock (2016).

and non-professional financial statement users under the revised ISA 700 and the new ISA 701. In view of the ongoing debates about modifications of the auditor's report, our study is timely and our results can be of interest to standard setters and regulators to evaluate the benefits of KAMs. Second, while prior studies primarily provide evidence on the existence of the audit expectation gap (e.g. McEnroe & Martens, 2001; Porter, 1993) or examined the effect of wording changes in the auditor's report on the audit expectation gap (e.g. Kelly & Mohrweis, 1989; Monroe & Woodliff, 1994), we investigated the effects of the disclosure of additional information in the auditor's report. Survey analyses revealed that financial statement users are dissatisfied with the old auditor's report because of its standardized structure and wording and thus ask for additional, more company-specific information in the auditor's report (Mock et al., 2013; Vanstraelen et al., 2012). As KAMs disclose new information for external users, we extent previous literature providing insight about the impacts of additional information in the auditor's report on the audit expectation gap. The paper proceeds as follows. The next section provides an overview of the related regulatory developments. Section 2.4 provides a literature review and the development of the hypotheses and research questions. Section 2.5 continues with the description of the research method, while the results are presented in Section 2.6. The last section summarizes and discusses these results.

2.3 Regulatory Developments

Recently, numerous standard setters and regulators have initiated projects to enhance the auditor's reporting model (the IAASB, the European Commission, the PCAOB, and the FRC).

With the project 'auditor reporting', the IAASB intends to improve the transparency of the audit and to increase the communication between auditors and financial statement users. In 2006, the project was initiated by issuing research assignments relating to perceptions and assessments of the auditor's report. On 15 January 2015, the IAASB concluded its project with the release of the final version of the new and revised ISAs (IAASB, 2015b). The most considerable change for mandatory audits of the financial statements of listed entities is the disclosure of KAMs in the auditor's report. According to the new ISA 701, the auditor has to identify matters which were most significant in the audit reporting them in a separate section of the auditor's report referred to as ‘Key Audit Matters’. Similar, the European Commission also identified the necessity to enhance the auditor’s report model. During the financial crisis, large parts of the public express a lack of understanding that despite an unqualified auditor’s opinion numerous of companies suddenly made enormous losses, so that the European Commission decided to initiate amendments to improve the communication between financial statement users and auditors. The corresponding EU-regulation (No. 537/2014) requires inter alia a description of significant risks of material misstatement, a summary of audit procedures referring to those risks and if necessary, key observation arising with respect to those risks (European Parliament and European Council, 2014). This disclosure of significant risks is comparable to the disclosure of KAMs required by the ISA 701. In the US, the PCAOB adopted new standards on the auditor’s report on 1 June 2017 (PCAOB, 2017). The new auditor reporting standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* includes the communication of Critical Audit Matters. Critical Audit Matters are matters which are communicated to the audit committee and relate to material accounts in the financial statements, and involve challenging auditor judgment. Further elements are the disclosure of the auditor tenure and several other improvements to clarify the auditor’s role. Provisions will take effects for audits of fiscal year ending on or after 30 June 2019 for large accelerated filers and for fiscal years ending on or after 15 December 2020 for all other companies to which the requirements apply. As one of the first EU countries, the UK’s Financial Reporting Council (FRC) already revised its audit standards in June 2013 with the aim to enhance the transparency of the audit. The new requirements include an overview of the scope of the audit, a description of the risks that had the greatest effect on the overall audit strategy, on the allocation of resources in the audit and on directing the efforts of the engagement team. Additionally, auditors were required to provide an explanation of how they applied the concept of materiality in planning and performing the audit (FRC, 2013).

Although the new requirements of the different standard setters and regulators vary in some details, overall, the initiatives all result in an expanded auditor’s report with the disclosure of specific information about the audit. Regarding the outstanding position of the IAASB as a global standard setter, whose auditing standards were adopted in over 100 countries, the project of the IAASB is of particular interest. Hence, we use the requirements of the ISA 701 for our experimental design.

2.4 Literature Review and Research Questions

2.4.1 Existence of the Audit Expectation Gap

Liggio (1974) was the first to apply the term 'expectation gap' to auditing. Four years later, the Commission on Auditor's Responsibilities (Cohen Commission) was charged to 'consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish' (Cohen Commission, 1978). While the term audit expectation gap is commonly used to describe the gap between auditors' and financial statement users' perceptions, the term 'information gap' is more specific describing: '[…] the divide between what users believe is necessary to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements, the auditor's report, or other publicly available information' (IAASB, 2011). In addition to the expectation and information gap, literature refers to another related gap termed as 'communication gap', which describes the mismatch between what the auditor intends to communicate and what is understood by the financial statement user (Asare & Wright, 2012; Mock et al., 2013). Research shows that the message auditors think to communicate with an unqualified opinion is often different to what financial statement users perceive (Gray et al., 2011, Turner et al., 2010).

Standard setters and regulators are interested in reducing the expectation gap between auditors and financial statement users, since overdrawn expectations in auditor's responsibility and the audited financial statement can result in poor investment decisions and an increased risk of auditor's liability (Asare & Wright, 2012; Lowe, 1994). Therefore, the audit expectation gap has a central role in accounting research providing insights about the existence of this gap and impacts of change. Overall, empirical studies show that the audit expectation gap is a far-ranging phenomenon which appears independent of time and nation. Various international studies provide evidence on the existence of the audit expectation gap mainly in Anglo-Saxon countries like United Kingdom (Humphrey, Moizer, & Turley, 1993), Australia (Gay, Schelluch, & Reid, 1997), New Zealand (Porter et al., 2012a) and Asian countries like China (Lin & Chen, 2004), Malaysia (Fadzly & Ahmed, 2004), Saudi-Arabia (Haniffa & Hudaib, 2007) and Singapore (Best, Buckby, & Tan, 2001). Other studies also document the audit expectation gap in Europe (e.g. Gold et al., 2012) and Africa (Dixon, Woodhead, & Sohliman, 2006).

One of the earlier studies was conducted in the 1970s. Beck (1974) examined the audit expectation gap in Australia. In a survey, participating shareholders and auditors were asked to assess statements about their expectations of auditor's work. Findings reveal that shareholders had higher expectations of auditors than the auditors themselves. In the 1990s several studies followed. Humphrey et al. (1993) provide evidence on the existence of the audit expectation gap with a questionnaire survey in which auditors, accountants, financial directors, investment analysts, bankers, and financial journalists participated. Results demonstrated that the audit expectation gap exists on a variety of aspects like the auditor's role in relation to fraud, the extent of auditor's responsibility to third parties, the nature of the balance sheet valuation and the strength of auditor's independence and auditor's ability to cope with risk and uncertainties. Furthermore, Epstein & Geiger (1994) found an expectation gap between auditors and investors regarding the level of assurance provided in an audit while Lowe (1994) found a wide gap among auditors and judges regarding their expectations on the auditing profession. Porter (1993) defined and examined different components of the audit expectation gap. Therefore, Porter distinguished between a 'reasonableness gap' (a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish) and 'performance gap' (a gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve). The performance gap is further subdivided into deficient standards and deficient performance of the auditor. In a study, which was conducted in New Zealand in 1989, Porter found that 50% of the gap is attributed to deficient standards, 34% derived from unreasonable expectations and 16% resulted from perceived sub-standards performance by auditors. McEnroe & Martens (2001) compared audit partners' and investors' perceptions of auditor's responsibilities involving different dimensions of the attest function and could confirm the existence of the audit expectation gap. More recently, Porter, Ó Hogarthaigh, & Bakersville (2012b) replicated their study in New Zealand to compare the development of the different components of the audit expectation gap between 1989 and 2008. Their results reveal a narrowed deficient performance gap but an increase in society's unreasonable expectations. In Germany, Ruhnke & Schmidt (2014) surveyed auditors and major groups of internal and external auditors and could confirm exaggerated expectations of auditor's responsibilities.

In summary, the literature review provides substantial evidence of a persisting expectation gap between financial statement users and auditors. As such, we also expect that the likelihood of the revised ISA 700 auditor's report to narrow the expectation gap is rather small. Therefore, we hypothesize that the perception of financial statement users and auditors diverge regarding auditor's responsibilities, management's responsibilities, and financial statement reliability. More specific, we argue that financial statement users perceive auditors to be more responsible than auditors themselves and in turn that financial statement users ascribe less responsibility to the management than auditors do. Furthermore, given the higher knowledge level auditors are likely to ascribe less reliability to audited financial statements compared to financial statement users.

H1a: Users of financial statements required an unqualified revised ISA 700 report ascribe relatively more responsibility for the financial statements to the auditor than auditors do.

H1b: Users of financial statements required an unqualified revised ISA 700 report ascribe relatively less responsibility for the financial statements to the management than auditors do.

H1c: Users of financial statements required an unqualified revised ISA 700 ascribe relatively more reliability to the underlying financial statements than auditors do.

2.4.2 Effects of Key Audit Matters on the Audit Expectation Gap

Previous research has investigated the effect of wording changes in the audit report on the expectation gap. Taken the intention of KAMs, the revised audit report should lead to a reduction of the audit expectation gap. One the one hand, KAMs may lead to a reduction of the audit expectation gap. The auditor has to form an opinion on the financial statements based on the conclusions which were drawn from the obtained audit evidences. The auditor's report is the only direct communication instrument between auditors and financial statement users. However, the format and wording of the auditor's report is strongly standardized and described as 'boilerplate pass/fail model' (Lennox et al., 2018) because the auditor can only choose between an unqualified opinion and modified opinions.[3] Most public companies receive an unqualified opinion, for which reason nearly all public companies have almost similar auditor's reports (Lennox et al., 2005; Mock et al., 2013). Consequently, the gain of the auditor's report for investors' decisions is strongly limited and auditors are constantly criticized whenever a company fails after an unqualified audit opinion. One reason for these accusations is the social function of the audit: financial statement users have certain expectations toward the audit and the auditor's services which exceed auditor's performance (Ruhnke & Schmidt, 2014). With the disclosure of KAMs, financial statement users receive additional information about contents of the audit and significant findings. Moreover, KAMs emphasize the occurrence of significant risks in the financial statements. This demonstrates that, even when the auditor expresses an unqualified opinion, significant risks may still exist. We argue that financial statement users who read an unqualified opinion in which the auditor highlights potential risks, the actual meaning of an unqualified opinion becomes more obvious. Readers may recognize that despite an unqualified opinion risks still occur and that the audit only provides a limited level of assurance. Furthermore, KAMs emphasize that the auditor is not responsible to eliminate all risks. Therefore, the disclosure of KAMs may lead to revision of the financial statement users' expectations concerning the ascribed responsibility toward the auditor and the reliability of the financial statements. Consequently, the reduced information asymmetry through the disclosure of KAMs may lead to a smaller information gap and a decrease of the audit expectation gap.

However, the disclosure of KAMs in the auditor's report may not change the audit expectation gap. Literature provides evidence that former attempts to reduce the audit expectation gap were not successful. In 1988, American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board (ASB) initiated SAS No.

[3] An auditor can modify an unqualified opinion if the financial statements as a whole are not free from material misstatements or the auditor is unable to evaluate this. The ISA 705 distinguishes between three types of modified opinions: the qualified opinion, the disclaimer opinion and the adverse opinion.

58 that provides a new auditor's report to improve the public understanding of the auditor's role.[4] Kelly & Mohrweis (1989) found that the wording changes in the auditor's report improve the understanding of an audit and that bankers perceive auditors as being less responsible than previously. However, investors did not change their expectations about the auditor's responsibility. Monroe & Woodliff (1994) also studied wording changes in the auditor's report. Comparing the old report wording and the modified wording of the revised AUP3 in Australia, they found a smaller gap in some areas, but an increased gap in other areas. Innes, Brown & Hatherly (1997) could also merely provide evidence for a deferral of the gap. Moreover, Hatherly, Innes, & Brown (1991) observed a 'halo effect' whereby the expanded auditor's report leads to a feeling of 'well-being' which might spill over into areas that were not directly addressed in the report.

In 2003, the IAASB proposed the ISA 700 Auditor's Report with the objective to enhance the understanding of the auditor's role and the auditor's report. Main changes implied the inclusion of an explanation of the auditor's and management's responsibilities in the auditor's report. Examining the audit expectation gap between shareholders and auditors, Chong & Pflugrath (2008) could not find a significant impact on the audit expectation gap. Consistent with this, Gold et al. (2012) found that the explanations of the ISA 700 auditor's report did not reduce the audit expectation gap. Overall, the evidences suggest that former institutional changes failed in closing the audit expectation gap.

Recently, Litjens, van Burren, & Vergossen (2015) examined whether the audit expectation gap can be reduced by addressing the current information needs of bankers. They observed that bankers ask for additional information but that providing this information will not reduce the audit expectation gap. Furthermore, Boolaky & Quick (2016) already found that KAMs do not influence bank directors' perceptions indicating that the provision of additional information about the audit might be ineffective. The extent to which these opposing views prevail keeps an open empirical question which is addressed in this study.

[4] Under SAS No. 58, the auditor's report provides an introductory paragraph including the information that financial statements are the responsibilities of the management whereas the auditor expresses an opinion of these financial statements based on the obtained audit evidence. Additionally, it provides an explanation about the purpose of the audit (AICPA, 1988).

RQ1a: Does the presence versus absence of KAMs in the unqualified ISA 700 auditor's report result in a smaller difference in perceptions between auditors and financial statement users regarding the extent to which responsibility for the financial statements is ascribed to the auditor?

RQ1b: Does the presence versus absence of KAMs in the unqualified ISA 700 auditor's report result in a smaller difference in perceptions between auditors and financial statement users regarding the extent to which responsibility for the financial statements is ascribed to management?

RQ1c: Does the presence versus absence of KAMs in the unqualified ISA 700 auditor's report result in a smaller difference in perceptions between auditors and financial statement users regarding the extent to which reliability is ascribed to audited financial statements?

2.5 Research Method

2.5.1 Participants

We conducted a full-factorial two (complete unqualified ISA 700 auditor's report with KAMs and an unqualified responsibilities-only version without KAMs) by two (auditors and students) between-subjects experiment with participants from Germany. Participating auditors came from different audit firms while participating students attend accounting courses at a German University.

2.5.2 Measurement of the Audit Expectation Gap

The measurement of the audit expectation gap as the independent variable is adopted from Gold et al. (2012). Three different aspects of the audit expectation gap were assessed: (1) the extent to which participants ascribe responsibility for the financial statements toward the auditor (auditor liability), (2) the extent to which participants ascribe responsibility for the financial statements toward the management (management liability) and (3) the extent to which participants ascribe reliability to the audited financial statements (financial statement reliability). Table 1 presents the expectation gap belief scales, which the participants received in the survey.

2.5.3 Experimental Procedure and Manipulations

The experiment was conducted as an online-survey which was designed with the software Unipark. Each participant received an invitation email that includes the link to the survey. The software randomly distributed the two experimental treatments: (1) unqualified auditor's report with KAMs and description of auditor's and management's responsibilities and (2) unqualified auditor's report including only the description of auditor's and management responsibilities. All participants received a short introduction of a (fictitious) stock-listed company followed by the balance sheet and the income statement (see Appendix 1). After this, they read one of the auditor's report versions. In the complete auditor's report-condition, participants received the version of the auditor's report that includes KAMs and an explanation of the auditor's and management responsibilities (see Appendix 2 and 3).

This version is in accordance with the revised ISA 700 and the new ISA 701. The responsibilities-only condition just provides the responsibilities of management and auditors (without mentioning KAMs) which are primarily congruent with the wording in the previous version. The study was conducted in German. An English translation of the company's description and the two versions of the auditor's report are provided in the Appendix. After the case descriptions, participants responded a set of questions relating their perceptions of the auditor's responsibility, of the manage ment's responsibility and the reliability of the financial statements (see questions in Table 1). These questions were followed by manipulations checks and demographic questions.[5]

[5] Participants could not move back and change their answers after moving from one set of question to the subsequent one. This option was excluded to ensure that participants could not change their answers after reading the manipulation check questions. Further, participants were not able to read the auditor's report again. This was import to ensure that participants' true perceptions were reported. Otherwise, it would have been possible to match answers with details in the auditor's report.

Panel A: Auditor responsibility factor
(all item scales range from 1= strongly disagree to 7= strongly agree)
The auditor's report implies that…
…the auditor is responsible for detecting all fraud.
…the auditor is responsible for the soundness of the internal control structure of the entity.
…the auditor is responsible for maintaining accounting records.
…the auditor is responsible for producing the financial statements.
…the auditor is responsible for preventing fraud.
Panel B: Management responsibility factor
(all item scales range from 1= strongly disagree to 7= strongly agree)
The auditor's report implies that…
…the management is responsible for detecting all fraud.
…the management is responsible for the soundness of the internal control structure of the entity.
…the management is responsible for maintaining accounting records.
…the management is responsible for producing the financial statements.
…the management is responsible for preventing fraud.
Panel C: Financial statement reliability factor
(all item scales range from 1= strongly disagree to 7= strongly agree)
Users can have absolute assurance that the financial statements contain no material misstatements.
The audited financial statements give a true and fair view of the financial position of the entity.
The entity is free from fraud.
The audited financial statements comply with accepted accounting practice.
The audited financial statements contain no deliberate distortions.
The audited financial statements have no significant omissions.
The company has kept proper accounting records during the year.
The amounts and disclosures contained in the audited financial statement are credible.

Table 1: Expectation gap belief scales

2.6 Results

2.6.1 Sample Demographics

Auditors

We contacted approximately 1,790 experienced auditors, and a total of 62 auditors participated in the experiment (3.5% response rate). The average auditor was 48.0 years old. They had in average 21.7 years of work experience and 20.1 years of audit experience. Of the sample of auditors, 55 (88.7%) were male. There were 30 partners, seven directors, 15 senior managers, three managers, and three senior staff auditors. We asked all participants to rate which reputation level they believe the auditing profession holds. On a scale ranging from 1 (low) to 7 (high), auditors perceived the audit profession to hold a fairly high reputation (μ=5.61).[6]

Students

In total, 1,550 accounting students from a German university were invited via email to participate in the experiment. 90 students responded to our experimental survey (5.8% response rate). The average student was 22.4 years old. Only 18.9% had general work experience. Of the students 58 (64.4%) were male. On a scale ranging from 1 (low) to 7 (high), students had moderate overall experience with financial reports (μ=3.33) and knowledge of financial reporting (μ=4.24). Knowledge about auditing was moderate as well (μ=3.36). Finally, students perceived the audit profession to hold a relatively high reputation (μ=5.67) which is consistent with the auditors' perceptions regarding the reputation of the auditing profession.

2.6.2 Manipulation Checks

Our experimental materials also included manipulation checks to verify the effectiveness of the manipulation of the presence versus absence of KAMs in the auditor's report. We asked participants about the extent to which they agreed with the statement 'The auditor's report provided in the case materials explicitly described Key Audit Matters' (scale from 1 = strongly disagree to 7 = strongly agree). We find

[6] As small monetary incentives for participation, we donated for each participation 5€ to a charity organization.

that participants receiving a KAM section in the auditor's report recognized that they had received it, as compared to those participants who did not receive it. The overall mean response was 5.99 for the 'complete report' treatment and 3.02 for the 'responsibilities-only' treatment. The means are significant different (p=0.000), indicating a successful manipulation. The manipulation check was also successful when considering the individual groups (students and auditors) separately (both p=0.000).

2.6.3 Verification of the Theoretical Construct

In this study, three dimensions of the audit expectation gap are measured (i.e. management responsibility, auditor responsibility and financial statement reliability). To verify whether these three theoretical constructs are stable, we conducted an explanatory factor analysis using all raw items as input variables. We calculated Cronbach's alphas to ensure the internal consistency and reliability of the scales. Analysis reveals acceptable Cronbach's alphas (0.79 for auditor responsibility, 0.72 for management responsibility, and 0.71 for financial statement reliability), which indicates a high degree of consistency of the underlying construct. Therefore, we use average indices for each of the three constructs instead of using the individual items. Moreover, we calculate analysis of covariates (ANCOVA) with self-reported reading intensity of the auditor's report and perceived audit profession reputation as covariates.[7]

2.6.4 Main Results

H1a predicts that the perception of auditors and financial statement users about the auditor's report will differ significantly in three dimensions: (1) the responsibility ascribed to auditors (H1a), (2) the responsibility ascribed to management (H1b), and (3) the reliability ascribed to the audited financial statements (H1c). Tables 2-4 provide means (Panel A) and ANCOVAs (Panel B). To test H1a-H1c, we used only those observations that were provided by respondents in the treatment condition of the 'complete auditor's report'.[8] Upcoming tests of RQ1 (see tables 5-7) will incorporate all responses, i.e. including the data from the version without KAMs.

