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Factors Affecting Key Audit Matters Disclosure: Evidence from the Republic of Serbia

DOI: 10.7595/management.fon.2025.0018

Abstract:

Research Question: Which factors influence the level of disclosure of Key Audit Matters (KAMs) in the auditors' reports of companies listed on the Belgrade Stock Exchange (BSE) in the period 2021–2023? **Motivation:** Auditors' reports have historically been concise, non-transparent, and limited in informational content, which has generated criticism and dissatisfaction among users of financial statements (Lin & Hwang, 2010; Bedard et al., 2014). With the introduction of ISA 701 in 2015, the IAASB required auditors to communicate KAMs to enhance the transparency and informational value of the report. While studies in developed countries have analyzed the factors influencing KAMs disclosure, research in transition economies such as the Republic of Serbia remains limited (Vuckovic Milutinovic, 2019; Stojanovic, 2025). **Idea:** To examine the influence of company and audit firm characteristics on the disclosure of KAMs in auditors' reports of Belgrade Stock Exchange-listed firms, enhancing insights into the informational value and transparency of audit reports in a transitional economy. Independent variables include company size, audit firm size, type, experience, and audit opinion, while the dependent variable is the number of disclosed KAMs. **Data:** The analysis covered 423 auditors' reports of 141 companies listed on the regulated BSE market during 2021–2023. Data were collected from the financial statements register of the Serbian Business Registers Agency, including information on companies, auditors, and the type of audit opinion. **Tools:** Poisson regression analysis was employed to quantify the impact of independent variables on the number of KAMs. Additionally, descriptive analysis of KAMs content and correlation analysis among variables were conducted, with multicollinearity checks performed. **Findings:** The results demonstrate that higher total assets of the company, longer professional experience of the audit firm, and the issuance of an unmodified audit opinion increase KAMs disclosure. Our findings indicate that the number of KAMs is declining annually and that auditor reporting on KAMs in Serbia is below the level typical of developed economies, which reduces the informational value of audit reports. **Contribution:** In addition to addressing research gaps in transition economies such as the Republic of Serbia, this study emphasizes the importance of KAMs in auditors' reports for investors and other stakeholders, offering insights that may contribute to improving audit practices, particularly in emerging markets.

Keywords: key audit matters, expanded auditor's report, client characteristics, auditor characteristics, listed companies

JEL Classification: M41, M42, M48

1. Introduction

Forming an adequate opinion on financial statements is the auditor's key responsibility in compiling and issuing the auditor's report (Lin & Hwang, 2010). For many years, auditors' reports have been extremely short, insufficiently transparent and limited in terms of information. Despite being continuously pressured to broaden the scope and purpose of their audit operations (Spahic & Vukovic, 2018), they failed to meet users' expectations, which made them the subject of criticism (Bedard et al., 2014). Recognizing the need for change, auditors launched an initiative aimed at strengthening the transparency and information value of the auditor's report (Cordos & Fulop, 2015). Although the new model had opponents who pointed out obstacles and risks to its application, "the discussion on IAASB standards ended in December 2015, and the new

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International Standards on Auditing (ISA) 700 series introduced changes to the auditor's report, creating a new style of communication between auditors, clients and users of financial information" (Sierra-Garcia et al., 2019, p. 277).

The key innovation in the revised auditor's report is the requirement to disclose KAMs under ISA 701 (IAASB, 2015b). KAMs provide insights into audit areas that, in the auditor's professional judgment, are most significant to the audit of financial statements. Although various approaches to measuring audit quality exist (Kalita & Tiwari, 2023), no single benchmark fully captures all factors specific to the audit process (Afrasinei, Carp & Georgescu, 2024). Communicating KAMs enhances the report's informational value and helps narrow the expectation gap, "the gap between what society expects of auditors and its perception of their performance" (Porter & Gowthorpe, 2004, p. i), while increasing the legitimacy and accountability of both companies and auditors (Hay, Stewart & Botica Redmayne, 2017).

The challenges of designing a new auditor's report are not small. Instead of the earlier one-size-fits-all report, auditors should compile a report with specific content that reflects a specific audit engagement. The general recommendation for auditors is to take into account the areas with the highest assessed risk of material misstatements, issues that required auditor's significant professional judgment, as well as issues that caused the greatest difficulties during the audit process, and by their nature do not belong to any of the other paragraphs of the auditor's report (Todorovic & Vuckovic Milutinovic, 2018).