[7] We did not control for age and gender as covariates, because they correlate significantly with the experimental manipulation and therefore would bias the results.
[8] As a result, the number of observations for testing H1 is 30 for auditors and 39 for students.

Auditor Responsibility (H1a)

We conducted an ANCOVA with 'group' (auditor and student) as the independent variable and the 'auditor responsibility' index as the dependent variable (see Table 2, Panel B). There is a significant difference between user groups regarding the responsibility ascribed to auditors (p<0.001). ANCOVA results reveal that auditors' mean responsibility rating of 1.55 is significantly lower than the mean responsibility ratings of students (3.57).[9] These findings clearly support H1a, indicating that financial statement users ascribe a higher responsibility for the financial statements to auditors, in comparison to auditors themselves.

Panel A: Means for auditor responsibility index			
Group	Mean	S.E.	N
Auditor	1.55	0.15	30
Student	3.57	0.17	39
Panel B: ANCOVA results for management responsibility index			
	df	F-value	p-value
Corrected model	7	12.10	0.00
Group	1	71.63	**0.000**
Covariates:			
Self-reported reading intensity	2	2.73	0.073
Perceived audit profession reputation	4	1.04	0.396
Error	61		

Table 2: Test of H1a (management responsibility)

Management Responsibility (H1b)

To test Hypotheses H1b, we conducted an ANCOVA with 'group' (auditor and student) as the independent variable and the 'management responsibility' index as the dependent variable (see Table 3, Panel B). There is a significant difference between user groups regarding the responsibility ascribed to auditors (p<0.001). ANCOVA

[9] Results are equivalent when conducting a t-test instead an ANCOVA.

results reveal that auditors' mean responsibility rating of 6.29 is significantly higher than the mean responsibility ratings of students (5.33).[10] These findings clearly support H1b, indicating that financial statement users ascribe a lower responsibility for the financial statements to management, in comparison to auditors.

Panel A: Means for management responsibility index			
Group	Mean	S.E.	N
Auditor	6.29	0.17	30
Student	5.33	0.14	39
Panel B: ANCOVA results for management responsibility index			
	df	F-value	p-value
Corrected model	7	4.25	0.001
Group	1	20.82	**0.000**
Covariates:			
Self-reported reading intensity	2	1.27	0.288
Perceived audit profession reputation	4	1.62	0.181
Error	61		

Table 3: Test of H1b (management responsibility)

Financial Statement Reliability (H1c)

Next, we conducted an ANCOVA with 'group' (auditor and student) as the independent variable and the 'financial statement reliability' index as the dependent variable (see Table 4, Panel B). There is a just a marginally significant effect of user groups on financial statement reliability (p<0.10). Results reveal that auditors' mean financial statement reliability rating of 4.65 is marginally lower than the mean financial statement reliability rating of students (5.12).[11] These findings only slightly support H1c, indicating that financial statement users ascribe a lower responsibility for the financial statement to management, in comparison to auditors.

[10] Results are equivalent when conducting a t-test instead an ANCOVA.
[11] Results are equivalent when conducting a t-test instead an ANCOVA, except that the significant level is lower (p<0.05).

Panel A: Means for financial statement reliability index			
Group	Mean	S.E.	N
Auditor	4.65	0.19	30
Student	5.12	0.14	39
Panel B: ANCOVA results for auditor responsibility index			
	df	F-value	p-value
Corrected model	7	1.04	0.415
Group	1	2.91	**0.093**
Covariates:			
Self-reported reading intensity	2	0.99	0.378
Perceived audit profession reputation	4	0.34	0.852
Error	61		

Table 4: Test of H1c (financial statement reliability)

2.6.5 Research Question

RQ1 investigates whether the presence (versus absence) of KAMs in the auditor's report reduces the differences in auditors' and financial statement users' perceptions in terms of responsibility ascribed to the auditor (RQ1a), responsibility ascribed to the management (RQ1b), and reliability ascribed to the audited financial statements (RQ1c). This time, we included all data. We conducted different ANCOVAs, one for each dimension of the expectation gap. Tables 5-8 present means and ANCOVAs for tests of RQ1.

Auditor Responsibility

To examine RQ1a, we conducted an ANCOVA with 'group' (auditor and student) and 'auditor's report type' (complete report versus responsibilities-only) as the independent variables and the 'auditor responsibility' index as the dependent variable. Table 5 shows the means per treatment condition (Panel A) and the ANCOVA results (Panel B). As presented in Panel B, neither the main effect of the auditor's report type (p=0.789) nor the interaction effect between group and auditor's report type (p=0.680) are significant. Consequently, the results indicate that the presence (versus absence) of KAMs in the ISA 700 auditor's report does not affect the gap between auditors' and financial statement users' perceptions regarding auditor's responsibilities.

Panel A: Means for auditor responsibility index				
Group	Report Type	Mean	S.E.	N
Auditor	Complete	1.55	0.15	30
	Responsibilities-Only	1.60	0.13	32
	Overall	1.57	0.10	62
Student	Complete	3.57	0.17	39
	Responsibilities-Only	3.46	0.15	51
	Overall	3.51	0.11	90
Overall	Complete	2.69	0.17	69
	Responsibilities-Only	2.74	0.14	83
	Complete	2.72	0.11	152

Panel B: ANCOVA results for auditor responsibility index			
	df	F-value	p-value
Corrected model	9	17.03	0.000
Group	1	144.21	0.000
Report type	1	0.07	**0.789**
Group * Report type	1	0.17	**0.680**
Covariates:			
Self-reported reading intensity	2	1.07	0.347
Perceived audit profession reputation	4	1.16	0.333
Error	142		

Table 5: RQ1a (auditor responsibility index)

Management Responsibility

Next, we conducted an ANCOVA with 'group' (auditor and student) and 'auditor's report type' (complete report versus responsibilities-only) as the independent variables and the 'management responsibility' index as the dependent variable. Table 6 presents the means per treatment condition (Panel A) and the ANCOVA results (Panel B). Again, the main effect of the auditor's report type (p=0.735) and also the interaction effect between group and auditor's report type (p=0.801) are insignificant. In conclusion, the results indicate that the presence (versus absence) of KAMs in the ISA 700 auditor's report does not affect the gap between auditors' and financial statement users' perceptions regarding management's responsibilities.

Panel A: Means for management responsibility index				
Group	Report Type	Mean	S.E.	N
Auditor	Complete	6.29	0.17	30
	Responsibilities-Only	6.38	0.16	32
	Overall	6.34	0.12	62
Student	Complete	5.33	0.14	39
	Responsibilities-Only	5.28	0.14	51
	Overall	5.30	0.10	90
Overall	Complete	5.75	0.12	69
	Responsibilities-Only	5.70	0.12	83
	Complete	5.72	0.09	152

Panel B: ANCOVA results for management responsibility index			
	df	F-value	p-value
Corrected model	9	6.30	0.000
Group	1	47.98	0.000
Report type	1	0.11	**0.735**
Group * Report type	1	0.06	**0.801**
Covariates:			
Self-reported reading intensity	2	2.22	0.113
Perceived audit profession reputation	4	1.37	0.246
Error	142		

Table 6: RQ1b (management responsibility index)

Financial Statement Reliability

Finally, we conducted an ANCOVA with 'group' (auditor and student) and 'auditor's report type' (complete report versus responsibilities-only) as the independent variables and the 'financial reliability' index as the dependent variable. Table 7 presents the means per treatment condition (Panel A) and the ANCOVA results (Panel

B). Again, the main effect of the auditor's report type (p=0.990) and also the interaction effect between group and auditor's report type (p=0.349) are insignificant. In conclusion, the results indicate that the presence (versus absence) of KAMs in the ISA 700 auditor's report does not affect the gap between auditors' and financial statement users' perceptions regarding financial statement reliability.

Panel A: Means for financial statement reliability index				
Group	Report Type	Mean	S.E.	N
Auditor	Complete	4.65	0.21	30
	Responsibilities-Only	4.46	0.21	32
	Overall			
Student	Complete	5.12	0.14	39
	Responsibilities-Only	5.29	0.12	51
	Overall			
Overall	Complete	4.91	0.12	69
	Responsibilities-Only	4.97	0.12	83
	Complete			

Panel B: ANCOVA results for financial statement reliability			
	df	F-value	p-value
Corrected model	9	2.48	0.012
Group	1	13.11	0.000
Report type	1	0.00	**0.990**
Group * Report type	1	0.88	**0.349**
Covariates:			
Self-reported reading intensity	2	1.25	0.289
Perceived audit profession reputation	4	0.40	0.806
Error	142		

Table 7: RQ1c (financial statement reliability index)

2.7 Conclusion

This study investigates the effect of the expanded auditor's report with KAMs on the audit expectation gap. An experiment was conducted with accounting students and experienced auditors as participants. Consistent with our predictions, results reveal that financial statement users ascribe significantly higher responsibility toward the auditor than auditors do themselves, indicating a gap between auditors and financial statement users in view of ascribed auditor's responsibilities. Furthermore, we found a significant gap between the perceptions of financial statement users and auditors regarding management responsibility. Meanwhile, the perceptions regarding the financial statement reliability only differ marginally indicating a reasonable understanding of the reliability of financial statements. Overall, our results suggest that the audit expectation gap still persists and seems to be largest for auditor's responsibilities.

Motivated by the recent regulatory developments to enhance the auditor's report model, we empirically assessed the effect of the disclosure of KAMs as required by the new ISAs on the audit expectation gap compared to the previous version of the audit report without KAMs. Manipulating the auditor's report, we tested if the disclosure of KAMs changes the perception of financial statement users and auditors regarding auditor's responsibilities, management's responsibilities, and financial statement reliability. Our findings indicate that the disclosure of KAMs does neither change financial statement users' perceptions nor auditors' perceptions and consequently does not lead to a reduced audit expectation gap. Overall, our results suggest that KAMs aiming to enhance the auditor's report might be less successful than expected in closing the audit expectation gap. Our findings are consistent with the assumption of Litjens et al. (2015) who suppose that the disclosure of additional information in the auditor's report does not affect the audit expectation gap. Like the previously unsuccessful amendments of changing the wording of the auditor's report, the disclosure of additional information might be ineffective to close the audit expectation gap as well. Another explanation of the unchanged gap refers to the informative value of KAMs. Recently, several studies investigated if the additional information disclosed by KAMs has an actual value for financial statement users (Köhler et al., 2016; Lennox et al., 2018; Sirois et al., 2018). Overall, the experimental studies deliver mixed results rather indicating that the informative value of KAMs might be limited. Hence, perceptions of financial statement users might not have changed because they do not assess KAMs as informative. The disclosure of other additional information which is considered as more informative might help to close the audit expectation gap, e.g. the disclosure of the assurance level (Boolaky & Quick, 2016). Further research is needed to evaluate this issue.

Our study is subject to some limitations. First, participants in our study were undergraduate accounting students representing unsophisticated financial statement users. It might be that other stakeholder, e.g. professional financial statement users like bankers or financial analysts have different perceptions regarding the responsibilities of auditors and management and financial statement reliability. Accordingly, further research could examine the effect of KAMs on further stakeholder groups. Second, we utilize auditor's perceptions as a benchmark for the normative responsibilities and the financial statement reliability. Auditors may tend to respond strategically to questions regarding their own responsibilities. Other limitations refer to the case used in the experiment. The client in the case was an average company operating in electronic industries. It is possible that another specific economic situation or the presentation of a company from another industry might lead to different perceptions. Moreover, we provided an auditor's report disclosing two KAMs (referring to goodwill and pension provisions). First practical experience from the UK shows that in average 4-5 KAMs were presented in the auditor's report (IDW, 2015a). The disclosure of more or other matters might have different effects.

2.8 Appendix

Experimental case with auditor's report manipulation

In the following, you will obtain information about yourAudio AG and the auditor's report of its financial statements auditor. Upon reading the case, you will be asked a set of questions.

<u>YourAudio AG</u>

YourAudio AG is a large stock-listed company that manufactures and distributes audio and other multimedia equipment to retailers throughout Europe. YourAudio AG has completed the fiscal year 200x and published the consolidated financial statements, which are outlined in the following:

YourAudio AG

Consolidated Balance Sheet (in million €)

Current Assets	600		
thereof intangible assets	225	Equity	640
Non-Current Assets	490		
thereof cash and cash equivalents	156	Liabilities	450
thereof accounts and receivables	191		
thereof inventory	143		
Total assets	1090	Total equity & liabilities	1090

Consolidated Income Statement (in million €)

Sales	1300
Cost and expenses	1201
Operating profit	99
Financial income & expenses	2
Profit before tax	101

Appendix 1: Your Audio's financial key accounts

YourAudio AGs financial statements have been audited by the audit firm M&H for the preceding three years. In the past, M&H always expressed an unqualified opinion. In the following, this year's auditor's report of M&H is reproduced:

Independent auditor's report

To yourAudio AG

Audit Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements for the year from January 1, 200x to December 31, 200x.

In our opinion, the financial statements give a true and fair view of the financial position of yourAudio AG, as of December 31, 200x, and of its financial performance and cash flows for the year from January 1, 200x to December 31, 200x, in accordance with the IFRS.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 31, 2016, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of goodwill
1) The yourAudio has goodwill of € 225 million. The goodwill must be tested for impairment on an annual basis. The impairment testing relies on a valuation model based on discounted cash flows. The results of this valuation strongly depend on management's judgment about future cash flows as well as the underlying discounting interest rate and are consequently charged with significant uncertainties.

2) To evaluate the appropriateness of the calculated future interest rates, we compared these statements to the 3-year plan budgets and to sector specific market expectations. Taking into consideration that already small changes of the applied discounted interest rates might have significant effects on the company's value, we assessed the parameters which were used to determine the future interest rates and we audited the calculation scheme. We convinced ourselves that the applied parameters and management's assumptions were comprehensible and correspond to our own expectations.

Pension Provisions
1) The yourAudio AG has pension provisions of € 88.5 million and under the balance sheet item 'other accruals" maintenance and repair provisions about € 43.3 million. This is in our opinion of significance because recognition and measurement of these items depend strongly on management's judgment.

2) Considering that estimated values lead to a high risk of false statements, we considered the appropriateness of the valuation inter alia by comparing these values against historical trends and agreeing them to contractual terms. Our procedures included the consideration of the valuation parameters used to calculate the pension provisions involving our internal experts and the calculation of the expected maintenance costs for machines. We concluded that management's assumptions were acceptable and adequate documented.

Management's responsibility for the financial statements
The management of the company is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS as adopted by the European Union. This responsibility includes designing, implementing and maintaining internal controls relevant to fair presentation of the financial statements, which are to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to error or fraud. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

M&H (Public Accounting Firm)

Appendix 2: Auditor's report manipulation I ("Complete auditor's report"-condition including KAM disclosure)

Independent auditor's report

To yourAudio AG

Audit Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements for the year from January 1, 200x to December 31, 200x.

In our opinion, the financial statements give a true and fair view of the financial position of yourAudio AG, as of December 31, 200x, and of its financial performance and cash flows for the year from January 1, 200x to December 31, 200x, in accordance with the IFRS.

Management's responsibility for the financial statements
The management of the company is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS as adopted by the European Union. This responsibility includes designing, implementing and maintaining internal controls relevant to fair presentation of the financial statements, which are to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to error or fraud. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

M&H (Public Accounting Firm)

Appendix 3: Auditor's report manipulation II (Auditor's report including auditor's and management's responsibility only)

3. The Impact of Information Precision in Key Audit Matters for Non-Professional Investors

3.1 Publication Details

The transformation from the current binary pass/fail auditor's report to a client-specific format raises the question as to what extent information precision disclosed in key audit matters (KAMs) sections benefits investors' decision-making processes. This issue is of particular relevance since many jurisdictions around the globe already implemented client-specific auditor's reports or consider to modify the binary auditor reporting model. Using an experimental approach, our study examines how information precision in KAM sections influences investors' tendency to scrutinize managerial judgment making and investors' willingness to invest in the company. While our results show that investors' tendency to scrutinize managerial decision making does not significantly vary with information precision, we find that investors who receive an auditor's report including firm-specific KAMs are less willing to invest in the company compared to an investor who received an auditor's report with non-firm-specific information in KAMs (e.g. boilerplate language) or without KAMs. Our results have implications for regulators and standard setters suggesting that KAMs are valuable for investors' decision-making but only when information precision in KAMs is high.

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JEL-Code: C91, M42, D81.

Publication Status: Working Paper.

3.2 Introduction

In response to the financial crisis in 2008, several regulators and standard setters, such as the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB), have implemented new auditor reporting requirements to improve transparency of audit practice and thereby, enhancing the informational value of the auditor's reports for investors (IAASB, 2015c, PCAOB, 2013). One important change in audit reporting regulations is the implementation of KAMs. KAMs refer to those matters that, in the auditors' judgement, are of most significance in the audit.[12] The new requirements go beyond the current pass/fail model and shall transform the auditor's report into an individualized document with client-specific information.

The worldwide implementation of KAMs in auditor's reports is accompanied by a debate about the decision-usefulness for investors, particularly concerning the prospective format and content of KAMs. One major concerns among standard setters and regulators is "[…] that expanded auditor reporting could lead to boilerplate language that would diminish the expected value of the critical audit matters[13] and obscure the clarity of the auditor's opinion" (PCAOB, 2017, p. 90). Given the fact that key areas in the audit do not change over time, critics warn that the likelihood of longer auditor's reports containing boilerplate language remains high. This issue is of particular importance in high litigation environments. Supporting this notion, studies from UK auditor's reports[14] show that KAMs lead to greater individuality of audit reports but also to significant differences with regard to the amount of words and the precision of disclosed risk information (PCAOB, 2017). Given expressed concerns that varying levels of informational content in KAMs (firm-specific versus non-firm-specific information) reduce potential benefits, the effect of linguistic narratives in KAM sections on investors' behavior is ultimately an empirical question.

[12] While the PCAOB has finalized its proposal in June 1, 2017 and it will take effect for audits for fiscal years ending on or after June 30, 2019, the IAASB has already implemented its initiative (ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report") which is effective for audits of financial statements for periods ending on or after December 15, 2016.
[13] In the PCAOB's final version Key Audit Matters are referred to as Critical Audit Matters.
[14] The United Kingdom was the first country to implement the new auditor reporting model in 2013.

In our study, we address this gap by experimentally examining whether greater information precision influences investors’ behavior to second-guess managerial decision-making and investors' willingness to invest.

Theoretical work in psychology suggests that precise language makes it easier for individuals to envision a given outcome, because more detailed information provide greater informational content and thus, can be analyzed more in depth (Semin & Fiedler, 1988, Simon, 1978). Empirical evidence in accounting research appears consistent with this notion showing that greater information precision in risk disclosure affects investors’ ability to assess financial reporting information and thus, influences investors’ investment-related judgment and decision-making (Campbell et al., 2014; Hope et al., 2016; Kravet & Muslu, 2013). For example, Hope et al. (2016) find that more firm-specific information in risk disclosure leads to greater market reactions. Further, Campbell et al. (2014) and Kravet & Muslu (2013) also show that greater specificity is incrementally valuable for investors when assessing firms’ accounting information. As such, we predict that firm-specific information in KAM disclosure has a greater influence on investors' behavior than non-firm-specific information.

Based on these predictions, we first examine the association between information precision in KAMs and investors' tendency to scrutinize managerial decision-making. Addressing this research question is of particular importance because financial statement preparers raised concerns that one consequence of an expanded auditor’s report could be the possibility of heightened scrutiny by investors (Tysiac, 2014). Thus, increased information precision in KAM disclosure may facilitate investors' ability to process disclosed information enhancing their feeling of knowledge and thus, their competence to second-guess accounting decisions. In line with this reasoning, we predict that firm-specific information in KAMs leads to greater scrutiny of managerial decision-making than non-firm-specific information in KAMs. However, increased knowledge and competence may also lead to increased wariness to act (Riley, Semin, & Yen, 2014). For example, Christensen et al. (2014) find that investors are less willing to invest in a company when auditor's report provides KAM disclosure. Since KAMs convey risk-related information encountered during the audit, presumably evoking a more critical view, we predict that investors' willingness to invest decreases in the presence of firm-specific KAM information, relatively to non-firm-specific KAM information.

Consistent with prior research, we define information as precise if the level of detail concerning client-specific information in KAM disclosure is high. When describing an event firms can choose the level of information precision. For example, a statement like ''Our firm has borrowed $100,000 from Microsoft" contains a higher level of specificity, while ''Our firm has borrowed some amount of money from a supplier" contain a lower level of specificity due to boilerplate narratives (Hope et al., 2016). With regard to the auditor's report, we argue that auditors may choose the amount of firm-specific information disclosed in KAMs.

To examine the effect of information precision on investors' judgments and decision-making, we choose to conduct an experiment to control for other variables influencing individuals' behavior such as firm characteristics or macroeconomic facts. Holding these variables constant, we are able to isolate the variable of interest - information precision in KAM sections - as the source of any observed variation. In the experiment, students were asked to assume the role of a private equity-investor who intends to invest capital in a fictitious company. All participants begin the experiment by viewing company's background information including key financial data and the auditor's report. In our experiment, we chose a goodwill-related KAM, because due to its complex nature goodwill has been extensively identified as key audit matters in auditor's reports (IDW, 2015a). After being exposed to the information in the case, participants were initially asked whether they have questions for the management. To better understand investors' behavior and actions, participants also responded a series of questions concerning their decision-making process. Based on the information in the case, participants were then asked whether they would like to invest in the company. The survey ends with a post-experimental questionnaire.

Contrary to our theoretical predictions, the results reveal that investors' tendency to scrutinize managerial judgment making does not significantly vary with information precision. These findings suggest that the direct communication with the company may not be in the primary interest of non-professional investors. Thus, we further investigate whether investors' willingness to invest may significantly differ depending upon the degree of information precision in KAM sections. In detail, we find that investors who receive firm-specific information in KAM sections are less willing to invest in the company than investors who receive KAM sections with non-firm-specific information (e.g. boilerplate language) in KAMs. These findings are consistent with prior research showing that information precision is valuable for investors when assessing financial reporting information (Campbell et al., 2014; Hope et al., 2016; Kravet & Muslu, 2013). Further, we do not find any significant differences in investors' willingness to invest among participants who receive an auditor's report with non-firm-specific information and participants who receive a traditional, i.e. pass/fail, auditor's report without KAM sections, indicating that mere information salience in KAMs may not seem to influence investors' decision-making processes. Thus, our results demonstrate that KAM sections serve as a beneficial mechanism for enhancing the information value for financial statement users, but only when information precision in KAM disclosure is high.

Our study contributes to existing literature in several ways. First, while several recent studies (Christensen et al, 2014; Gutierrez et al., 2018; Lennox et al., 2018, Reid et al., 2018; Sirois et al., 2018) have examined investors' behavior in the presence of KAMs, relatively to traditional auditor's reports, there is limited evidence of how linguistic characteristics in KAMs influence investors' decision-making process. Thus, we add to the growing body of research providing insight into the role of information precision in expanded auditor's reports. Specifically, our results indicate that expanded auditor's reports are only value-enhancing for investors' decision-making processes when the level of company-specific risk information is high. These findings are consistent with regulators' and standard setters' concerns that non-firm-specific information in KAM disclosure increases the risk of boilerplate language. Thus, our research has important implications for regulatory bodies when designing regulatory frameworks for KAMs. Further, prior literature has experimentally investigated a number of accounting narratives, such as readability and tone in financial reporting statements. Our study complements this research by investigating the impact of negative valenced information in auditor's reports on investors' willingness to invest.

The remainder of the paper is organized as follows. Section 3.3 presents the current literature on KAM regulation and develops the hypotheses. Section 3.4 describes the experimental design for testing the hypotheses, while Section 3.5 presents the results. The final section concludes with a discussion of the major findings and the study's limitations.

3.3 Related Research, Theory and Hypotheses

The primary objective of KAMs is to enhance the informative value of the auditor's report by providing greater transparency about the performed audit. Thus, the new auditor's report shall increase the value-relevance of information for investors and reduce existing information asymmetries among company management and financial statement users. However, information is only valuable for investors' decision-making processes when it is relevant and easy to process (Semin & Fiedler, 1988). Opponents of the new audit regulation expressed concerns

"that the reporting of critical audit matters would result in the auditor's report becoming a lengthy list of boilerplate disclosures, which would contribute to disclosure overload or run contrary to the [regulators and standard setters] disclosure effectiveness initiative".

As such, the potential implications of the new audit regulation primarily depend on how the audit profession carries out its new responsibility. In this context, it is of particular importance to understand the role of linguistic narratives in KAM disclosure on investors' behavior.

3.3.1 The Effect of Information Precision in Disclosure on Investors' Behavior

Prior literature defines information as being precise when the level of detail concerning company-specific information in risk disclosure is high (Hope et al., 2016). In accounting research, Hope et al. (2016) develop a measure that quantifies specificity as the "number of specific words or phrases conveying specific information relevant to the disclosing firm, divided by the number of total words in the risk-factor disclosure section". To operationalize the construct, the authors outline a comprehensive set of categories comprising specific entity names including names of persons, names of locations, names of organizations, quantitative values in percentages, money values in dollars, times, and dates. As such, the same underlying event can be described by using varying levels of specificity. The authors point out that a firm can describe the same facts at a high specific level using firm-specific information e.g., ‘‘Our firm has borrowed $100,000 from Microsoft” or at a low specific level using boilerplate language that can be applied to any other firm e.g., ‘‘Our firm has borrowed some amount of money from a supplier”. This example indicates that more firm-specific information provides greater informational content than non-firm-specific information and leaves less room for interpretation (Semin & Fiedler, 1988). In their study, Hope et al. (2016) show that greater specificity in risk disclosure induces greater market reactions, presumably because more detailed risk disclosure provides greater informational content and hence, makes it easier to envision a given outcome. Other studies show that investors react more strongly when greater information content is provided in risk disclosure, too (Campbell et al., 2014; Kravet & Muslu, 2013). For example, Kravet & Muslu (2013) investigate the association between changes in risk disclosure and changes in perceived riskiness by the market and find that increases in the number of risk sentences are positively associated with increased stock return volatility and higher trading volume. Further, results in Campbell et al. (2014) show that specificity in risk disclosure is valuable for investors in assessing firms' accounting information.

Theoretical work in judgment and decision-making research appears consistent with this notion suggesting that more precise information facilitates envisioning described information, because it is more contextualized and, thus, draws greater attention (Semin & Fiedler, 1988). As a consequence, individuals are often more likely to incorporate more precise information into their decision-making than non-precise information. Taken together, these implications indicate that greater informational content in risk disclosure enhances investors' risk understanding and thus, has an incremental impact on investors' behavior.

3.3.2 The Effect of Information Precision of KAMs on Investors' Tendency to Scrutinize Managerial Decision-Making

While the audit profession has expressed concerns that requiring auditors to disclose KAMs will affect investors' tendency to scrutinize audit effort especially when audits fail to detect material misstatements, financial statement prepares are concerned with regard to adverse legal consequences. As such, they worry that "the subjective nature of the proposed critical audit matter requirements could lead to different conclusions from auditors in similar circumstances on whether to disclose. Thus, variability in the quantity and extent of [critical audit matters] in a registrant's audit opinion relative to other similar filers may cause investors to draw inappropriate conclusions" (Tysiac, 2014).

Hence, if financial statements are aware of heightened investor scrutiny due to KAMs, managers might be ex ante more concerned about the efficiency of internal processes and controls. However, it is empirically questionable whether managers need to expect greater investor scrutiny and whether this association is influenced by information precision in KAMs.

Drawing on findings from information processing theory as well as textual disclosure literature, one might expect that greater information precision in KAMs leads to an increased tendency to scrutinize managerial judgment making. This is, because firm-specific information provides greater informational content and is less interpretive. These changes improve investors' ability to evaluate a firm. Supporting this notion, prior studies suggest that more detailed information affects investors' judgment when assessing financial information, because they feel more competent and hence, are more willing to act (Graham, Harvey, & Huang, 2009). On the other hand, one might also argue that investors' tendency to scrutinize managerial judgment may improve, even when information precision in KAM disclosure is low, because KAM sections signal information importance by highlighting client-specific audit procedures and risk assessment. This would suggest that irrespective of the degree of information precision, KAM sections also serve as a beneficial mechanism to increase investors' ability to scrutinize managerial judgment making.

In line with findings from textual disclosure literature, we believe that investors' tendency to scrutinize managerial judgment making increases when KAM disclosure provides greater information precision. This reasoning leads to the following hypothesis:

H1: Investors' tendency to scrutinize firm's investment is higher when receiving an auditor's report with KAM section including firm-specific risk information than when receiving an auditor's report with KAM section including non-firm-specific risk information.

3.3.3 The Effect of Information Precision of KAMs on Investors' Willingness to Invest

Prior literature has shown that investors respond to accounting narratives, such as readability (Rennekamp, 2012; You & Zhang, 2009), tone (Tetlock, Saar-Tsechansky, & Macskassy 2008), concreteness versus abstractness (Elliott, Rennekamp & White, 2015; Riley et al., 2014) and vividness (Hales, Kuang, & Venkataraman, 2011) when making decisions. For example, Elliott et al. (2015) provide empirical evidence that investors feel more competent evaluating a firm when disclosure is written concretely which ultimately leads to greater willingness to invest. These implications are consistent with Hansen & Wänke (2010) who find that concreteness of language affects individuals' subjective judgment of truth, such that statements written concretely are more likely to be perceived as being true than the same content written abstractly. In the context of information valence, Riley et al. (2014) examine how investors' judgment and decision making is influenced by the concreteness and abstractedness of the language used in press releases. Consistent with prior findings, they show that investors are less willing to invest in a company when a press release is written concretely. However, this association only holds for narratives that contain positive information. For negative valenced narratives, they find that investors are more cautious to invest in the company, indicating that greater language concreteness reduces investors' comfort when negative information is disclosed which in turn alleviates investors' willingness to invest. However, while these studies investigate concreteness versus abstractness in disclosure, it is questionable how investors react to firm-specific versus non-firm-specific in KAM disclosure.

Prior studies examining the effectiveness of KAM, relatively to the absence, on investors' reactions provide mixed results. For example, Christensen et al. (2014) experimentally investigate investors' willingness to invest in a company disclosing fair value estimate uncertainty in the KAM section. Arguing that KAMs highlight significant difficulties encountered during the audit and hence, evoking greater investors' reactions, the authors find that participants were less likely to consider a company as an investment in the presence of the fair value-related KAMs, relatively to the absence of KAMs. In a related study, Sirois et al. (2018) examine the attention directive role of KAMs and explore how KAMs impact investors' information search and acquisition efficiency. The study shows that communicating KAMs in the auditor’s report helps to reduce investors' attention to less relevant disclosure information and serves as a compass which enables investors to better navigate through complex financial reporting information.

However, while experimental research documents value-enhancing implications of KAM sections for investors, archival studies show mixed results with regard to the potential benefits of KAMs. Lennox et al. (2018) use short-window market reactions to measure investors' response to KAM disclosure. They find that expanded auditor’s reports are not incrementally informative to investors. Consistent with their findings, the authors argue that KAM information is also provided in financial statements and thus, is not new to investors. As a consequence, KAM disclosure should have no effect on investment decisions. Examining changes in market reactions in the short window surrounding the filings, Gutierrez et al. (2018) find that the regulatory changes do not significantly affect investors’ reaction following the KAM implementation. However, contrary to prior evidence from archival studies, Reid, Carcello, Li, & Neal (2018) find that additional auditor disclosure is associated with a significant reduction in information asymmetry. This reduction is reflected in higher abnormal trading volume and lower bid-ask spreads.

Based on theoretical implications as well as on prior findings in accounting research, we predict information precision will have an effect on investors' willingness to invest. Specifically, we argue that more precise information in KAM also increases investors' knowledge about the company's risk and thus, their wariness to act. As a result, we predict that investors are less willing to invest in a company when firm-specific information is disclosed in KAM disclosure. We formally state our predictions in the following hypothesis:

H2: Investors will be less willing to invest in a firm when receiving an auditor’s report with KAM section including firm-specific risk information than when receiving an auditor’s report including non-firm-specific risk information.

3.4 Research Design

3.4.1 Experimental Task and Procedures

To test our hypotheses, we conduct an 3x1 experimental design in which we manipulate KAM disclosure in auditor's reports (absence vs. presence) and varying levels of informational content in KAM disclosure (KAM with firm-specific content vs. KAM with no firm-specific content (i.e. boilerplate language).

Business students completed the experiment using a web-based instrument via the online survey tool UniPark. Once participants access the web link in a computer laboratory, they were randomly assigned to three groups. At the beginning, participants were asked to assume the role of a private-equity investor who intends to invest capital in a fictitious company. All participants learn that a leading manufacturer in 3D production for structural elements in the automotive sector plans to raise capital to expand its corporate infrastructure and, thus, its core business. Hosting a private-equity conference, the company invites prospective investors to get an insight into the company's business model and its financial position. As such, participants receive background information including key financial statement amounts for the fiscal year 2016 (see Appendix 1). Financial statement information was designed in such a way that company's position reveals neither very positive nor very negative amounts. Participants were also informed that the funds' budget for the investment is five million euros and represents 20 percent of the company's available liquid fund. After viewing the background information, participants receive the auditor's report on the financial statement for the fiscal year 2016, including KAM-manipulations.

To test our hypotheses, we manipulate KAM disclosure at three levels: (1) KAM disclosure with firm-specific information, (2) KAM disclosure with boilerplate language and (3) no KAM disclosure. Similarly to Klueber, Gold, & Pott (2018), we chose a goodwill-related KAM in the auditor's report, because goodwill impairment testing is a complex area of financial reporting judgment.[15] In addition, early evidence in the UK shows that goodwill has been extensively identified as a key audit matter in auditor reports (IDW, 2015a). The goodwill-related KAM manipulations

[15] Prior research on goodwill impairment has shown that financial statement preparers use goodwill impairment decision to engage in opportunistic behavior because it is difficult for third parties to evaluate these actions (Ramanna, 2008; Ramanna & Watts, 2012).

are adapted from an annual report of a large publicly traded company in Germany (see TUI Group, 2016, p. 270). All participants were informed that the auditor's report follows the revised auditor's report structure regulated by ISA (700)[16]. In the two conditions with KAMs, the audit report includes a section discussing

"Key Audit Matters" described as those "matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2016 to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters" (IAASB, 2015a).[17]

3.4.2 Dependent Variables

To measure the benefits of KAM disclosure for investors' decision-making processes, we use two dependent variables. Considering information given in the case, participants were asked the following questions: (1) "Would you like to raise a question for the management?" and (2) "Would you like to buy shares of MaschTec AG?" on an 11-point Likert scale ''Not at all likely'' and ''Extremely likely". To better understand investors' behavior and actions, we further asked participants to which topics ("Financial statement amounts", "auditor's reports" "Company's financial position") they would like to raise questions. At the end, participants were asked to write their questions down. We were also interested why some student participants did not ask any questions. Participants could choose the following answers: (1) There is not enough information to ask a question (2) I do not feel confident enough to ask a question (3) Other reasons.

3.4.3 Participants

Eighty-five undergraduate and graduate business students from a big German university enrolled in an introductory or advanced accounting course participated in the study. The average age of the participants was 22.4, and 53 (62.35 percent) were males. 17.7 % of the participants had overall work experience. Business students

[16] ISA 700.20-48.
[17] KAM manipulation is presented in the Appendix.

with basic financial reporting knowledge were viewed as appropriate surrogates for non-professional investors in this case, as no particular expertise was required to perform the study's task. 75 % of the data were collected from participants during their class time in a computer laboratory. To ensure that students duly complete the case, they received a course credit for participating. We also sent out the survey via mail to business students which were enrolled in other accounting classes. Since our findings do not differ among groups, we also consider these observations in our final sample.

3.5 Results

3.5.1 Manipulation Checks

We conducted two manipulation check questions to address the issue of whether the participants internalized the manipulation. The first question asked participants which reporting issue was identified as key audit matter in the auditor's report with answer choices (1) "Pensions provisions", (2) "Goodwill impairment testing", (3) "Deferred taxes on loss", (4) "No reporting issue was identified in the auditor's report". Eighty-three percent of the participants noticed either the KAM presence or the KAM absence correctly. The overall mean response was 2.14 for the firm-specific KAM and 3.90 for the auditor's reports without KAM. The means are significantly different (p=0.000), indicating a successful manipulation.[18] Our second question asked the participants whether the auditors used boilerplate language in the KAM sections on an eight point Likert-scale with endpoints 0 ("strongly disagree") and 7 ("strongly agree"). Sixty-one percent of the participants answered the question correctly. Thus, the means are not significantly different, indicating that the manipulation check for the boilerplate condition was not successful. However, since the question is primarily based on participants' subjective feelings on how detailed the auditor formulates the risk in KAM sections, we include these observations in our sample (Klueber et al., 2018).

[18] As an alternative, we ran our analysis excluding observations which failed to answer the KAM-manipulation check correctly. Since our results remain consistent, we keep these observations in our final sample.

3.5.2 Hypothesis Test

First of all, we examine investors' tendency to scrutinize management in the light of information precision in KAM sections. H1 predicts that investors tend to scrutinize managerial judgment making more when they receive a KAM with firm-specific information compared to investors who receive a KAM with non-firm-specific information as they are better able to incorporate this information into their decision-making processes. Table 8, Panel A reports cell sizes, means, and standard deviation for participant's tendency to scrutinize managerial decision making across conditions. Panel B presents the results of the ANCOVA model and Panel C provides post-hoc mean comparisons. Our results show that investors' tendency to scrutinize managerial judgment choices slightly increases with the degree of information precision in KAM sections (μ=7.00 (2.84), μ=7.33 (2.17), (μ=7.96 (1.91), $p>0.1$). However, there are no significant differences between the conditions. To further extend our findings regarding investors' tendency to scrutinize managerial judgment making, we asked participants who were willing to ask a question in which section they would categorize the question (1) financial statement amounts (2) auditor's reports or (3) company's financial position. 86 % of the participants indicate that they were interested in the company's economic situation. 48 % of the participants had a question concerning the consolidated financial statement and 22 % were willing to ask a question concerning the auditor's report. Since the results are not significant, we presume that non-professional investors may not be the group of stakeholders which is interested in direct communication with the company. Probably, the informational value of KAMs may rather arise for investors when making decisions than from scrutinized purposes.

Panel A: Adjusted means for the likelihood of scrutinizing management					
Group			Mean	Standard Deviation	N
KAM with firm-specific content			7.96	1.91	28
KAM with boilerplate language			7.33	2.17	27
No KAM			7.00	2.84	30
			7.42	2.36	85
Panel B: ANCOVA results for the likelihood of scrutinizing management					
Source	Type III sum of squares	df	Mean Square	F-value	p-value
Corrected model	34.978	6	5.82	1.05	0.401
KAM	15.740	2	7.87	1.42	0.249
Covariates					
Age	4.217	1	4.217	0.76	0.386
Gender	0.121	1	0.121	0.02	0.883
Self-reporting intensity	17.293	2	8.647	1.55	0.218
Error	433.774	78	5.561		
Panel C: Post-hoc mean comparisons (least significant difference)					
				Error	p-value
KAM with firm-specific content		vs.	No KAM	0.619	0.270
KAM with firm-specific content		vs.	KAM with boilerplate language	0.635	0.583
KAM with boilerplate language		vs.	No KAM	0.624	0.855

Table 8: Test of H1 (Investor's tendency to scrutinize managerial judgment choice)

Thus, H2 predicts that investors who receive an auditor's report containing a KAM section with firm-specific content are less willing to invest in a company than investors who receive an auditor´s report with KAM section containing boilerplate language. Table 9, Panel A, reports cell sizes, means, and standard deviation for participant's willingness to invest in the company's expansion plans across conditions for H2. Panel B presents the results of the ANCOVA model and Panel C provides post-hoc mean comparisons. In support of H2, the results show that the willingness to invest mean rating is significantly lower (μ=5.57 (1.75)) for participants who received an auditor's report with firm-specific KAM sections compared to participants who received an auditor's report with non-firm-specific information (μ=7.00 (1.71), p<0.01).