Given that the disclosure of KAMs reflects the auditor's professional judgment, it is reasonable to assume that this decision is conditioned by both client-related and audit firm characteristics. Accordingly, the present study investigates how company size, audit firm size, type, experience, and the nature of the audit opinion affect the disclosure of KAMs in the audit reports of publicly listed firms on the BSE.

We consider the Republic of Serbia because Vuckovic Milutinovic (2019) and Stojanovic (2025) point to a high percentage of modified audit opinion (MAO) on the financial statements of Serbian listed companies (30.4% and 49%, respectively) in their research, which indicates the impaired reliability of these statements and the specific economic reality in Serbia. The research period 2021-2023 is characterized by the global economic crisis. In such an unpredictable and dynamic environment, the auditor is expected to identify a sufficient number of KAMs, reflecting the heightened risk of material misstatements disclosed in the auditor's report.

Our research has a twofold contribution, both theoretical and practical. First, we extend the existing empirical literature on the determinants that influence the disclosure of KAMs, thereby filling the gaps in research conducted in transitional economies, such as the Republic of Serbia. Second, we promote the basic ideas of the new audit standard, thus helping improve the real value of the auditor's report. We point out that the new obligation to communicate KAMs increases the quality of reports and helps users have a better insight into the audit process and outcomes. In addition, focus on the factors that influence the disclosure of KAMs is extremely important, because we believe that it will significantly clarify and further improve audit practice in the Republic of Serbia.

The paper is structured as follows. After the introductory part, the second part provides the theoretical basis of the research, literature review and defines the research hypotheses. The third part of the paper describes empirical data and research methodology. After the descriptive analysis of KAMs and the selected determinants in Serbia in the analyzed period, the fourth part presents research results. The final part gives conclusions, points out limitations and suggests ideas for future research.

2. Theoretical Background of the Research

2.1 Determinants of KAMs disclosures – a literature review

Numerous empirical studies examine the determinants of KAMs disclosure, generally classified into client-related and audit firm-related factors.

Client characteristics such as the company size and complexity, industry affiliation, profitability, liquidity, leverage, over-indebtedness, financial reporting issues and going concern issues are factors that positively influence the communication of KAMs (Velte, 2018; Pinto & Morais, 2019; Ferreira & Morais, 2019; Sierra-Garcia et al., 2019; Ozcan, 2021; Abdelfattah, Elmahgoub & Elamer, 2021; Bepari et al., 2022; Alduneibat, 2024; Federsel & Horner, 2025). On the contrary, some authors (Venturini et al., 2023; Deneuve, 2025) reveal that profitability and company size have a negative effect on the communication of KAMs.

The characteristics of audit firms also play an important role in the identification of the number of KAMs. Specifically, factors such as auditor's experience, auditor's specialization in a particular industry, and audit partner's gender are found to be positively correlated with the number, length, and style of disclosing KAMs (Shao, 2020; Abdelfattah et al., 2021; Bepari et al., 2022). Deneuve (2025) concludes that lower audit quality is reflected in greater diversity in KAMs disclosure, while Suttipun (2021) indicates that KAMs positively affect audit quality. Moreover, the quality of KAMs varies depending on how credible those disclosures are perceived to be, which depends on the reputation of the audit firm and the perception of its independence (Gutierrez et al., 2018).

Higher audit fees, which reflect higher client risk, result in more detailed disclosure of KAMs (Sierra-Garcia et al., 2019; Bepari et al., 2022; Alduneibat, 2024). In contrast, Ferreira & Morais (2020) suggest that the auditors' fees are not necessarily related to the quantity of KAMs disclosed. Although a smaller number of KAMs is often associated with the issuance of MAO (Ferreira & Morais, 2020; Alduneibat, 2024), some studies do not find statistical significance of the variable related to the audit opinion type (Ozcan, 2021; Kuster, 2024).

The audit firm type, more precisely its affiliation or non-affiliation to the Big 4 group, is also highlighted as a factor that affects the extent and quality of KAMs communication (Federsel & Horner, 2025; Yau, 2025). In this regard, Sierra-Garcia et al. (2019) point to the existence of a significant difference in the approach to the disclosure of KAMs among audit firms. In contrast to Ozcan (2021) and Venturini et al. (2023), some authors (Velte, 2018; Ferreira & Morais, 2019; Bepari et al., 2022; Alduneibat, 2024) find that Big 4 audit firms issue a larger number of KAMs.