Panel A: Adjusted means for the likelihood of investment

Group	Mean	Standard Deviation	N
KAM with firm-specific content	5.57	1.75	28
KAM with boilerplate language	7.00	1.71	27
No KAM	6.97	1.67	30
	6.52	1.82	85

Panel B: ANCOVA results for the likelihood of investment

Source	Type III sum of squares	df	Mean Square	F-value	p-value
Corrected model	51.71	6	8.619	2.98	**0.113*** **
KAM	30.150	2	15.076	5.21	**0.007*** **
Covariates					
Age	1.665	1	1.665	0.58	0.450
Gender	11.131	1	11.131	3.85	0.053
Self-reporting intensity	2.840	2	1.420	0.49	0.614
Error	225.511	78	2.891		

Panel C: Post-hoc mean comparisons (least significant difference)

			Error	**p-value**
KAM with firm-specific content	vs.	No KAM	0.460	**0.007*** **
KAM with firm-specific content	vs.	KAM with boilerplate language	0.472	**0.007*** **
KAM with boilerplate language	vs.	No KAM	0.465	0.997

*, **, *** Indicate one-tailed significance (given our directional predictions) at less than 0.10, 0.05, and 0.01 levels, respectively.

Table 9: Test of H2 (Investor's willingness to invest)

Further, we find that there are no significant differences in investors' willingness to invest when investors receive an auditor's report with KAM section including non-firm-specific information and investors receiving a traditional auditor's report (μ=7.00 versus μ=6.97, p=0.997). In line with our hypothesis, we conclude that participants are better able to process precise information which eases cognitive effort and thus, facilitates decision-making. Further, our findings reveal that information precision serves as a more efficient feature in influencing investors' information acquisition processing than mere information salience and thus, impacts investors' trading behavior to a greater extent.[19]

Panel A: Adjusted means for investors' preferable amount of investment			
Group	**Mean**	**Standard Deviation**	**N**
KAM with firm-specific content	2.23	1.17	13
KAM with boilerplate language	2.54	0.77	13
No KAM	2.57	1.14	26
	2.49	1.01	62

Panel B: ANCOVA results for the amount of investment					
Source	Type III sum of squares	df	Mean Square	F-value	p-value
Corrected model	2.654	5	0.531	0.49	0.779
KAM	0.888	2	0.444	0.41	0.663
Covariates					
Age	0.040	1	0.040	0.04	0.848
Gender	1.267	1	1.267	1.18	0.281
Self-reporting intensity	0.287	1	0.287	0.27	0.607
Error	60.092	56			

Panel C: Post-hoc mean comparisons (least significant difference)				
			Error	p-value
KAM with firm-specific content	vs.	No KAM	0.347	0.582
KAM with firm-specific content	vs.	KAM with boilerplate language	0.355	0.654
KAM with boilerplate language	vs.	No KAM	0.293	0.993

Table 10: Testing investor's preferable amount of investment

To get further insights into individuals' decision-making, we asked participants who were willing to buy shares of the company on a scale ranging from 0 million euros to 5 million euros. Table 10 shows the preferred amount of investment. Our results show that participants' chosen amount of investment slightly decreases with in-

[19] We note that our results are not conflicting with empirical evidence from Christensen et al. (2014) and Sirois et al. (2018). While both studies investigate investors' behavior in the presence of KAMs, relatively to the absence, they use KAM conditions including firm-specific content in the experimental designs. Overall, their findings appear consistent with ours.

creased information precision in KAM sections (μ=2.23 (1.17) vs. μ=2.54 (0.77) vs. μ=2.57 (1.14)). However, our findings also reveal that there are no significant differences among all three conditions (p=0.6633).

Taken together, our findings suggest that communicating KAMs with greater information precision in the auditor's report influences individuals' information acquisition processing and thus the decision to invest in the company, but once the decision is made the amount of investment and hence, risk assessment is not affected.

3.6 Conclusion

In our study, we examine how a linguistic narrative information precision in KAM disclosure affects investors' judgment and decision-making. Consistent with theoretical predictions and findings in prior research, we expect that investors react more strongly to firm-specific information than to non-firm-specific, i.e. boilerplate information, because more detailed disclosure provides greater informational content and hence, makes it easier to envision a given outcome. Since KAM sections provide risk-related information encountered during an audit, we further predict that investors perceive this information as negative valenced. Thus, we argue that investors' tendency to scrutinize managerial judgment making increases when KAM disclosure provides greater information precision as a result of greater knowledge and competence to act. In line with this reasoning, we further argue that precise information also increases investors' wariness when evaluating the firm and thus, decreases their willingness to invest. Our results are partially consistent with our predictions. While investors' tendency to scrutinize managerial decision making does not significantly varies with the degree of information precision in KAM disclosure, we find that investors are significantly less willing to invest in a firm. Given regulators and standard setters concerns that boilerplate language in KAMs reduce the decision-usefulness for investors, our study provides empirical evidence that linguistic narratives in KAM disclosure are more effective in enhancing the information value of auditor's reports for investors than the mere presence of KAM sections.

Our study is subject to several limitations which provide fruitful areas for further research. First, our participants in the treatment groups receive an auditor's report with KAM section including goodwill impairment testing. Since the KAM is neutral in its wording and the accounting issue has been extensively identified as key audit matters in auditor's reports, future research can examine the effectiveness of positive versus negative valenced narratives in KAM disclosure on investors' decision-making processes. Second, in a real-life setting the information environment is more complex than in our experimental design. While we use key financial accounts, other information within a complete set of financial statements could moderate our results. However, reducing the complexity of information environment allows for stronger inferences about the effectiveness of information precision in KAM disclosure on investment-related judgment and decision-making processes. The effectiveness of the new audit regulation primarily depends upon how value-relevant KAM information is for investors' decision-making processes.

3.7 Appendix

Below you will find detailed information on MaschTec AG as well as the consolidated balance sheet, the consolidated statement of comprehensive income and the auditor's report. Please read the facts carefully.

MaschTec AG is a leading manufacturer of machines for the 3D development and production of components for the automotive industry. In addition to its largest location in Germany (Dusseldorf), MaschTec AG also produces for numerous customers in America and France. In particular, manufacturers of high-priced midsize cars are among the customer base. MaschTec AG also owns the subsidiary "MaschInc GmbH" based in Düsseldorf. This serves above all the distribution disposition and the enterprise communication.

In fiscal year 2017, MaschTec AG plans to raise capital to expand its corporate infrastructure and expand its core business. To do this, they host an event that introduces the company to convince potential private equity investors to invest in the form of capital. As part of the event, investors will have the opportunity to engage extensively with each other's data and to evaluate them before deciding to buy shares.

You are the majority shareholder of a private equity fund that raises capital from its shareholders in order to invest them as a profitable investment in selected companies. You will also receive an invitation and decide to participate. Please notice that investors participate in profits of the participations as well as in profits of possible disposals of shares; but also carry the risk of loss. Your available budget is EUR 5 million and represents about 20% of your total fund. The management level, including the CEO of MaschTec AG, participates in the event and is available to answer all questions and comments.

Below you will find the consolidated balance sheet and the consolidated statement of comprehensive income of MaschTec AG at the fiscal year ended December 31, 2016:

MaschTec AG 12/31/2016

Consolidated Balance Sheet (in million €)			
Non-Current Assets	76		
thereof intangible assets	28	Equity	67
thereof tangible assets	48	Liabilities	45
Current Assets	36		
Total assets	112	Total equity & liabilities	112

Consolidated Income Statement (in million €)	
Sales	115
Cost and expenses	107
Operating profit	8
Financial income & expenses	1,1
Profit before tax	9,1
Profit before tax	6,37

Appendix 1: Company's key financial accounts

Independent auditor's report

To MaschTec AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of MaschTec AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 31, 2016, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of goodwill
1) In MaschTec AG's consolidated financial statements, the goodwill of MaschInc GmbH, is reported in the amount of 21 Mio. Euro. We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors. As MaschInc GmbH was no longer listed at the reporting date and listing prices could therefore not be used for the measurement of goodwill, a discounted cash flow (DCF) valuation technique was used for measurement for the first time. This matter was of particular importance, because the result of this measurement depends to a large extent on management's assessment of future cash flows and the discount rate used. Therefore, the valuation of MaschInc GmbH is subject to considerable uncertainty.

2) Among other procedures, we examined the measurement of the shares in MaschInc GmbH and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

[...]

Düsseldorf, 15 March 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters (German Public Auditor)
Dieter Berens (German Public Auditor)

Appendix 2: Auditor's report manipulation I (Auditor's report including KAM disclosure with firm-specific risk information)

Independent auditor's report

To MaschTec AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of MaschTec AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 31, 2016, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of goodwill
1) In MaschTec AG's consolidated financial statements, the goodwill of MaschInc GmbH, is reported in the amount of 21 Mio. Euro. We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors.

2) Among other procedures, we examined the measurement of the shares in MaschInc GmbH and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

[...]

Düsseldorf, 15 March 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters	Dieter Berens
(German Public Auditor)	(German Public Auditor)

Appendix 3: Auditor's report manipulation II (Auditor's report including KAM disclosure with non-firm-specific risk information)

Independent auditor's report

To MaschTec AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of MaschTec AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

[...]

Düsseldorf, 15 March 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters	Dieter Berens
(German Public Auditor)	(German Public Auditor)

Appendix 4: Auditor's report manipulation III (Auditor's report without KAM disclosure)

4. Do Key Audit Matters Impact Financial Reporting Behavior?

4.1 Publication Details

Our paper examines whether the implementation of KAMs in auditor's reports affects managers' reporting behavior. In line with prior research in psychology, we argue that greater transparency through KAM sections lead to higher accountability pressure as managers may expect their judgments to be scrutinized more strongly in the presence of KAMs and hence, to an improvement of financial reporting quality. Further, we examine whether informational precision (firm-specific versus non-firm-specific information) in KAM sections moderates the effect of KAM presence on reporting behavior. Our results show that participants' tendency to manage earnings decreases with increased information precision. Thus, we find that participants who received an auditor report with a KAM section including firm-specific content are less likely to engage in earnings management activities than participants who received a traditional auditor report. However, we obtain inconclusive results regarding the auditor report including KAM sections with low informational precision. Thus, our results suggest that KAMs serve as a beneficial mechanism for enhancing managerial financial reporting quality, but only when information precision in KAM sections is high.

Co-Authors: Prof. Dr. Anna Gold; Prof. Dr. Christiane Pott

Keywords: Key Audit Matters, Audit Regulation, Financial Reporting Behavior, Accountability Theory

JEL-Code: C91, M42, D81

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4.2 Introduction

The auditor's report has long been the focus of criticism by regulators and investors (Church et al., 2008; Epstein & Geiger, 1994). Most countries around the world have implemented a "pass/fail" model, which provides information on whether the auditor attests to a company's financial statements to present a true and fair view in accordance with the financial reporting framework (pass) or not (fail). However, since almost all publicly traded companies receive an unqualified auditor opinion testifying to the material correctness of financial statements, regulators, academics and investors alike question the value of the message conveyed in auditor reports (Gray et al., 2011; Mock et al., 2013). Thus, financial statement users criticize the nature of standardized audit reports by indicating the limited communicative value of the current auditor's opinion concerning client-specific audit procedures and risk assessments (PCAOB, 2013).

Various institutions and audit regulators worldwide, including the Public Company Accounting Oversight Board (PCAOB) and International Auditing and Assurance Standards Board (IAASB), have incorporated prevailing concerns about the lack of transparency in auditor reports by initiating an expanded audit reporting model. In January 2015, the IAASB released new and revised auditor reporting standards, including the newly introduced standard ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" (IAASB, 2015b). The PCAOB's new standard regarding changes in the auditor reporting model is similar to that of the standards implemented by the IAASB. One significant change in both amendments is the implementation of key audit matters,[20] which are new disclosure requirements providing information about significant matters[21] auditors encountered during the audit. The primary objective of KAMs is to communicate those matters in the audit report and to enhance investors' understanding of the auditor's role and responsibility.

[20] In the PCAOB's proposal, regulators use the term "critical auditor matters" for those matters that are of most significance for the auditor. The content among both amendments from the PCAOB and IAASB are similar. In this paper, we use the term "key audit matters".

[21] ISA 701.8 determine key audit matters as those matters that required significant auditor attention in performing the audit including areas that involve significant judgment (b) areas in which the auditor encountered significant difficulty during the audit (c) or circumstances that required significant modification of the auditor's planned approach to the audit.

The implementation of KAM sections is subject to a controversial debate among practitioners and regulators. While advocates, such as the PCAOB and IAASB, emphasize the value of KAMs for investors due to greater transparency in the audit process (PCAOB, 2013), opponents, including audit firms and financial statement preparers, fear greater legal liability (Tysiac, 2014). They argue that providing additional disclosure can lead to an increased number of lawsuits when disclosures are inaccurate. Standard setters worldwide have also expressed concerns that auditors could end up using "boilerplate" language that would negatively affect the usefulness of additional information in the auditor report (IAASB, 2012). Several recent studies investigate the consequences of modifications in the pass/fail model of auditing in terms of market reactions to new disclosure requirements (Lennox et al., 2018), audit quality (Gutierrez et al., 2018), investors' willingness to change their investment decisions (Christensen et al., 2014), and auditors' legal liability (Alderman, 2015; Backof et al., 2018; Brasel et al., 2016; Brown, Majors, & Peecher, 2016; Gimbar et al., 2016; Kachelmeier et al., 2018).

One essential benefit recognized by regulators, but largely ignored thus far in the ongoing vigorous debate is the effectiveness of KAM sections regarding the financial reporting environment. Bruce Webb, chairman of the AICPA's auditing standards board, states

"that the presence of KAM sections in audit reports may cause management to think more carefully about the quality and the robustness of their processes and controls" (Katz, 2013).[22]

This statement suggests that KAMs may enhance managerial financial reporting behavior. However, we are unaware of empirical evidence on the effects of KAM reporting on financial reporting. In this paper, we address this gap by experimentally examining whether KAM disclosures in the audit report are associated with higher financial reporting quality.

[22] Brian Coteau, a deputy chief accountant at the SEC, also notes "that increased disclosures in the audit report may lead management to think more carefully about disclosures they've made, and perhaps enhances disclosures they've made as a result of the auditor's highlighting a particular area" (Katz, 2013).

Our theoretical predictions are motivated by accountability theory, as well as by findings from the disclosure transparency literature. Prior accountability research indicates that the expectation that one may be called upon to justify one's view to others affects judgment and decision quality as individuals feel more pressure to provide justifiable explanations and, hence, exert greater effort in their judgment and decision making (Tetlock, 1983; Tetlock, 1985). Although audit-significant issues have not been previously disclosed to market participants, they have been a matter of internal discussions between managers, auditors and audit committees. We predict that in the presence of KAM sections, managers expect their judgments to be scrutinized more strongly by investors and other third parties than in the case of an unmodified auditor report without KAMs. Findings from the disclosure transparency literature show that greater transparency reduces the likelihood of earnings management activities due to higher risk of detection by market participants (Cassel et al., 2015; Hirst & Hopkins, 1998; Lee et al., 2006). Therefore, we expect that second-guessing concerns caused by greater transparency in auditor's reports increase the level of managerial accountability and thus, improve reporting quality.

We also examine how higher versus lower level of information precision as a proxy for disclosure transparency in KAM sections affects financial reporting behavior. As such, we respond to concerns from regulators and investors that communication of KAMs may quickly result in more standardized disclosure with boilerplate language, potentially reducing the informational value of KAM sections. We address these concerns by considering how varying levels of information precision impact managers' level of accountability for decision-making, as investors' ability to second-guess may vary with information precision in KAM sections. Prior textual disclosure literature has shown that specificity in risk disclosure can significantly affect investors' ability to process and evaluate information and thus has an incremental impact on investors' decision-making. These findings are consistent with research suggesting that individuals are constrained by cognitive limitations and thus make trade-offs when processing information. As a result, humans are often unlikely to encode information that is perceived to be less salient or requires significant processing (Hirshleifer & Teoh, 2003). In line with these arguments, we assume that less information precision in risk disclosure decreases investors' tendency to second-guess managerial judgment making due to limited information processing. As a result, we predict that the effect of KAMs on financial reporting behavior is weaker when KAM disclosures are less precise (i.e., “boilerplate”), because of managers’ reduced expectations to be second-guessed by investors.

To test our predictions, we conduct a 3x1 between-subjects experiment in which we manipulate KAM disclosure in auditor reports: no KAM; KAM disclosure with firm-specific content; and KAM disclosure with no firm-specific content (i.e., boilerplate language). Experienced executives were asked to assume the role of the CFO at a (fictitious) publicly traded company with the task of evaluating financial estimates on goodwill impairment. Conservative financial reporting in this context emerges when managers decide to employ key assumptions which will cause goodwill impairment. The case facts were designed in such a way that management has incentives not impair goodwill, to ensure lower leverage and more favorable financing ratios (Cohen, Krishnamoorthy, Peytcheva, & Wright, 2013).[23]

Consistent with prior research, we find that greater transparency in auditor’s reports disclosed in KAMs serves as a compelling tool through which managers decision-making processes are enhanced. Our results show that managers’ tendency to manage earnings decreases in the presence of KAMs including firm-specific information, indicating that the expectation to justify one’s decision to others may lead managers to engage in less earnings management activities and, hence, to an improvement of financial reporting quality. However, we do not find support for our predictions regarding KAMs that convey non-firm specific content. Taken together, our results show that KAM sections enhance managerial judgment quality when KAM disclosure includes firm-specific risk information and, thus, provide support for the United States Securities and Exchange Commission’s (SEC) and AICPA’s expectation that the presence of KAMs might lead management to think more intensively about their judgment and decision choice.

The results of this study have implications for audit research and practice. First, while recent literature has primarily investigated the consequences of the new auditor reporting model on investor’s reactions and auditor legal liability, our study highlights the impact of KAMs on managerial reporting behavior, a previously ignored

[23] Prior research has shown that individuals do not have incentives to maximize their wealth to the fullest extent under moral hazard (Luft, 1997; Evans et al., 2001; Church et al., 2014).

benefit of KAMs for the financial reporting environment. We provide important evidence of how additional disclosure on audit significant issues influences managerial judgment and decision behavior and thus ultimately helps achieve higher financial reporting quality. Further, given the ongoing discussion about the benefits of KAM disclosures, our research is timely and can be beneficial to regulators and standard setters who implemented the new modifications to existing auditor reporting models. Second, our study contributes to the voluminous literature on judgment and decision making in financial reporting settings. In line with prior research, our findings show that KAM sections can serve as an essential mechanism through which managers' decision-making processes can be enhanced and financial reporting quality can be improved. Third, our results also highlight the importance of risk-specific information in disclosure. We add to prior research on textual risk disclosure showing that specificity in risk disclosure does not only affect investors' ability to process information, but can also be exploited as an instrument to curtail earnings management behavior.

The remainder of the paper is organized as follows. Section 4.3 presents the theoretical background and develops the hypotheses. Section 4.4 describes the experimental design for testing the hypotheses, while Section 4.5 presents the results. The final section concludes with a discussion of the major findings and the study's limitations.

4.3 Background & Hypotheses Development

4.3.1 Transparency & Earnings Management

Conventional economic theory predicts that managers engage in actions that maximize their own utility at others' expense in situations where their behavior is unobservable and severe consequences, such as reputational damages and job loss, are of secondary concern (Jensen & Meckling, 1976; Kotowitz, 2008). Prior research appears consistent with this notion showing that managers use the flexibility in accounting choices[24] to intentionally influence the outcome of financial reports to gain personal benefits when financial statement users' ability to detect earnings management activities is low (Cassel et al., 2015; Hirst & Hopkins, 1998; Lee et al., 2006).

[24] In this study, we use Fields et al. (2001)'s definition of accounting choice to encompass "any decision whose primary purpose is to influence […] the output of the accounting system in a particular way".