2.2 Context-based framework for variables selection and development of hypothesis

Although KAMs disclosures may ostensibly be driven by client characteristics, this study prioritized audit firm-specific factors, given the paucity of such research in Serbia. Accordingly, the analysis considered one client-related determinant, company size, and four auditor related determinants: audit firm size, type, experience, and audit opinion.

The company size

The growth of multinational companies has increased the complexity of reporting entities and the challenges of monitoring international related-party transactions. In addition to contemporary stakeholder demands for non-financial disclosures (Socoliuc et al., 2025), traditional challenges such as complex operations, discretionary accounting choices, and managerial influence over financial reporting heighten the likelihood of procedural errors and misstatements, particularly in larger firms (Malinic, 2019; Bepari et al., 2022). Furthermore, while larger companies generally have a higher capacity to bear the risks and costs associated with debt financing (Novicevic Cecevic, Dmitrovic & Petrovic, 2025), they seem "to be relatively more likely to misrepresent their profits" (Dechow et al., 2011), resulting in a higher risk of material misstatements in their financial reports.

Insufficient professional rigour of auditors and non-disclosure of all significant information obtained during the audit process seriously undermined investors' confidence in the quality of financial statements and influenced the collapse of the credibility of the accounting and auditing profession. Due to harsh criticism of a negligent attitude towards professional duties, auditors are nowadays expected to disclose a significant number of KAMs, especially in companies with specific events and transactions, a larger number of related parties operating in different economic sectors and a more pronounced risk of misleading financial reporting (Velte, 2018; Pinto & Morais, 2019; Sierra-Garcia et al. 2019; Bepari et al., 2022; Venturini et al. al., 2023; Federsel & Horner, 2025). Bearing in mind the previous research results, we propose the first hypothesis:

Hypothesis 1 (H1): *There is a positive relationship between the company size and the number of disclosed KAMs.*

The audit firm size

Research practice indicates that the audit firm size can be expressed in two ways: as the value of the total assets of the audit firm or as its belonging/non-belonging to the Big 4 group. We applied both options in our research. We marked the first as the audit firm size, and the second as the audit firm type. Suttipun (2021) suggests that audit firms with larger total assets have greater personnel and financial resources, so their staff

gets better support in terms of education and training, which consequently helps the firm provide higher-quality audit services. Furthermore, big auditing companies already have access to cutting-edge technology (Fulop et al., 2024). Also, audit firms with a higher asset value and a wider range of activities are more independent in relation to clients, act more confidently in negotiations and more openly indicate risky business areas, even in situations where their views are opposite to those of the client's management. Based on these arguments, the second hypothesis is set as follows:

Hypothesis 2 (H2): *There is a positive relationship between the audit firm size and the number of disclosed KAMs.*

The audit firm type

We examined the audit firm type, recognizing that the disclosure of KAMs is influenced not solely by client size but also by characteristics inherent to Big 4 firms, including resource capacity, international presence, specialized industry expertise, engagement with professional standard-setting bodies, and the reputational implications of their audit opinions.

Big 4 audit firms place a strong emphasis on upholding professional responsibility, ethical standards, and reputational capital, with the primary objective of safeguarding the interests of the public, investors, and other stakeholders, rather than merely preserving client relationships. Empirical studies consistently demonstrate that Big 4 firms disclose KAMs more extensively compared to non-Big 4 counterparts (Velte, 2018; Ferreira & Morais, 2019; Sierra-Garcia et al., 2019; Bepari et al., 2022; Federsel & Horner, 2025). Considering the results of previous research, we propose the third hypothesis:

Hypothesis 3 (H3): *There is a positive relationship between a company audited by a Big 4 audit firm and the number of disclosed KAMs.*

The audit firm experience

According to Hogarth's theory (Hogarth, 1980), "the auditor makes judgments based on experience, best practices, a predefined audit strategy and the nature of the subject of judgment. Therefore, more experienced and specialized auditors are expected to be better equipped to perform this task" (Sierra-Garcia et al., 2019, p. 229). Shao (2020) and Bepari et al. (2022) confirm that auditors' experience significantly affects the number and type of disclosed KAMs, as it allows them to better understand specific and complex events, transactions and risks. However, this requires caution, given that the reporting practice involving the disclosure of KAMs is relatively new and poses significant challenges to auditors. As the research period in our study referred to the very beginning of the implementation of the new audit report model (starting in 2019 in Serbia), one should be aware that the auditor's experience in this domain is still limited. In order to understand how the audit firm's experience affects the disclosure of KAMs, the following hypothesis is proposed:

Hypothesis 4 (H4): *There is a positive relationship between the audit firm experience and the number of disclosed KAMs.*

The audit opinion type

According to the revised ISA 700 (IAASB, 2015a), the auditor issues a MAO when the obtained evidence indicates that financial statements contain material misstatements or when there is insufficient evidence to support such a conclusion. Cipriano et al. (2017) suggest that issuing a MAO can negatively affect a client's market reputation by straining stakeholder relations, reducing investor confidence, and limiting capital access, while also increasing financing costs, undermining financial stability, and threatening profitability and business continuity. As a result, auditors are left with little room to express a position contrary to that of the client's management. "Despite the fact that MAO cannot be a substitute for KAMs and vice versa, the consequences of MAO can lead auditors to (mis)use relevant audit issues to highlight areas with the highest assessed risk of material misstatements" (Ferreira & Morais, 2019, p. 266). Bearing in mind these claims, we propose the fifth hypothesis:

Hypothesis 5 (H5): *There is a positive relationship between the unmodified audit opinion and the number of disclosed KAMs.*

3. Sample, Data Collection and Methodology

3.1 Sample

Empirical research was focused on a sample of companies listed on the regulated market of the BSE. High reliability and transparency in financial reporting are essential for all public interest entities (PIEs), particularly listed companies, with audits serving as a legally mandated mechanism to reinforce the credibility of their financial statements in Serbia. Also, the expansion of the report, in terms of communicating KAMs, is mandatory in audits of PIEs and should include “a description of the key risks of material misstatements, including the assessed risk of criminal acts, as well as a summary of the auditor’s response to these risks” (Regulation (EU) No. 537/2014, Article 10, par. 2). Table 1 demonstrates the structure of the companies in the sample.

Table 1: Structure and Number of Analyzed Companies, Financial Statements and Auditors’ Reports in the Period 2021-2023

Financial statements with belonging auditor’s report	Number of companies
Initial number of companies whose securities are included in the regulated market of the BSE	177
Companies whose financial statements received a disclaimer of audit opinion	(26)
Companies in the financial sector	(3)
Companies whose financial statements are available for two years	(5)
Companies whose financial statements are available for one year	(2)
Total number of analyzed companies	141
Total number of analyzed financial statements and auditors’ reports	423

Source: Authors’ calculation

Out of the initial 177 companies, 26 companies were first excluded from the analysis. According to ISA 705 (revised), disclosure of KAMs is not permitted when the auditor refrains from expressing “an opinion on the financial statements, unless such reporting is required by law or regulation” (IAASB, 2015c, para. 29). Furthermore, 3 companies in the financial sector were not included in the study due to the difference in the nature of operations of the real and financial sectors, and consequently also due to the difference in the structure and content of their financial statements. Companies (7) whose auditors’ reports are not available for all years analyzed were also excluded from further analysis. Consequently, 141 companies had reports to cover the three-year period, so the final analysis included 423 financial statements and auditors’ reports, previously collected manually.

3.2 Data Collection

In order to examine the persistence of the links between previously presented determinants and disclosed KAMs, secondary data sources were used for data collection. The information base of this research consisted of the financial and audit reports of the analyzed companies, taken from the register of financial reports maintained by the Serbian Business Registers Agency. Our study covered the period from 2021 to 2023, the last year for which publicly available audit reports were available at the time the results were completed.

3.3 Research Methodology

In line with research by Ferreira & Morais (2019), Pinto & Morais (2019), Sierra-Garcia et al. (2019), Abdelfattah et al. (2021), Bepari et al. (2022), Deneuve (2025), and Federsel & Horner (2025), we employed the total number of KAMs issued in the auditors’ reports as the dependent variable, a widely adopted approach that yields relevant results. As independent variables we used: company size, audit firm size, type, experience, and audit opinion type. Table 2 summarizes the variable definitions, measurements, and data sources.