For example, Cassel et al. (2015) examine the association between the transparency of disclosures related to activity in the bad-debt allowance, inventory allowance, and deferred tax assets allowance accounts and accruals-based earnings management. They find that firms choose to reduce the extent of earnings management activities when they provide transparent disclosures about activity in these accounts. Using an experimental approach, Hirst & Hopkins (1998) provide evidence that saliently displayed comprehensive income components enable buy-side financial analysts' detection of earnings management activities through available-for-sale securities and, thus, improves analysts' valuation judgment relative to less saliently displayed comprehensive income components. Lee et al. (2006) study comprehensive income reporting decisions of property-liability insurers in the first year of the Statement of Financial Accounting Standards No. 130's adoption. The authors find that insurers with a greater tendency to manage earnings are more likely to report comprehensive income in a statement of changes in shareholders' equity than in a performance statement implying that managers are aware of greater transparency in performance reporting.

Taken together, these findings provide empirical evidence that managers believe they derive personal benefits from limiting investors' ability to detect earnings management by using flexibility in accounting choices and that such benefits decrease with greater transparency as the likelihood of detection by market participants increases. These implications are consistent with Fields, Lys, & Vincent (2001), who argue that managers consciously utilize inherent market imperfections (e.g. information asymmetries) reflecting financial statement users' inability or unwillingness to disentangle the effects of earnings management activities to mislead shareholders about underlying company performance to gain some personal benefits. Concluding, managers seem to weigh potential consequences to determine whether to make self-serving decisions or not under increased monitoring.

Prior literature indicates that, besides reduced information asymmetries, one potential benefit of increased transparency includes an increase in individuals' accountability for decision making. For instance, Rose, Mazza, Norman, & Rose (2013) examine the effects of stock ownership on directors' independence and objectivity. They find that stock-owning directors serving on audit committees are less likely to agree with managerial aggressive reporting when board discussion transparency increases. This is because directors who own stock are concerned that supporting management's attempts to manage earnings might be viewed as making more self-serving decisions by external parties when board discussion transparency is high, damaging directors' reputation. These findings suggest that increased accountability through greater transparency is particularly effective when individuals have incentives to act in their own interests. In this paper we suggest that KAM disclosures potentially offer such accountability mechanisms to managerial decision-making, as explained next.

4.3.2 The Role of Accountability Mechanisms on Managerial Judgment Behavior

The social contingency model of judgment and choice in social psychology asserts that having to justify one's views, beliefs, feelings and actions to others affects both the manner in which individuals reach a decision and the nature of the decision they reach (Tetlock, 1983; Tetlock, 1985). Tetlock (1985) finds that the expectation that one may be called upon to justify one's actions to others results in information being processed more ''vigilantly'', and that the decision maker engages in more preemptive self-criticism. This self-critical approach to decision making implies the consideration of multiple perspectives and an anticipation of others' potential objections to decisions (Tetlock & Boettger, 1989; Tetlock & Lerner, 1999). As a result, individuals who anticipate being accountable for their decision-making feel more pressure to provide justifiable explanations, as well as the need to consider potential consequences for their actions more carefully and hence, exert greater effort in their judgment and decision making (Kim & Trotman, 2015).

Consistent with this notion, psychology research shows that accountable individuals are more accurate in judgment making (Rozelle & Baxter, 1981), take more information into account (Siegel-Jacobs & Yates, 1996), think more carefully about their decisions (Ford & Weldon, 1981) and induce more complex decision strategies (Ashton, 1992; Tetlock & Kim, 1987). For example, Mero & Motowidlo (1995) examined the effect of accountability on participants' performance ratings of videotaped individuals, finding that accountable raters are more accurate in evaluating their subordinates by attending more to relevant information, taking more and better notes, and being more engaged in the task than their non-accountable counterparts. Further, Ashton (1992) argues that the expectation to justify one's decision making results in more thorough, complex, analytic and systematic information processing compared to situations were a justification requirement is absent, and thus, enhances the consistency of judgment. Collectively, these studies provide evidence that holding individuals accountable for their decision making leads them to more thoroughly weigh alternative behavioral options and to consider the extent to which each of these alternatives can be defended towards others.

Another stream of research shows that accountability pressure does not only induce more effortful and self-critical decision making, resulting in higher judgment quality, but also serves as a beneficial mechanism to reduce managerial opportunistic behavior (Rus, van Knippenberg, & Wisse, 2012; Pitesa & Thau, 2013). Arguing that increased accountability leads to less automatic information processing and therefore enhancing normative compliance, Rus et al. (2012) find that holding powerful agents accountable for their decision-making results in less self-serving behavior. Pitesa & Thau (2013) consider whether agents' power and the manner in which they are held accountable jointly determine the likelihood to engage in self-serving actions under moral hazard. Testing the theoretical predictions in the context of financial investments decisions making, their findings are consistent with Rus et al. (2012) revealing that agents' tendency to make opportunistic decisions increases with power, but only in the absence of any accountability mechanisms.

In accounting research, Libby, Salterio, & Webb (2004) study the effectiveness of accountability pressure and provide evidence that increased effort through increased accountability for decision making enhances the usage of unique measures in managerial performance evaluation judgments. Agoglia, Doupnik, & Tsakumis (2011) hypothesize that CFO are less likely to report aggressively when applying a less precise (more principles-based) standard than a more precise (more rules-based) standard due to higher second-guessing concerns from regulators in a principles-based environment. They find that financial reporting quality is enhanced by audit committee strength, but only under rules-based standards. While prior research provides evidence about the effectiveness of accountability for managerial decision making regarding a variety of parameters, such as standard precision and power, there is limited evidence on how increased accountability through greater transparency influences the level of earnings management in financial reporting decisions.

In accordance with accountability theory and findings from the disclosure literature, we expect that managers' likelihood of engaging in earnings management activities will decrease in the presence of KAM disclosures, relative to their absence, because managers' desire to protect their professional reputations will outweigh the short-term financial benefits of managing earnings as the likelihood of detection by market participants increases. Therefore, we predict that greater transparency also increases managerial level of accountability to third parties evoking a more critical and thorough evaluation of decision choices, as well as decision making that is closer to investors' preferences which ultimately results in an improvement of financial reporting quality (Gaynor, McDaniel, & Neal, 2006). We formally state this prediction in the following hypothesis:

Hypothesis 1: Managers are less likely to engage in earnings management activities when KAM disclosures are present in the audit report compared to when no KAM sections are disclosed.

4.3.3 The Influence of Firm-specific vs. Non-firm specific Information in KAMs sections on Managerial Decision-Making

Early evidence from UK audit reports show that disclosed KAMs vary in the amount of words and the specificity of risk information disclosed. These findings correspond to concerns from regulators and investors that communication of KAMs may quickly result in standardized disclosure with boilerplate language, reducing the informational value of KAMs. Since investors' tendency to second-guess managerial judgment making may vary with the level of information precision, we further examine how the effectiveness of KAMs on financial reporting behavior is affected by the level of information precision in KAMs disclosed in the auditor's report.

Prior textual disclosure literature focusing on investors' decision-making has shown that high specificity in risk disclosure leads to stronger investor responses as they are better able to process, evaluate and verify disclosures with greater information precision. These findings are consistent with information processing research suggesting that individuals make trade-offs when processing information and, hence, are often unlikely to encode information that does not draw their attention or that requires significant processing. As a result, individuals put more weight on information which eases cognitive effort and thus, facilitates incorporation of information into their decision-making (Bozanic, Roulstone, & van Buskirk, 2018). Prior research evidence is consistent with this notion, indicating that greater information precision in risk disclosure leads investors to a greater portion of risk information being processed and thus enhances individuals' risk understanding (Campbell et al., 2014; Hope et al., 2016; Kravet & Muslu, 2013). For example, Hope et al. (2016) show that greater specificity in risk disclosure induces greater market reactions, posited to be the result of increased information processing. Further, Kravet & Muslu (2013) find that annual increases in the number of risk sentences are positively associated with increased stock return volatility and higher trading volume. Campbell et al. (2014) also show that information precision in risk disclosure is incrementally valuable for investors in assessing firms' accounting information. Taken together, prior research suggests that specificity in risk disclosure can significantly affect investors' ability to process and evaluate information and thus has an incremental impact on investors' decision-making. However, while these studies primarily investigate the effect of specificity in risk disclosure on investors' (and analysts') trading behavior, there is no empirical evidence on how the level of information precision in risk disclosure, e.g. KAMs, affects investors' tendency to second-guess managerial judgment and in turn, financial reporting behavior.

Drawing on findings from textual disclosure literature, one might expect that less information precision in risk disclosure decreases investors' tendency to second-guess managerial judgment as non-firm-specific information may reduce investors' attention and thus their ability to process them. As a result, managers may be less likely to expect their judgments to be second-guessed when KAM disclosure includes less precise information, decreasing the level of accountability and thus, impairing management judgment quality. However, since KAMs signal information importance highlighting client-specific audit procedures and risk assessment, investors may still be able to second-guess managerial judgment making, even in the presence of "boilerplate"- KAMs. This might be the case, as non-firm-specific information is still informative since it is salient in nature and enables investors to scrutinize managers' decision-making despite any detailed firm-specific description. Thus, managers' expectation to justify their decision-making to external parties may remain constant, regardless of the amount of information contained in KAMs. This would suggest that irrespective of the degree of information precision, KAMs serve as a beneficial accountability mechanism to reduce managerial opportunistic behavior and to achieve higher financial reporting quality.

In line with findings from textual disclosure literature, we believe that the first-mentioned possibility is more likely. Thus, we predict that greater information precision in KAMs will increase the level of management accountability as a result of expected investors' increased information processing efficiency, ultimately leading to greater financial reporting quality. This reasoning is formulated in the following hypothesis:

Hypothesis 2: The reducing effect of KAM disclosures on managers' earnings management activities is weaker when KAMs include firm-specific information than when KAMs include non-firm-specific information.

4.4 Research Method

4.4.1 Research Design and Independent Variable

The purpose of our study is to experimentally examine whether KAM sections disclosed in auditor reports impact managerial financial reporting behavior. To test our assumptions, we conduct a 3x1 between-subjects experimental design varying the level of KAM disclosures: no KAM disclosure; KAM disclosure with firm-specific information; and KAM disclosure with non-firm-specific information.

Financial statement preparers completed the experiment using a web-based instrument administered through the online survey tool UniPark. This software allows random distribution to three between-participant treatment conditions.[25] Participants were asked to assume the role of the CFO at a (fictitious) publicly traded company in the retail sector which distributes outdoor products in Europe and the US as well as water sport accessories through a subsidiary company. The case begins with a short

[25] The survey was administered in German. The English version is provided in the Appendix.

description of the company, a shortened version of the management letter and the auditor's report on the financial statements from the previous fiscal year. Participants learn that the company had performed well in 2016 and that its executive board has initiated a delisting for its subsidiary company.

Participants were then shown the management letter provided by the auditor to the company's executives and individuals charged with governance, i.e. the audit committee (see Appendix 1). They read that the management letter represents the auditors' concerns and suggestions at the completion of the audit and is only available within the audited organization. In our experiment, the auditor's management letter provides two accounting issues which were of greatest concern to the auditors as both require a significant amount of managerial judgment: valuation of pension provision and goodwill impairment testing of the company's subsidiary. We include the management letter in our design to develop participants' sense of accountability equally across conditions. Following the management letter, participants then receive the auditor's report on the financial statements. Participants in the KAM-conditions learn that goodwill impairment testing of the company's subsidiary mentioned in the management letter is also communicated in the auditor's report. By providing the same accounting issue in both the management letter and the auditor report of the two KAM-present versions to the participants, we are able to disentangle the level of external accountability (i.e. to investors or external watchdogs)[26] from the level of internal accountability (to the audit committee) across conditions.

To test our hypotheses, we manipulate KAM disclosures at three levels: KAM disclosure with firm-specific information, KAM with non-firm-specific ("boilerplate") language and No KAM. We chose a goodwill-related KAM in the auditor report, because goodwill impairment testing is a complex area of financial reporting judgment[27] and early evidence in the UK shows that goodwill has been extensively identified as key audit matters in auditor reports (IDW, 2015a). The goodwill-related KAM manipulations are adapted from an annual report of a large publicly traded company in Germany (see TUI Group, 2016, p. 270). All participants were informed

[26] To measure the level of accountability among different parties (internal and external), we employ accountability questions adapted from Agoglia et al. (2011) in the post-experimental questionnaire.
[27] Prior research on goodwill impairment show that financial statement preparers use goodwill impairment decision to engage in earnings management activities as it is difficult to valuate for third parties (Ramanna, 2008; Ramanna & Watts, 2012).

that the auditor report follows the revised auditor report structure regulated by ISA (700) (IAASB, 2015a).[28] In the two conditions with KAM present, the auditor report includes a section discussing “Key Audit Matters” described as those

“matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2016 to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters” (IAASB, 2015a).[29]

Next, participants were provided with firm-related information about the current financial year. They learned that the company plans to expand their brands to the Canadian market and therefore intends to raise capital in the next two years. Then, participants were informed that the company’s subsidiary revenues declined by 24 % compared to the previous year. As a result, estimated future cash flows, one of the key financial estimates for calculating the value in use, cannot be realized. Owing to decreased cash flow forecast and a given discount rate of 5 % and a growth rate of 1.5 %, the value in use falls below the carrying amount and consequently, the goodwill of the subsidiary may be impaired in the current fiscal period. However, since the assessment of goodwill impairment requires significant management judgment and executives tend to produce favorable financial results (Ramanna, 2008; Ramanna & Watts, 2012), managers generally have an incentive to avoid impairment charges. To further reinforce the incentive to prevent impairment losses, participants were told that goodwill impairment will ultimately result in non-compliance with debt covenants by the bank which are crucial for the company's expansion plans, providing a further strong incentive for management to not recognize an impairment. Thus, participants were provided a range of reasonable discount and growth rates that could be used for the estimates, displaying the highest (5 Mio. Euro) and the lowest amount of impairment charges (0 Mio. Euro) (see Appendix 5). Participants then learned that by changing the values of discount rates marginally by 0.5 %, impairment charges can be avoided. They also read that proposed changes in estimates comply with financial reporting standards. Based on the information in the case, par-

[28] ISA 700.20-48.
[29] The wording of the KAM manipulations is presented in Appendix 2, 3 and 4.

ticipants were then asked to make an accounting decision, i.e., the extent, if any, of any goodwill impairment. Participants were informed that they are able to review the information on prior pages before making their decision.

After considering the case information, participants next responded to manipulation check questions and then completed a post-experiment questionnaire, which included the demographics questions and questions measuring the participants' level of accountability.

4.4.2 Dependent Variable and Mediating Variable

The dependent variable used to test H1 and H2 is the executives' reporting behavior. Specifically, participants were asked to indicate their preferred amount of impairment charge on a scale ranging from €0 million to €5 million. As will be discussed in a later section, after making this accounting decision, participants were also asked post-experimental questions measuring their level of accountability. Finally, participants were asked "How do you think an impairment loss will affect your reputation?".

4.4.3 Participants

To test our hypotheses, we recruited financial statement preparers through two independent web-based research organizations, Research Now (http://www.researchnow.com) and LightSpeed Research (http://www.lightspeedresearch.com). Further, we obtained participants by contacting financial statement preparers via mail through the German Hoppenstedt database.[30] Our initial sample consisted of four hundred thirty-one executive participants. To ensure that the participants fully engaged in the task, we included attention checks in our design. Thus, they were asked to rate the following questions on a Likert-scale with endpoints 0 ("Strongly disagree") and 7 ("strongly agree"): (1)

[30] The sampling frame for the study was constructed from panelists managed by ResearchNow (approximately 11,000,000 participants worldwide) and LightSpeedResearch (approximately 5,000,000 participants worldwide). Both organizations provide online research solutions and the use of research panelist. Executive participants were recruited by invitation and had to answer a set of screening questions before proceeding the case. To ensure that participants duly complete the case, they received 15 € for participating. Additionally, we sent out mails via the Hoppenstedt database which contains over 300,000 firm addresses in Germany. To ensure that executives join the online panel, we donate 5 € for each participation. Participants could choose a preferred charity organization at the end of the case (e.g. German Cancer Aid, Caritas Germany).

"The management letter is a publicly accessible document" and (2) "The auditor's report is a publicly accessible document". The information was given in the text.[31] Further, two manipulation check questions were embedded in the instrument to assess the effectiveness of the KAM manipulations. First, we first ask participants, "Which reporting issue was identified as Key Audit Matter in the provided auditor's report?" with answer choices "Pensions provisions", "Goodwill impairment testing", "Deferred taxes on loss" or "No reporting issue was identified in the auditor's report". Seventy percent of the participants answered this question correctly. In order to ensure that the effects we identify are associated with accurate perceptions of the treatment conditions, we exclude participants who failed to answer the primary KAM-manipulation checks properly.[32]

Second, we asked participants whether the auditors used firm-specific information versus non-firm-specific information in the KAMs on a Likert-scale with endpoints 0 ("strongly disagree") and 7 ("strongly agree"). Fifty-seven percent of the participants answered the question correctly. The means for the two conditions are not significantly different (p=0.9426), indicating that the manipulation check for the KAM with non-firm-specific information-condition was not successful. However, since the question is primarily based on participants' subjective feelings on how detailed the auditor formulated the risk in the KAM, we include these observations in our sample.

Our final sample consists of fifty-four participants. The average age of the participants was 46.2 years old and 74.1 % were male. Participants had an average of 10.48 years of work experience as executives, including 7.8 years in assessing goodwill impairment testing.

[31] In total, four hundred thirty-one participants completed the survey. Three hundred forty-one participants failed to answer the attention checks correctly and were directed away from the experiment.

[32] We conducted our analysis also including observations which failed to answer the KAM-Manipulation check correctly. The results are insignificant. Taken into account that the case is complex and the accounting decision involves carefully weighted decision making, we only want to consider financial statement preparers who correctly responded to the check to ensure they properly encoded the intended manipulations.

4.5 Results

Descriptive statistics such as cell sizes, means, and standard deviation for participants' chosen amount of impairment charge across conditions are shown in Table 11, Panel A. Overall, descriptive results suggest that managers' chosen amount of impairment loss increases as the level of information precision disclosed in KAMs increases (Table 11, Panel A).

Hypothesis 1 predicts that greater transparency through KAMs increases managerial level of accountability to third parties evoking decision making that is closer to investors' preferences, ultimately leading to greater financial reporting quality. Table 11, Panel B presents the results of the ANCOVA model, with KAM disclosure (present or absent) and the level of information precision (firm-specific and non-firm-specific information) as factors, and experience with goodwill impairment testing as a covariate.[33] Panel C provides post-hoc mean comparisons. The results reveal that audit reports including a KAM with greater information precision leads to a marginally significant reduction of participants' willingness to engage in earnings management activities ($F_{2,50}$=3.12, p=0.053 one-tailed). Post hoc mean comparisons (tabulated in Table 11, Panel C) show that the amount of impairment losses' mean rating is marginally significantly higher (μ=3.85 (1.39)) for participants who received an auditor's report with firm-specific KAM sections compared to participants who received an auditor's report without a KAM (μ=2.73 (1.42), p<0.10), but not for participants who received non-specific KAM sections (μ=3.08 (1.58), p=0.289). This result partially supports Hypothesis 1.

Hypothesis 2 predicts that information precision in KAMs moderates the effect of KAM disclosures on earnings management activities, such that the effect will be weaker when information precision is low (i.e., boilerplate). Since our boilerplate condition is not significantly different from the no KAM condition, we conclude that the effect is not only weaker but absent.

[33] We analyzed the dependent variable, chosen amount of impairment loss, by including the following covariates: age and gender. Further, we include years of experiences with goodwill impairment testing as an additional covariate, because greater expertise concerning a specific accounting matters may lead to a differentiate valuation of the issue which may also impact executives' decision-making and thus, our results. However, the results are the same as those reported in table 11. Further, we run various univariate analyses showing that gender is the only variable that is significant among groups.

Panel A: Adjusted means for the amount of impairment charge					
Group			Mean	Standard Deviation	N
KAM with firm-specific content			3.85	1.39	17
KAM with non-firm-specific content			3.08	1.58	17
No KAM			2.73	1.42	20
			3.19	1.51	54
Panel B: ANCOVA results for the amount of impairment charge					
Source	Type III sum of squares	df	Mean Square	F-value	p-value
Corrected model	66.19	3	22.06	2.64	**0.060***
KAM	52.29	2	26.15	3.12	**0.053***
Covariate					
Experience with goodwill impairment tests	18.30	1	18.40	2.19	0.146
Error	418.65	50	8.37		
Panel C: Post-hoc mean comparisons (least significant difference)					
				Error	p-value
KAM with firm-specific content		vs.	No KAM	0.48	**0.060***
KAM with firm-specific content		vs.	KAM with non-firm-specific content	0.50	0.289
KAM with non-firm-specific content		vs.	No KAM	0.48	0.734

*, **, *** Indicate one-tailed significance (given our directional predictions) at less than 0.10, 0.05, and 0.01 levels, respectively.

Table 11: Test of H1 and H2 (Amount of impairment charge)

4.6 Conclusion

The auditor's report is the only instrument for auditors to communicate the outcome of the audit to third parties. Standard-setters worldwide have released new and revised auditor reporting standards to enhance the informational value and the decision-usefulness of the auditor's report for investors. One significant change in the current pass/fail model is the implementation of key audit matters. KAMs provide information about the most significant matters auditors encountered during the audit.

Our study contributes to the growing literature on KAMs by investigating the potential benefit of higher transparency in the auditor's report on managerial judgment and decision-making. Drawing on accountability theory and the disclosure transparency literature, we predict that second-guessing concerns caused by greater transparency increase the level of managerial accountability and, thus, lead to improved managerial final reporting quality. In line with regulators' concerns that communication of KAMs may quickly result in more standardized, and less firm-specific disclosures with boilerplate language, reducing the informational value of KAM sections, we further examine how the effectiveness of KAMs on financial reporting behavior is affected by the level of information precision disclosed in the auditor's report. We find that the presence of KAMs reduces managers' tendency to engage in earnings management activities, but only when disclosures are firm-specific and not when they contain non-firm specific, boilerplate language. Thus, our findings demonstrate that KAM sections may serve as a beneficial mechanism for reducing managerial earnings management activities only when the informational precision in risk disclosure is high.

It is important to consider the limitations of our study, which also provide fruitful areas for future research. First, our results indicate that KAMs cause managers to reduce the likelihood of earnings management activities for the highlighted accounting issue in the auditor's report. However, we do not examine the extent to which managers may tend to shift earnings management activities to less transparent areas in which the likelihood of detection is lower. In that case, KAMs might fail in constraining the overall level of aggressive financial reporting behavior. Second, while our experimental design allows to us control for extraneous factors in making causal inferences, our conclusion on the effectiveness of KAMs on financial preparers' judgment behavior may be modified by incorporating other influencing factors. For example, prior literature shows that manager's traits of character and incentives, such as compensation plans, affect the affinity to engage in unethical behavior. In this context, empirical findings on personality traits show that even in the absence of oversight mechanisms individuals still vary in terms of their preferences for honesty, fairness and trust (Luft, 1997; Evans, Hannan, Krishnan, & Moser, 2001; Church, Hannan, & Kuang, 2014). Further, several studies provide evidence that other institutional arrangements such as internal and external oversight mechanisms (e.g. strength of audit committees, internal controls, number of institutional investor ownership, and differences in accounting standard precision) are fruitful in constraining earnings management activities and may reduce the overall incremental effectiveness of KAMs (Agoglia et al., 2011; Rose et al., 2013). Future research may examine these nuances in more detail in experimental work or by using an archival research method by collecting data on compensation plans and personal characteristics or by considering environmental differences, such as differences in jurisdictions among countries. Fourth, in our analysis we investigate the effectiveness of a goodwill-impairment KAM. Alternatively, future research can focus on the effects of the number of KAMs in the auditor's report or the subject matter of the KAMs. Taken together, these are promising avenues for future research on the effect of higher transparency in the auditor's report on managerial judgment behavior.

4.7 Appendix

Schirmer Retail AG is a large publicly traded company that manufactures and distributes outdoor products, tents and trekking equipment to retailers in Europe and the US. In 2015, Schirmer Retail AG acquired its subsidiary company, a leading manufacturer of water sport products called Natural Water GmbH (100% share). Natural Water GmbH was a publicly traded company which got delisted right after the acquisition. The goodwill's book value of Natural Water GmbH amounts to 21 million Euros.

Below, you will receive a shortened version of the company's management letter for the fiscal year 2016. The management letter provided by the auditor represents the auditors' concerns and suggestions at the completion of the audit and is only available within the audited organization, to the company's executives and individuals charged by governance, i.e. the audit committee.

CONFIDENTIAL

Schirmer Retail AG
Geiersbergstr. 58-67
40210 Düsseldorf

March 14 2017

Schirmer Retail AG
Management Letter on the audit of the (consolidated) financial statement 12/31/2016

Dear Sir or Madam,

in the following, we report on the key findings from the audits of the annual and consolidated financial statements of Schirmer Retail AG and the domestic subsidiary Natural Water GmbH conducted in your company from January 28, 2017 to March 14, 2017, as of December 31, 2016,

Based on our audit, we find the following insights:

Pension provisions
1.) The consolidated financial statements of Schirmer Retail AG include provisions for pensions and similar obligations in the amount of EUR 25 million. We focused on this areas because the recognition and measurement of these significant items is based to a large extent on the estimates and assumptions of the legal representatives.

2.) We were able to satisfy ourselves that the assessments and assumptions made by the legal representatives are sufficiently documented and that the the recognition and measurement of the significant amount of provisions and the other discretionary areas are in line with our expectations.

Recoverability of goodwill
1) In Schirmer Retail AG's consolidated financial statements, the goodwill of Natural Water GmbH, is reported in the amount of 21 Mio. Euro. We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors. As Natural Water GmbH was no longer listed at the reporting date and listing prices could therefore not be used for the measurement of goodwill, a discounted cash flow (DCF) valuation technique was used for measurement for the first time. This matter was of particular importance, because the result of this measurement depends to a large extent on management's assessment of future cash flows and the discount rate used. Therefore, the valuation of Natural Water GmbH is subject to considerable uncertainty.

2) Among other procedures, we examined the measurement of the shares in Natural Water GmbH and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

If you have any further questions, please do not hesitate to contact us.

Wolfgang Peters (German Public Auditor)
Dieter Berens (German Public Auditor)

Appendix 1: Management Letter (provided to all participants)

In the following, you obtain an extract of the company's auditor's report which already follows the new structure regulated by ISA (700) and is publicly available.

Independent auditor's report

To Schirmer Retail AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of Schirmer Retail AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 31, 2016, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of goodwill
1) In Schirmer Retail AG's consolidated financial statements, the goodwill of Natural Water GmbH, is reported in the amount of 21 Mio. Euro. We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors. As Natural Water GmbH was no longer listed at the reporting date and listing prices could therefore not be used for the measurement of goodwill, a discounted cash flow (DCF) valuation technique was used for measurement for the first time. This matter was of particular importance, because the result of this measurement depends to a large extent on management's assessment of future cash flows and the discount rate used. Therefore, the valuation of Natural Water GmbH is subject to considerable uncertainty.

2) Among other procedures, we examined the measurement of the shares in Natural Water GmbH and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

[...]

Düsseldorf, March 15 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters (German Public Auditor)
Dieter Berens (German Public Auditor)

Appendix 2: Auditor's report manipulation I (Auditor's report including KAM disclosure with firm-specific risk information)

Independent auditor's report

To Schirmer Retail AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of Schirmer Retail AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 31, 2016, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of goodwill
1) In Schirmer Retail AG's consolidated financial statements, the goodwill of Natural Water GmbH, is reported in the amount of 21 Mio. Euro. We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors.

2) Among other procedures, we examined the measurement of the shares in Natural Water GmbH and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

[...]

Düsseldorf, March 15 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters	Dieter Berens
(German Public Auditor)	(German Public Auditor)

Appendix 3: Auditor's report manipulation II (Auditor's report including KAM disclosure with non-firm-specific risk information)

Independent auditor's report

To Schirmer Retail AG

Audit Opinion on the Consolidated Financial Statements
We have audited the consolidated financial statements of Schirmer Retail AG, Düsseldorf, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 31, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material aspects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 31, 2016, to December 31, 2016, in accordance with these requirements.

Basis for Audit Opinion on the Consolidated Financial Statements
We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW), and additionally considered of the International Standards on Auditing (ISA).

[...]

Düsseldorf, March 15 2016
K&P Partners Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfgang Peters (German Public Auditor)
Dieter Berens (German Public Auditor)

Appendix 4: Auditor's report manipulation III (Auditor's report without KAM disclosure)

Above, you were provided with background information and key financial amounts about Schirmer Retail AG for fiscal year 2016. In the following, you receive company-specific information about the current fiscal year.

Information about the Group

The revenues of the subsidiary Natural Water GmbH declined by 24 % compared to the previous year. This is reflected in particular in determining the value in use as part of the annual goodwill impairment testing. Due to the declining net income, the amounts of cash flows projected on estimates cannot remain the same and must be adjusted accordingly. This would lead to a value in use of 16 million EUR which is lower than the book value of the goodwill (EUR 21 million). Thus, the goodwill of the subsidiary may need to be impaired (5 million EUR) in the current fiscal period.

As a result, Schirmer Retail AG could no longer comply with its loan agreements and the lender will directly exercise an extraordinary termination.

Information about Natural Water GmbH

As CFO of Schirmer Retail AG, we would now like to ask you to make an accounting decision. The following table shows a range of parameters and the effects of changing these parameters on the amount of impairment charge. A change in the parameters for determining the value in use (discount rate and growth rate) is in line with applied accounting standards. Please note that the information from the previous year should also be included in your decision-making. These can be viewed again by clicking the "Back"-Button.

in million €		
Book Value	21	21
Interest rate	4,5%	5%
Growth rate	2,0%	1,5%
Value in Use	21,86	16
Impairment Charge	0	5

Appendix 5: Book value of goodwill impairment testing

5. Key Audit Matters – eine erste Bestandsaufnahme zur pflichtmäßigen Anwendung in Deutschland

5.1 Publikationsdetails

Im Zuge der öffentlichen Diskussion über die Aussagefähigkeit des Bestätigungsvermerks hat die EU-Kommission mit einer umfassenden Reform reagiert, die in der Abschlussprüfer-Änderungsrichtlinie (RL 2014/56/EU) sowie der Verordnung (EU) Nr. 537/2014 über spezifische Anforderungen an die Abschlussprüfung bei Unternehmen von öffentlichem Interesse mündete. Die mithin bedeutsamste Änderung ist die Erweiterung des Bestätigungsvermerks um die Darstellung von besonders wichtigen Prüfungssachverhalten in der Berichterstattung des Abschlussprüfers, den sog. Key Audit Matters. In Deutschland sind die neuen Vorschriften für Jahres-und Konzernabschlussprüfungen bei Public Interest Entities (PIE), deren Geschäftsjahre nach dem 17.06.2016 beginnen, erstmals verpflichtend anzuwenden. Dementsprechend sind die ersten erweiterten Bestätigungsvermerke bei PIEs mit einem vom Kalender abweichendem Geschäftsjahr (ab dem 30.06.2017) bereits verfügbar. Um einen ersten Einblick in die pflichtmäßige KAM-Berichterstattung in Deutschland zu erlangen, werden in dem vorliegenden Beitrag die Bestätigungsvermerke zu Jahres-und Konzernabschlüssen von CDAX-Unternehmen hinsichtlich der Angaben in den Key Audit Matters untersucht.

Koautoren: Prof. Dr. Christiane Pott, Lucas Wienke, B.Sc.

Stichwörter: Key Audit Matters, pflichtmäßige Anwendung, IDW EPS 401

Publikationsstatus: Veröffentlicht in: *Zeitschrift für internationale und kapitalmarktorientierte Rechnungslegung*, Heft 07-08 (2018): 340-346.

5.2 Einleitung

Als Reaktion auf die globale Wirtschafts- und Finanzmarktkrise wurden in jüngster Zeit die Regelungen der EU sowie der internationalen Prüfungsstandards zur gesetzlichen Abschlussprüfung tiefgreifend überarbeitet und ergänzt. So reagierte die EU-Kommission auf die öffentliche Diskussion zum Wert der Abschlussprüfung mit einer weitreichenden Reform, der Abschlussprüfer-Änderungsrichtlinie (RL 2014/56/EU) sowie der Verordnung (EU) Nr. 537/2014 über spezifische Anforderungen an die Abschlussprüfung bei Unternehmen von öffentlichem Interesse.[34] Die wohl bedeutsamste Änderung ist eine Erweiterung des Bestätigungsvermerks um die Darstellung von besonders wichtigen Prüfungssachverhalten in der Berichterstattung des Abschlussprüfers, den sog. Key Audit Matters (KAM). Diese sollen künftig eine in weiten Teilen individuell formulierte Kompromisslösung zwischen dem bisherigen Formeltestat sowie dem nicht veröffentlichten Prüfungsbericht darstellen.[35] Ziel der neuen Anforderungen ist es, u.a. durch eine höhere Transparenz in der Berichterstattung des Abschlussprüfers das Vertrauen der Marktteilnehmer in Abschlussinformationen zu stärken und existierende Erwartungs- und Informationslücken auf Adressatenseite abzubauen.[36] Die Anwendungspflicht der EU-Vorschriften gilt in Deutschland erstmals für Prüfungen von Jahres- und Konzernabschlüssen bei Public Interest Entities (PIE)[37], deren Geschäftsjahre nach dem 17.06.2016 beginnen.[38]

Auf internationaler Ebene erfolgte die Überarbeitung der bisherigen Anforderungen an den Bestätigungsvermerk im Rahmen des Projekts „Auditor Reporting“ des International Auditing and Assurance Standards Board (IAASB). Die Neuregelungen zu den KAM werden in ISA 701 konkretisiert und können bereits auf Abschlussprüfun-

[34] Die Umsetzung der Änderungsrichtlinie erfolgt per Gesetzgebungsverfahren in den einzelnen Mitgliedstaaten und wird in Deutschland durch das Abschlussprüferreformgesetz (AReG) ausgeführt. Die EU-Verordnung ist entsprechend ihres Rechtscharakters unmittelbar wirksam, sodass kein nationales Umsetzungsgesetz erforderlich ist.

[35] Vgl. Henselmann/Seebeck, WPg 2017 S. 240; Köhler, WPg 2015 S. 112.

[36] Vgl. Schmidt, WPg 2015 S. 38.

[37] Unternehmen von öffentlichem Interesse (sog. PIEs) sind i.S.d. § 264d HGB kapitalmarktorientierte Unternehmen, Versicherungsunternehmen i.S.d. Art. 2 Abs. 1 der RL 91/674/EWG sowie CRR-Kreditinstitute i.S.d. § 1 Abs. 3d Satz 1 KWG (mit Ausnahme der in § 2 Abs. 1 Nr. 1 und 2 KWG genannten Institute).

[38] Vgl. Entwurf eines Gesetzes zur Umsetzung der prüfungsbezogenen Regelungen der RL 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von öffentlichem Interesse (Abschlussprüfungsreformgesetz), abrufbar unter: http://hbfm.link/3360 (Abruf: 23.03.2018).

gen für Geschäftsjahre, die am oder nach dem 15.12.2016 enden, freiwillig angewendet werden.[39] Obgleich die ersten erweiterten Bestätigungsvermerke bei ISA-Anwendern eine detailliertere und unternehmensindividuellere Berichterstattung erkennen lassen[40], bleibt weiterhin offen, was Abschlussadressaten künftig von der pflichtmäßigen Anwendung der KAM-Angaben in Deutschland erwarten können. Ziel dieses Beitrages ist es daher, einen ersten Einblick in den Umfang sowie die Inhalte der „neuen“ Bestätigungsvermerke von Jahres-und Konzernabschlussprüfungen unter Ergänzung der Anforderungen gem. IDW EPS 401 i.V.m. Art. 10 EU-VO zu erlangen.

5.3 Berichterstattung zu Key Audit Matters in Deutschland

Dem Bestätigungsvermerk kommt im Rahmen der Abschlussprüfung eine besondere Bedeutung zu. So vermittelt er als einziges unternehmensexternes Informationsinstrument eine Aussage über die Verlässlichkeit der Rechnungslegung eines Unternehmens und dient somit dem Zweck das Vertrauen der Marktteilnehmer in die Abschlussinformationen zu stärken. Weltweit etablierte sich der Bestätigungsvermerk als einheitliches Formeltestat, das zwar ein abschließendes Gesamturteil über das Ergebnis einer nach geltenden gesetzlichen Vorschriften und anerkannten Berufsgrundsätzen durchgeführten ordnungsmäßigen Prüfung enthielt, jedoch nur wenig entscheidungsnützliche Informationen für den Abschlussadressaten bot.[41] Mit der Erweiterung des Bestätigungsvermerks um sog. Key Audit Matters soll diesem Umstand Rechnung getragen werden. So zielen die neuen Anforderungen darauf ab, das Verständnis der Adressaten über das geprüfte Unternehmen, die Nutzung von Ermessensspielräumen durch die Unternehmensleitung und schließlich auch die Prüfungshandlungen des Abschlussprüfers zu erhöhen.[42] Ein besseres Verständnis und ein damit einhergehender vertiefter Einblick in das Unternehmen sowie die durchgeführte Abschlussprüfung sollen das Prüfungsurteil des Abschlussprüfers für die Öf-

[39] Die verpflichtende Anwendung der ISA ist in Deutschland in § 317 Abs. 5 HGB für solche Standards gesetzlich verankert, die von der EU durch ein Komitologieverfahren angenommen wurden. Da dies bislang nicht geschah, ist die Anwendung der ISA nicht verpflichtend. Es sei jedoch darauf hingewiesen, dass die ISA als richtungsweisend gelten und zumeist in nationale Prüfungsstandards übernommen werden.

[40] Vgl. Günther/Pauen, KoR 2018 S. 22; Knappstein, DB 2017 S. 1792; Bravidor/Rupertus, WPg 2018 S. 280.

[41] Vgl. Schmidt, WPg 2015 S. 38.

[42] Vgl. Blöink, BB 2015 S. 42; Dolensky, Expert Focus 2015 S. 920.

fentlichkeit entsprechend verständlicher machen.[43] Schließlich, so die Bestrebungen, vermag dieses erweiterte Verständnis zu einer Reduktion der Informationslücke und demzufolge auch zu einer Reduktion der Erwartungslücke führen.[44]

Die Übernahme der europarechtlichen Neuregelungen zum Bestätigungsvermerk erfolgt in Deutschland in § 322 HGB und wird für Unternehmen von öffentlichem Interesse durch Art. 10 Abs. 1 EU-VO ergänzt. Im Rahmen der Einführung des § 322 Abs. 1a HGB sind bei der Erstellung des Bestätigungsvermerkes außerdem die von der EU in Art. 26 Abs. 3 der Abschlussprüferrichtlinie 2006/43/EG angenommenen ISA für Abschlussprüfungen verpflichtend anzuwenden. Da eine förmliche Annahme der Standards durch die EU bislang nicht erfolgte entfalten die ISA für Deutschland zunächst keine Bindungswirkung.[45] Als Mitglied der International Federation of Accountants (IFAC) hat sich das deutsche Institut der Wirtschaftsprüfer (IDW) jedoch dazu verpflichtet, die ISA in seinen Standards umzusetzen oder zu übernehmen.[46] Folglich sind die Vorschriften des ISA 701 weitgehend deckungsgleich im IDW EPS 401[47] wiederzufinden, der für Prüfungen von Abschlüssen bei PIE für Geschäftsjahre, die am oder nach dem 17.06.2016 beginnen, anzuwenden ist.[48]

Gem. IDW EPS 401 Tz. 14 ist über die KAM in einem eigenen unternehmensindividuellen Abschnitt im Rahmen des Bestätigungsvermerks zu berichten. Die Darstellung ist, neben der reinen Beschreibung, mit einer möglichen Bezugnahme auf entsprechende Abschlussposten sowie der Begründung zur Einstufung eines Sachverhalts als KAM verbunden.[49] KAM sind daher weder als notwendige Zusatzangaben des Abschlusses bzw. dessen Prüfung noch als Einzelurteile des Prüfers zu verstehen. Sie geben vielmehr zusätzliche Auskunft über den eigentlichen Prüfungsprozess und dessen Resultate.[50] Die Sicherstellung der Konsistenz zwischen der Finanzberichterstattung des geprüften Unternehmens (auch im Anhang) und dem Bestätigungsvermerk des Abschlussprüfers ist daher von zentraler Bedeutung. Hierfür ist

[43] Vgl. Schmidt, WPg 2015 S. 40.
[44] Vgl. Quick, DB 2016 S. 5.
[45] Vgl. Quick, IRZ 2016 S. 4.
[46] Vgl. Naumann/Feld, WPg 2013 S. 641; Köhler, WPg 2015 S. 111.
[47] Die Vorschriften des IDW PS 401 sind erstmalig bei Prüfungen von Abschlüssen, deren Geschäftsjahre nach dem 15.12.2017 beginnen, anzuwenden.
[48] Vgl. IDW EPS 401, Tz. 7.
[49] Vgl. IDW EPS 401, Tz. 16.
[50] Vgl. Köhler, WPg 2015 S. 112.

eine inhaltliche Abstimmung der für die Finanzberichterstattung verantwortlichen Unternehmensführung und des für die Formulierung der KAM zuständigen Abschlussprüfers zwingend notwendig.[51] Eine solche Formulierung von KAM seitens des Prüfers benötigt eine vorausgehende Identifikation entsprechender Sachverhalte. Im Identifikationsprozess trifft der jeweilige Abschlussprüfer Ermessensentscheidungen. Hierbei wird, wie in Abbildung 1 dargestellt, in einer mehrstufigen Prozessfolge vorgegangen.[52]

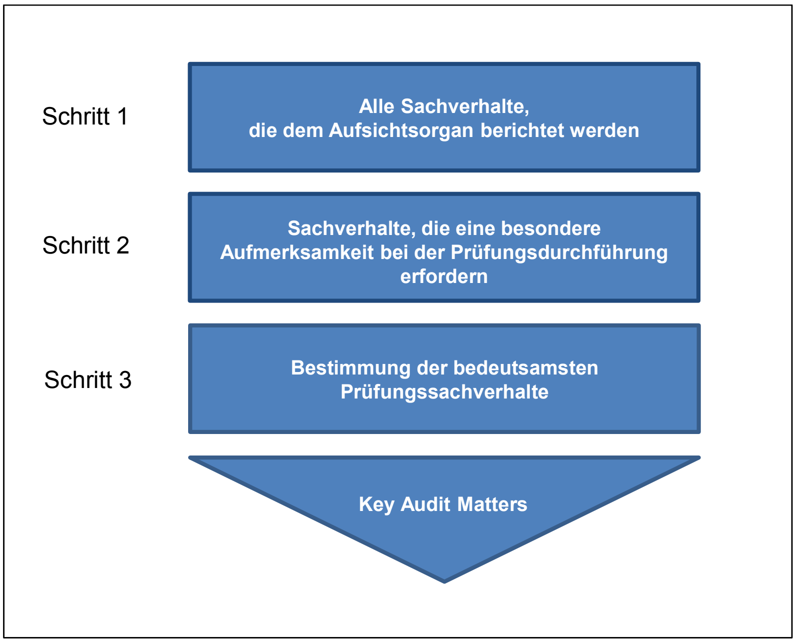

Abbildung 1: Identifikationsprozess von Key Audit Matters nach IDW EPS 401, Tz. 11

Die Grundlage potenzieller KAM stellen zunächst solche Sachverhalte dar, mit denen sich der Abschlussprüfer im Rahmen seiner Prüfung schwerpunktmäßig befasst hat und die Inhalte der Kommunikation zwischen Abschlussprüfer und Aufsichtsrat waren.[53] Dabei liegen die Inhalte dieses Austauschs im Ermessen des Prüfers, der bei der Auswahl der besonders wichtigen Prüfungssachverhalte jedoch folgendes, in IDW EPS 401 beschriebenes Vorgehen zu beachten hat:

1. Bestimmung der Sachverhalte, die wegen konkreter Umstände oder wegen Erfordernissen in den Prüfungsstandards mit dem Aufsichtsorgan zu besprechen sind,

[51] Vgl. Thomas, Audit Committee Quarterly 2015 S. 10.
[52] Vgl. IDW EPS 401, Tz. 11.
[53] Vgl. Schruff, Audit Committee Quarterly 2015 S. 7.

2. Auswahl aus den, im ersten Schritt, bestimmten Sachverhalten, die aufgrund eines erhöhten Risikos eine bessere Aufmerksamkeit des Prüfers erfordern:
   a) Erhöhtes Risiko aufgrund einer Falschdarstellung oder wesentlicher Risiken.
   b) Erhöhte Schätzunsicherheit aufgrund eines erheblichen Ermessensspielraums der Geschäftsleitung.
   c) Erhöhtes Risiko aufgrund des hohen Prüfungseinflusses einzelner wesentlicher Ereignisse oder Transaktionen.
3. Auswahl aus den im zweiten Schritt bestimmten Sachverhalten, die nach Ermessen des Prüfers eine herausragende Bedeutung für die Prüfung haben.[54]

Aus dieser Gesamtheit der vom Abschlussprüfer an das Aufsichtsorgan kommunizierten Sachverhalte wird in ähnlicher Systematik eine Grundgesamtheit möglicher KAM gewonnen.[55] Hierzu sind die Sachverhalte auszuwählen, die dem Prüfer im Rahmen der Prüfung eine erhöhte Aufmerksamkeit abforderten.[56] Darüber hinaus ist die Berücksichtigung von Sachverhalten auf Wunsch des Aufsichtsorgans möglich. Schließlich wählt der Prüfer nach eigenem, pflichtgemäßem Ermessen die bedeutsamsten Sachverhalte aus dieser Gesamtheit aus. Neben dem Bedeutungswert eines Sachverhalts sind der erforderliche Prüfungsaufwand sowie Schwierigkeiten bei der Prüfungsdurchführung als mögliche Kriterien miteinzubeziehen. Indikatoren für einen erhöhten Prüfungsaufwand können z.B. rein zeitliche Aspekte, aber auch die Erfordernis der Hinzunahme von Spezialisten sein.[57] Zusammenfassend ausgedrückt sind die Sachverhalte mit den größten Auswirkungen auf das Gesamtbild der Unternehmenslage und solche, die den größten Prüfungsaufwand verursacht haben, im Bestätigungsvermerk als KAM darzustellen.[58] Festzuhalten ist dabei, dass die EU in ihren Vorgaben über die KAM lediglich auf eine Teilmenge der aus der Rechnungslegung abgeleiteten Fehlerrisiken abzielt, IAASB und IDW in ihren Standards jedoch auf Sachverhalte, die zudem explizit Bestandteil der Kommunikation mit dem Aufsichtsorgan waren.[59]

[54] Vgl. IDW EPS 401, Tz. 12.
[55] Vgl. Köhler, WPg 2015 S. 112.
[56] Vgl. Schruff, Audit Committee Quarterly 2015 S. 7.
[57] Vgl. IDW EPS 401, Tz. A29.
[58] Vgl. Schruff, Audit Committee Quarterly 2015 S. 7.
[59] Vgl. Schmidt, WPg 2015 S. 40.

5.4 Deskriptive Analyse

5.4.1 Datengrundlage

Die europarechtlichen Neuregelungen zur Berichterstattung des Abschlussprüfers sind in Deutschland erstmals für Prüfungen von Jahres- und Konzernabschlüssen bei PIE, deren Geschäftsjahre nach dem 17.06.2016 beginnen, verpflichtend anzuwenden. Folglich liegen bereits erste Bestätigungsvermerke, die eine Beschreibung der KAM enthalten, vor. Die Datengrundlage für die deskriptive Analyse bilden die Jahres-und Konzernabschlüsse von Unternehmen, die zum 01.03.2018 im CDAX[60] gelistet waren und deren Bestätigungsvermerke bedingt durch ein vom Kalender abweichendes Geschäftsjahr bereits nach den neuen Anforderungen gem. IDW EPS 401 und Art. 10 EU-VO erteilt wurden. Um mögliche Divergenzen aufgrund unterschiedlicher nationaler Berichtspraxen zu vermeiden werden Unternehmen mit Sitz im europäischen Ausland aus der Stichprobe ausgeschlossen. Insgesamt können 57 Bestätigungsvermerke zu 28 Jahresabschlüssen sowie 29 Konzernabschlüssen von 30 Unternehmen identifiziert werden.[61]

[60] Der CDAX umfasst alle an der Deutschen Börse gehandelten Aktien im Prime Standard und General Standard.
[61] Für das Geschäftsjahr 2016/2017 waren die Jahresabschlüsse der Fortec Elektronik AG sowie der Gerresheimer AG noch nicht veröffentlicht. Darüber hinaus stellt die Eisen-und Hüttenwerke AG keinen Konzernabschluss auf.

Unternehmen	# KAM Jahresabschluss	# KAM Konzernabschluss	Aktienindex	Abschlussprüfer	Abschlussstichtag
Infineon Technologies AG	1	3	DAX	KPMG	30.09.
Siemens AG	4	4	DAX	EY	30.09.
Thyssenkrupp AG	1	5	DAX	PwC	30.09.
Aurubis AG	3	3	MDAX	PwC	30.09.
Ceconomy AG	1	5	MDAX	KPMG	30.09.
Gerresheimer AG	n.v.	3	MDAX	Deloitte	30.11.
Metro AG	2	6	MDAX	KPMG	30.09.
OSRAM Licht AG	1	3	MDAX	EY	30.09.
Bertrandt AG	1	1	SDAX	PwC	30.09.
Borussia Dortmund GmbH & Co. KGaA	3	3	SDAX	KPMG	30.06.
Diebold Nixdorf AG	1	3	SDAX	KPMG	30.09.
Deutsche Beteiligungs AG	1	2	SDAX	KPMG	30.09.
KWS Saat SE	2	3	SDAX	EY	30.06.
Carl Zeiss Meditec AG	3	2	TECDAX	EY	30.09.
All for One Steeb AG	2	3	Übrige	KPMG	30.09.
B.R.A.I.N. AG	2	2	Übrige	EY	30.09.
Dr. Hoenle AG	1	2	Übrige	Andere	30.09.
Eisen- und Hüttenwerke AG	1	n.v.	Übrige	PWC	30.09.
Fortec Elektronics AG	n.v.	3	Übrige	Andere	30.06.
Isra Vision AG	2	3	Übrige	Andere	30.09.
KPS AG	1	3	Übrige	Andere	30.09.
KROMI Logistik AG	2	1	Übrige	KPMG	30.06.
MVV Energie AG	2	3	Übrige	PwC	30.09.
VERBIO Vereinigte BioEnergie AG	1	1	Übrige	KPMG	30.06.
B+S Banksysteme AG	3	3	Übrige	PwC	30.06.
HanseYachts AG	2	2	Übrige	Andere	30.06.
LS telcom AG	2	1	Übrige	Andere	30.09.
Schloss Wachenheim AG	1	2	Übrige	Andere	30.06.
Schumag AG	1	3	Übrige	KPMG	30.09.
Sinnerschrader AG	2	2	Übrige	Andere	31.08.
Insgesamt	**49**	**80**			

Tabelle 12: Zu untersuchende Stichprobe

Hierzu zählen u.a. drei DAX30-Unternehmen, jeweils fünf MDAX- und SDAX-Unternehmen sowie ein TecDAX-Unternehmen. Alle weiteren Unternehmen sind ausschließlich im CDAX gelistet. Für eine Übersicht der analysierten Unternehmen vgl. Tabelle 12.

5.4.2 Umfang der Key Audit Matters im Bestätigungsvermerk

Tabelle 12 stellt die Anzahl der KAM differenziert nach Unternehmen und Abschluss dar. Insgesamt konnten in den Bestätigungsvermerken zu Jahresabschlüssen 49 KAM festgestellt werden. In Bestätigungsvermerken zu Konzernabschlüssen waren es insgesamt 80 KAM.

Es zeigt sich, dass der Umfang des Bestätigungsvermerks u.a. durch die Beschreibung der besonders wichtigen Prüfungssachverhalte erheblich gestiegen ist. Umfasste das standardisierte Formeltestat vor der Gesetzesänderung durchschnittlich noch 1,18 Seiten im Konzernabschluss, beträgt die durchschnittliche Seitenanzahl des erweiterten Bestätigungsvermerks nun 6,87 Seiten. Eine korrespondierende Entwicklung kann auch in der Berichterstattung des Abschlussprüfers bei Prüfungen von Jahresabschlüssen beobachtet werden. So resultieren die neuen Anforderungen an den Bestätigungsvermerk ebenfalls in einem wesentlichen Anstieg des Seitenumfangs (von durchschnittlich 1,09 auf 6,36 Seiten). Mit durchschnittlich 789 Wörtern in Bestätigungsvermerken zu Jahresabschlussprüfungen sowie 1.134 Wörtern in Bestätigungsvermerken zu Konzernabschlussprüfungen ist die KAM-Berichterstattung wesentlicher Treiber für den Anstieg des Umfangs in Bestätigungsvermerken.

Hinsichtlich der Mindest- oder Maximalanzahl der zu berichteten KAM enthält IDW EPS 401 keine Vorgaben. Vielmehr liegt es im Ermessen des Abschlussprüfers, ob und welche Sachverhalte gemessen an den unternehmensindividuellen Risiken als KAM berichtet werden sollen.[62] So kann auch die Möglichkeit bestehen, dass kein KAM im Bestätigungsvermerk kommuniziert wird. In diesem Zusammenhang verweist IDW EPS 401 darauf, dass dies eher selten der Fall sein wird und lediglich bei bspw. kapitalmarktorientierten Unternehmen mit einer geringen Anzahl an Transaktionen im Anlagevermögen vorkommen kann.[63] In der Praxis spiegelt sich dies bereits wider. So berichten die Prüfungsgesellschaften stets über mindestens eine KAM in den vorliegenden Bestätigungsvermerken.

Abbildung 2 stellt die Quantität der KAM-Berichterstattung von Bestätigungsvermerken zu Jahres-und Konzernabschlussprüfungen differenziert nach Indexzugehörigkeit, DAX30, MDAX, SDAX[64] sowie die Unternehmen, die nicht in den Indizes gelistet sind, dar. Durchschnittlich werden in Bestätigungsvermerken zu Konzernabschlussprüfungen 2,82 KAM berichtet. Darüber hinaus wird deutlich, dass die durchschnittliche Zahl an KAM in Konzernabschlussprüfungen mit zunehmender Unter-

[62] Vgl. IDW EPS 401, Tz. A30.
[63] Vgl. IDW EPS 401, A.55.
[64] An dieser Stelle sei darauf hingewiesen, dass aufgrund des geringen Stichprobenumfangs eine Auswertung der durchschnittlichen Anzahl an KAM für TecDAX-Unternehmen nicht möglich war.

nehmensgröße und der damit einhergehenden Komplexität der Unternehmensstruktur steigt. Während in den drei untersuchten DAX30-Unternehmen durchschnittlich 4,25 KAM berichtet werden, enthalten Bestätigungsvermerke zu Konzernabschlussprüfungen von Unternehmen, die nicht im DAX30, MDAX, SDAX oder TecDAX gelistet werden, im Durchschnitt nur zwei KAM. Diese Erkenntnisse stehen in Einklang mit vorherigen Studien aus Großbritannien. So zeigen Henselmann & Seebeck (2017), dass die durchschnittliche Zahl an KAM in Bestätigungsvermerken von FTSE-100 gelisteten Unternehmen signifikant höher ist im Vergleich zu Unternehmen, die dem Index nicht angehören.[65] In der Berichterstattung des Abschlussprüfers zu Jahresabschlussprüfungen ist dieser Trend indes nicht erkennbar. Mit durchschnittlich 1,67 berichteten KAM schwankt dieser nur marginal zwischen den Indizes.

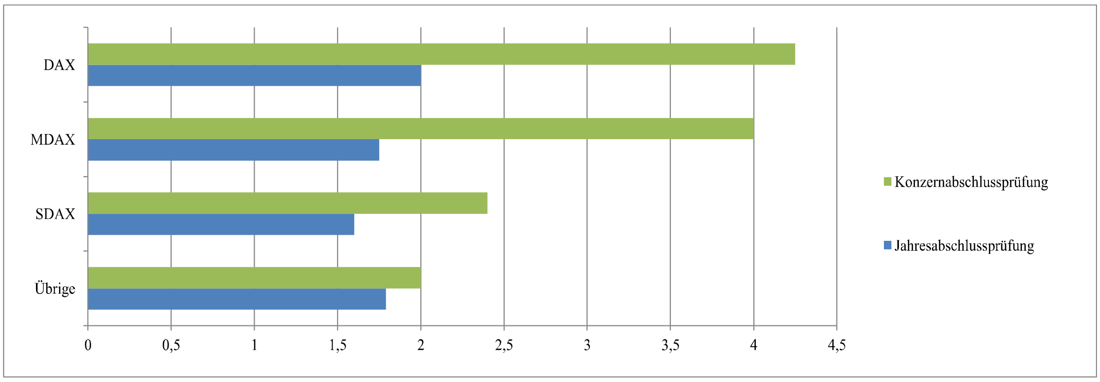

Abbildung 2: Durchschnittliche Anzahl an KAM differenziert nach Indexzugehörigkeit

5.5 KAM-Berichterstattung in Bestätigungsvermerken zu Konzernabschlussprüfungen

Abbildung 3 gibt einen Überblick über die als KAM identifizierten Themenbereiche in den Bestätigungsvermerken zu Konzernabschlüssen. Es zeigt sich, dass in den betrachteten Bestätigungsvermerken mitunter am häufigsten (in 15 von 29 Fällen) die Werthaltigkeit von Geschäfts- oder Firmenwerten als KAM eingestuft wird. Begründet wird das bestehende Risiko weitgehend in der hohen Komplexität der Werthaltigkeitsprüfung des Geschäfts- oder Firmenwerts, zumeist in Kombination mit einhergehenden ermessensbehafteten Einschätzungen durch die Unternehmens-

[65] Vgl. Henselmann/Seebeck, WPg 2017 S. 243.

leitung sowie Unsicherheiten bei der Bestimmung des Diskontierungssatzes. Diese Erkenntnisse stehen in Einklang mit ersten Anwendungserfahrungen aus Großbritannien sowie Auswertungen zu den Bestätigungsvermerken von freiwilligen ISA-Anwendern in Deutschland. Letztere zeigen, dass die Werthaltigkeit von Geschäfts- oder Firmenwerten als Key Audit Matter in ca. 83% der Fälle benannt wird.[66]

Ebenso häufig (in 15 von 29 Fällen) berichtet der Abschlussprüfer über Sachverhalte bezüglich der Umsatzrealisierung. Die bedeutsamsten Risiken entstehen insb. in Zusammenhang mit der periodengerechten Ertragserfassung, die nach prüferischem Ermessen, z.B. durch komplexe Vertragsvereinbarungen sowie divergierende Incoterms beeinträchtigt werden kann. Zudem wird die Umsatzrealisierung bei langfristigen Fertigungsaufträgen in zwei Fällen als KAM eingestuft, deren Risiko jeweils durch ermessensbehaftete Einschätzungen der Unternehmensleitung (z.B. bei der Bestimmung des Fertigstellungsgrades) im Rahmen der Teilgewinnrealisierung begründet wird. In vorherigen Studien wurden Sachverhalte zur Realisierung in lediglich 20% der Fälle benannt.[67] Dies könnte mitunter daran liegen, dass diese die Bestätigungsvermerke zu Konzernabschlussprüfungen von vorwiegend DAX30- und MDAX-Unternehmen untersuchen. So können bedingt durch Branchen-und Größeneffekte unterschiedliche Themenbereiche als KAM eingestuft werden.

Darüber hinaus werden jeweils in zehn von 29 Fällen über steuerliche Sachverhalte, Themen zu der Werthaltigkeit von sonstigen Aktiva und Unternehmenstransformationen in den betrachteten Bestätigungsvermerken berichtet. KAM zu der Werthaltigkeit von sonstigen Aktiva thematisieren insb. Risiken in Zusammenhang mit dem Wertminderungsbedarf im Vorrats- sowie im Anlagevermögen. Sachverhalte zu Unternehmenstransformationen betreffen in jeweils drei Fällen den Erwerb sowie die Veräußerung von Anteilen und in jeweils zwei Fällen Unternehmenszusammenschlüsse und Abspaltungen. Weitere KAM sind in den Themenbereichen Rückstellungen (fünf KAM), Pensionsrückstellungen (vier KAM), Finanzinstrumente und Forderungen (jeweils drei KAM) sowie Kennzahlenbereinigung (zwei KAM) vorzu-

[66] Vgl. Günther/Pauen, KoR 2018 S. 24; Knappstein, DB 2017 S. 1794; Bravidor/Rupertus, WPg 2018 S. 279.
[67] Während in der Stichprobe von Günther/Pauen (2018) in fünf von 18 Fällen die Umsatzrealisierung als KAM eingestuft wurde, traf dies in Knappstein (2017) auf vier von 19 Bestätigungsvermerken zu.

finden. Die Auswahl dieser Sachverhalte als KAM wird zumeist in der Komplexität von Bilanzierungssachverhalten, ermessensbehafteten Einschätzungen durch die

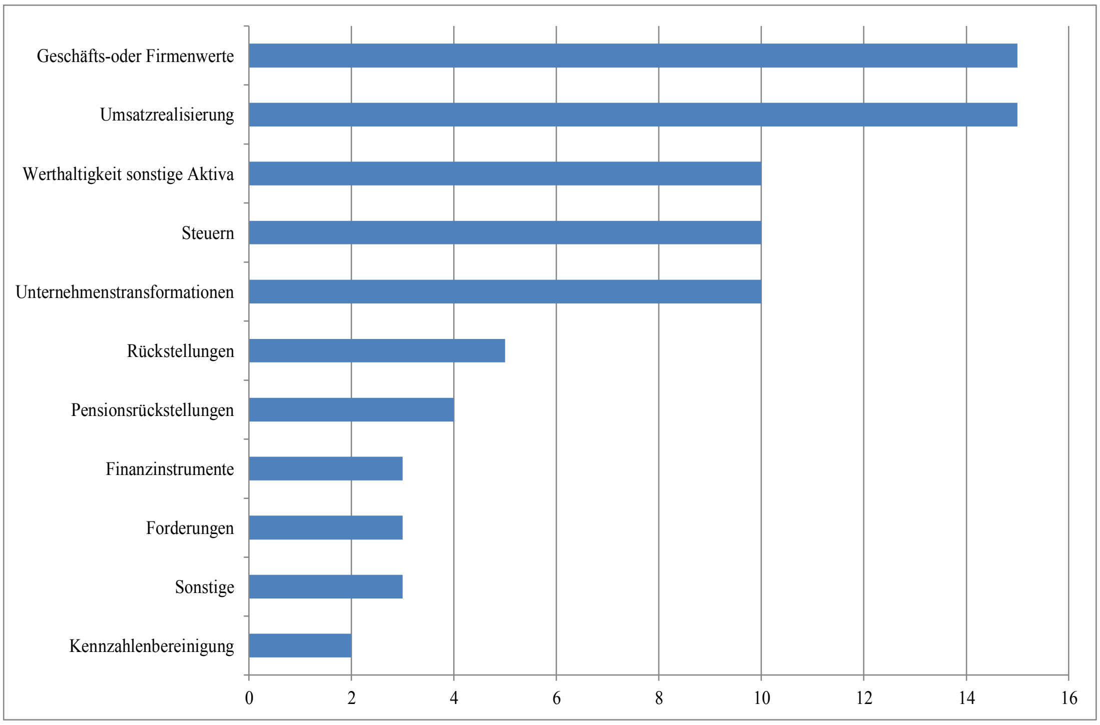

Abbildung 3: Anzahl der KAM in Bestätigungsvermerken zu Konzernabschlussprüfungen differenziert nach Themenbereichen

Unternehmensleitung sowie mit dem Sachverhalt einhergehende bedeutsame Auswirkungen auf die Vermögens-, Finanz- und Ertragslage begründet. Themen, die keinem der o.g. Bereiche zugeordnet werden können, werden unter „Sonstige" zusammengefasst. So stuft der Abschlussprüfer bspw. die Umstellung des Finanzbuchhaltungssystems im Bestätigungsvermerk der Kromi Logisitik AG als KAM ein, da sich diese auf *„nahezu alle Posten der Bilanz und GuV und somit auch auf die operativen Kernprozesse, wie etwa Einkauf, Verkauf und Vorräte"*[68] auswirken kann.

Grds. ist zu begrüßen, dass der Abschlussprüfer über eine Vielzahl an verschiedenen Themenbereichen in den Key Audit Matters, die sowohl Standardrisiken als auch unternehmensspezifische Sachverhalte abbilden, berichtet. Investoren wird somit erstmalig ein Einblick in die Themen gegeben, die der Abschlussprüfer in seiner Prüfung als besonders wichtige Prüfungssachverhalte erachtet. Nichtsdesto-

[68] Kromi Logistik AG, Konzerngeschäftsbericht 2016/2017, S. 117.

trotz sind etwaige Standardformulierungen, insb. bei Sachverhalten, die häufig als KAM eingestuft werden, wie die Werthaltigkeit des Geschäfts-oder Firmenwerts, weiterhin zu erkennen. So zeigt sich oftmals, dass der Abschlussprüfer die bilanzielle Bedeutung des Sachverhalts anhand von unternehmensindividuellen Informationen konkretisiert, die Gründe für die Bestimmung als KAM jedoch mit standardisierten Phrasen, die auch in anderen Bestätigungsvermerken wiederzufinden sind, beschreibt. So heißt es bspw. im Bestätigungsvermerk zu der Konzernabschlussprüfung der Fortec Elektronik AG wie folgt:

„In dem Konzernabschluss wird unter dem Bilanzposten „Geschäfts- oder Firmenwerte" ein Betrag von 5,2 Mio € (13% der Konzernbilanzsumme) (VJ: 5,2 Mio €) ausgewiesen. Die Gesellschaft ordnet die Geschäfts- oder Firmenwerte den zwei strategischen Geschäftseinheiten Stromversorgung 2,6 Mio € (VJ: 2,6 Mio €) und Datenvisualisierung 2,6 Mio € (VJ: 2,6 Mio €) innerhalb des Fortec-Konzerns zu. Bei den regelmäßig durchgeführten Werthaltigkeitstests (sog. Impairment-Tests) für Geschäfts- oder Firmenwerte mit einer unbestimmten Nutzungsdauer werden die Buchwerte der strategischen Geschäftseinheit Stromversorgung mit unbestimmter Nutzungsdauer von der Gesellschaft mit ihrem jeweiligen erzielbaren Betrag verglichen. Grundsätzlich erfolgt die Ermittlung des erzielbaren Betrags auf Basis des beizulegenden Zeitwerts abzüglich der Veräußerungskosten. Der Barwert der künftigen Zahlungsströme wird dabei zugrunde gelegt, da in der Regel keine Marktwerte für die einzelnen Geschäftseinheiten vorliegen. Dabei wird der Barwert mittels Discounted Cashflow-Modellen ermittelt; die Abzinsung erfolgt mittels der gewichteten Kapitalkosten der jeweiligen Berichtssegmente. Das Ergebnis dieser Bewertung ist in hohem Maße von der Einschätzung der künftigen Zahlungsmittelzuflüsse der jeweiligen strategischen Geschäftseinheit durch die gesetzlichen Vertreter sowie des verwendeten Diskontierungszinssatzes abhängig und daher mit einer erheblichen Unsicherheit behaftet."[69]

Es bleibt offen, wie externe Abschlussadressaten künftig mit den zusätzlichen Informationen in der KAM-Berichterstattung umgehen und inwieweit diese ihre Entscheidungsfindung – insb. vor dem Hintergrund erneuter Standardformulierungen – beeinflussen werden. Die empirische Prüfungsforschung hat sich diesen Fragestel-

[69] Fortec Elektronik AG, Konzerngeschäftsbericht 2016/2017, S. 65.

lungen gewidmet und die Generierung und Verarbeitung von unternehmensindividuellen Informationen im Bestätigungsvermerk auf Adressatenseite untersucht. So zeigen Christensen et al. (2014) bspw., dass veröffentlichte Informationen des Abschlussprüfers im Bestätigungsvermerk gegenüber veröffentlichten Informationen des Managements in einer Fußnote als verlässlichere bzw. glaubwürdigere Quelle wahrgenommen werden. Es zeigt sich außerdem, dass die Investitionsbereitschaft bei veröffentlichten Informationen in der KAM gegenüber Informationen im Anhang (Glaubwürdigkeitseffekt) oder dem Bestätigungsvermerk als Formeltestat (Informationseffekt) deutlich abnimmt.[70] Sirois et al. (2018) ergänzen diese Erkenntnisse und finden mittels Eye-Tracking-Technologie, dass die Abbildung von KAM im Bestätigungsvermerk unmittelbar zu einer Verbesserung der Informationsverarbeitungsprozesse bei Investoren führt. Zudem zeigt die Studie, dass KAM mitunter als „Kompass" fungieren können und Investoren in der Fülle an Abschlussinformationen durch die bedeutsamsten Themen bzw. Sachverhalte navigieren.[71]

Archivstudien aus Großbritannien finden hingegen unterschiedliche Ergebnisse. Während Lennox et al. (2018)[72] und Gutierrez et al. (2018)[73] keinen signifikanten Einfluss der pflichtmäßigen KAM-Berichterstattung auf die Marktreaktionen feststellen können, messen Reid et al. (2015)[74] einen positiven Effekt infolge der Reformänderung.[75]

5.6 KAM-Berichterstattung in Bestätigungsvermerken zu Jahresabschlussprüfungen

Abbildung 4 gibt einen Überblick über die als KAM identifizierten Themenbereiche in den Bestätigungsvermerken zu Jahresabschlüssen. Demnach wird im Rahmen der Jahresabschlussprüfung am häufigsten (in 18 von 28 Fällen) über Sachverhalte bezüglich der Werthaltigkeit der Anteile an verbundenen Unternehmen berichtet. Obgleich die Bilanzierung der Anteile i.d.R. gem. § 266 Abs. 2 Nr. A.III.1 HGB inner-

[70] Vgl. Christensen/Glover/Wolfe, Auditing 2014 S. 76.
[71] Vgl. Sirois/Bédard/Bera, Accounting Horizons 2018 (online first).
[72] Vgl. Lennox/Schmidt/Thompson, Is the expanded model of audit reporting informative to investors? Evidence from UK, Working Paper, 2018.
[73] Vgl. Gutierrez/Minutti-Meza/Tatum/Vulcheva, Consequences of changing the auditor's report: Evidence from the UK, Working Paper, 2018.
[74] Vgl. Reid/Carcello/Li/Neal, Are auditor and audit committee report changes useful to investors? Evidence from the United Kingdom, Working Paper, 2015.
[75] Vgl. zur aktuellen Literaturübersicht u.a. Velte, KoR 2017 S. 434.

halb der Finanzanlagen erfolgt, wird der Sachverhalt zumeist in einem separaten KAM beschrieben. Lediglich in vier Fällen wird die Werthaltigkeit der Anteile an verbundenen Unternehmen unter der Überschrift „Werthaltigkeit/Bewertung von Finanzanlagen" mit anderen Positionen zusammengefasst. Die Risiken in diesem Zusammenhang entstehen zumeist – ähnlich wie bei der Werthaltigkeit des Geschäfts-oder Firmenwerts – in der Komplexität der Bewertungsmodelle sowie der damit einhergehenden Schätzunsicherheiten bei der Bestimmung der Diskontierungszinssätze und der Wachstumsrate. Am zweithäufigsten (in 11 von 28 Fällen) werden Sachverhalte bezüglich der Umsatzrealisierung als KAM genannt. Analog zu der Berichterstattung in den Bestätigungsvermerken zu den Konzernabschlussprüfungen wird bei Jahresabschlussprüfungen das Risiko ebenfalls in der komplexen Ertragsrealisierung begründet. In diesem Zusammenhang ist zu beobachten, dass eine Vielzahl der KAM (in acht von 11 Fällen), die über die Umsatzrealisierung berichten, in nahezu identischem Wortlaut sowohl in den Bestätigungsvermerken zu Jahresabschlussprüfungen als auch in den Bestätigungsvermerken zu Konzernabschlussprüfungen vorzufinden ist. So berichtet die Carl Zeiss Meditec AG in jeweils beiden Bestätigungsvermerken über das bestehende Risiko der periodengerechten Ertragsrealisierung wie folgt:

„Für den Konzern[Jahres]abschluss besteht angesichts der Vielfalt der Abnehmer in den verschiedenen Ländern und der damit verbundenen Vielfalt der Liefer- und Vertragsbedingungen, die durch implementierte manuelle Kontrollen überwacht werden, das erhöhte Risiko, dass Umsatzerlöse nicht periodengerecht im Konzern[Jahres]abschluss erfasst werden."[76]

Weitere Themenbereiche umfassen die Werthaltigkeit von sonstigen Aktiva mit fünf KAM, steuerliche Sachverhalte mit vier KAM, sonstige Finanzanlagen und Unternehmenstransformationen mit je drei KAM und Pensionsrückstellungen sowie übrige Rückstellungen mit insgesamt drei KAM.

[76] Carl Zeiss Meditec AG, Konzerngeschäftsbericht 2016/2017, S. 146.

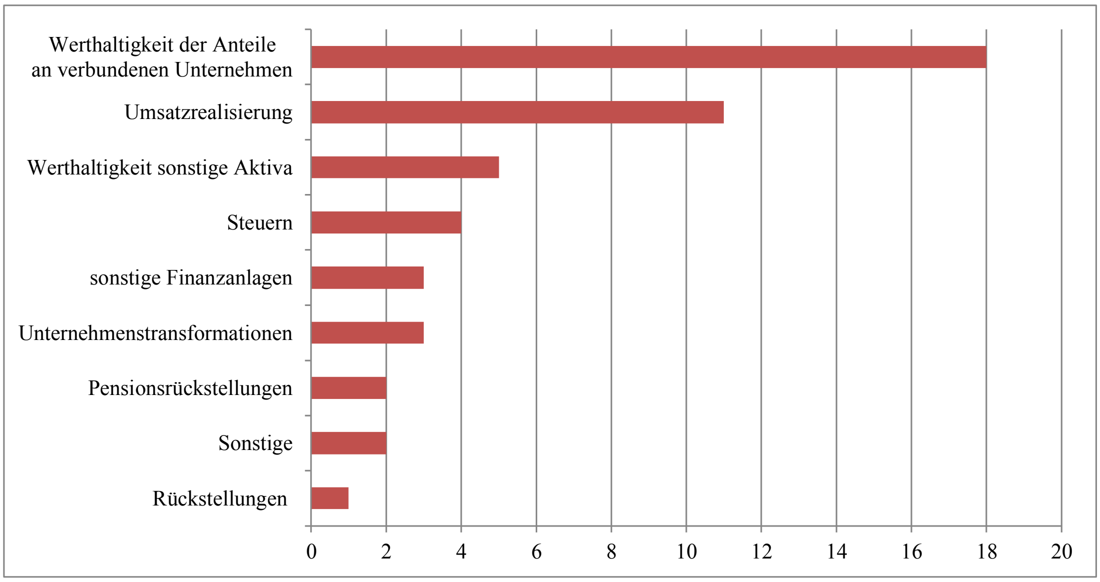

Abbildung 4: Anzahl der KAM in Bestätigungsvermerken zu Jahresabschlussprüfungen differenziert nach Themenbereichen

Eine detaillierte Betrachtung der einzelnen KAM in den Bestätigungsvermerken zu Jahresabschlussprüfungen offenbart, dass in 50% der Fälle (bei 24 von 48 betrachteten KAM[77]) die beschriebenen Sachverhalte im Jahresabschluss in einem ähnlichen – teilweise sogar in einem identischen Wortlaut – in der Berichterstattung des Abschlussprüfers zu Konzernabschlussprüfungen vorzufinden ist. Dieser Trend zeigt sich besonders deutlich in den Bestätigungsvermerken zu der Jahres- und Konzernabschlussprüfung der Borussia Dortmund GmbH & Co. KGaA. So wird in den Bestätigungsvermerken jeweils über drei KAM berichtet, die hinsichtlich der inhaltlichen Ausführungen nahezu identisch formuliert sind.[78] Es scheint fraglich, inwiefern dieses Vorgehen zu einer Steigerung der Aussagefähigkeit von Bestätigungsvermerken beitragen kann. Darüber hinaus ist zu beobachten, dass bei 18 der 24 betrachteten KAM, deren Inhalte nicht kongruent im Bestätigungsvermerk zu Konzernabschlussprüfungen berichtet werden, überwiegend Sachverhalte zu der Werthaltigkeit der Anteile an verbundenen Unternehmen enthalten. Lediglich in sechs weiteren Fällen umfasst die KAM-Berichterstattung Themenbereiche, die ausschließlich die Jahresabschlussprüfung betreffen, wie Finanzanlagen (z.B. zu derivativen Finanzinstrumenten), Rückstellungen oder immaterielle Vermögensgegenstände (wie z.B. die

[77] Die Auswertungen zur Eisen-und Hüttenwerke AG wurden eliminiert, da entsprechend kein Konzernabschluss vorlag.
[78] Vgl. Borussia Dortmund GmbH & Co. KGaA, Jahres-und Konzerngeschäftsbericht 2016/2017, S. 72.

Nutzungsdauer der Marke „Metro" im Bestätigungsvermerk der Metro AG). Bezüglich der KAM-Berichterstattung in Bestätigungsvermerken zu Jahresabschlussprüfungen kann festgehalten werden, dass diese insb. im Hinblick auf die KAM-Berichterstattung in Bestätigungsvermerken zu Konzernabschlussprüfungen nur einen geringen Informationsmehrwert für Abschlussadressaten schafft und vielmehr eine Verlängerung des bisherigen Formeltestats darstellt. Fraglich ist daher, welchem Zweck zusätzliche KAM-Angaben in Bestätigungsvermerken zu Jahresabschlussprüfungen – angesichts korrespondierender Berichtspflicht zu Konzernabschlussprüfungen – künftig dienen soll.

5.7 Zusammenfassung

Zweifelsohne kommt den in den KAM offengelegten Informationen künftig eine besondere Bedeutung in der Berichterstattung des Abschlussprüfers zu. So werden die in der Prüfung festgestellten bedeutsamsten Sachverhalte zum einen von einer unabhängigen Instanz, dem Abschlussprüfer, ausgewählt und kommuniziert; zum anderen werden diese durch ihre Positionierung im Bestätigungsvermerk gegenüber anderen Informationen im Abschluss in besonderem Maße hervorgehoben. Eine zielgerichtete Anwendung der KAM kann jedoch nur dann gewährleistet werden, wenn die Informationen für den Abschlussadressaten einen tatsächlichen Nutzen stiften. Erneute Standardformulierungen sowie eine zunehmende Informationsüberflutung könnten das Ziel der Reformen, den Informationsgehalt zu erhöhen und das Vertrauen in die Abschlüsse zu stärken, verfehlen.[79] Ziel des vorliegenden Beitrags war es daher, einen ersten Einblick in die pflichtmäßige KAM-Berichterstattung von Bestätigungsvermerken zu Jahres-und Konzernabschlussprüfungen bei PIE in Deutschland zu erlangen.

Die deskriptive Auswertung zeigt, dass die Erweiterung des Bestätigungsvermerks um zusätzliche Informationen einen unternehmensindividuelleren Einblick in die Abschlussprüfung ermöglicht. So kommuniziert der Abschlussprüfer eine weite Bandbreite an verschiedenen Sachverhalten in den KAM. Trotz des hohen Grades an Individualität in den neuen Bestätigungsvermerken wird auch deutlich, dass etwaige Standardformulierungen und „Informationsüberlappungen" in den Abschlüssen (wie

[79] Vgl. Quick, DB 2016 S. 9.

bspw. in der Berichterstattung zu Jahresabschlussprüfungen erkennbar) weiterhin bestehen. Folglich bleibt es unsicher, ob die neuen Informationen über die wichtigsten, risikobehafteten Sachverhalte einer Abschlussprüfung tatsächlich unmissverständlich von den Abschlussadressaten auf- und wahrgenommen werden, sodass der erhoffte Informationsmehrwert zur Reduzierung der Erwartungslücke entsteht. Andererseits kann das Verständnis der Öffentlichkeit für die Inhalte einer ordnungsmäßigen Abschlussprüfung jedoch sicherlich nur durch die Beschreibung der eigenen Verantwortlichkeiten und Handlungen seitens des Abschlussprüfers gesteigert werden. Ob durch die KAM der ideale Rahmen für einen Informationsmehrwert und nicht für eine Informationsüberfrachtung geschaffen wurde, wird sich künftig in der flächendeckenden Pflichtanwendung zeigen. Dabei kommt es sicherlich auch darauf an, ob die KAM künftig eine unternehmensindividuelle Note bewahren oder zur gefürchteten „boilerplate"-Sprache verwässern.

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