Table 2: Variables' definitions and sources

Variables	Definition	Source	Research underlying the variable measurement
Dependent variable			
KAMs	Number of disclosed KAMs	Auditor's report	
Independent variables			
Company size	Natural logarithm of the value of the company's total assets	Balance sheet of the company	Pinto & Morais (2019); Sierra-Garcia et al. (2019); Deneuve (2025); Federsel & Horner (2025)
Audit firm size	Natural logarithm of the value of the audit firm's total assets	Balance sheet of the audit firm	Suttipun (2021)
Audit firm experience	Total number of years the auditor has worked in the audit industry as an auditor	Serbian Business registers agency	Shao (2020); Bepari et al. (2022)
Audit firm type	Dummy 0 – Non-Big 4 audit firm Dummy 1 – Big 4 audit firm	Annual Report	Velte (2018); Bepari et al. (2022); Venturini (2023); Kuster (2024); Yau (2025)
Audit opinion type	Dummy 0 – unmodified audit opinion Dummy 1 – modified audit opinion	Auditor's report	Ferreira & Morais (2019); Ozcan (2021); Kuster (2024)

Source: Authors

To test the previously defined research hypotheses, there should be a well-established research design. The analysis was performed using descriptive, correlation and regression analysis in IBM SPSS statistical software, version 22.

The influence of different determinants on the disclosure of KAMs was analyzed using a Poisson regression model because the dependent variable measures the number of disclosed KAMs in auditors' reports (Pinto & Morais, 2019; Ozcan, 2021; Venturini et al., 2023; Deneuve, 2025). Disclosed KAMs related exclusively to audited issues in the current year, regardless of the fact that the financial statements demonstrate comparative data for the previous year and that the auditor considers whether some KAMs from previous periods are still current. Each subsequent auditor's report is considered independent of the previous one.

Two models were developed to examine the aforementioned relationships:

$$\text{Model 1: } NKAMs = \beta_0 + \beta_1 \text{COMPSIZE} + \beta_2 \text{AUDITSIZE} + \beta_3 \text{AUDITAGES} + \beta_4 \text{AUDITOPIN} \quad (1)$$

$$\text{Model 2: } NKAMs = \beta_0 + \beta_1 \text{COMPSIZE} + \beta_2 \text{TYPEAUDIT} + \beta_3 \text{AUDITAGES} + \beta_4 \text{AUDITOPIN} \quad (2)$$

where NKAMs, as the dependent variable, is the number of disclosed KAMs in the auditors' reports, whilst the independent variables are: COMPSIZE, as the company size, AUDITSIZE, as the audit firm size, TYPEAUDIT, as the audit firm type, AUDITAGES, as the audit firm experience, AUDITOPIN, as the audit opinion type.

4. Empirical Results and Discussion

4.1 An overview of KAMs and potential determinants in the analyzed companies in the Republic of Serbia

To better understand the factors influencing the disclosure of matters that auditors considered to be of most importance to the audit process, we first provide an insight into the trends of KAMs in the auditors' reports of the analyzed companies. The intention was to perform the first analysis of the audit firms experiences with the new standard ISA 701 (IAASB, 2015b) in Serbia in the period 2021-2023.

Table 3: Descriptive Analysis of KAMs and Potential Determinants

Panel A: Number of Auditors' Reports with KAMs disclosed						
Type of audit opinion	2021		2022		2023	
	Total	KAMs (%)	Total	KAMs (%)	Total	KAMs (%)
Unmodified	89	53 (59%)	81	48 (59%)	81	48 (59%)
Modified	52	21 (40%)	60	18 (30%)	60	13 (22%)
Total	141	74 (52%)	141	66 (47%)	141	61 (43%)
Panel B: Number of KAMs in Auditors' Reports of Analyzed Companies						
	2021	2022	2023	Total		
Number of KAMs	91	82	73	246		
Panel C: Descriptive Statistics for Continuous Variables						
Variable	Minimum	Maximum	Mean	Std. Deviation		
KAMs	0	3	0.58	0.69		
Company size	13.91	26.98	20.04	2.04		
Audit firm size	15.46	22.00	18.14	1.35		
Audit firm experience	9	34	23.37	7.27		
Panel D: Mean, Median and Frequences for Dichotomous Variables						
Variable	Mean	Median	Number of companies coded = 0	Number of companies coded = 1		
Audit firm type	0.07	0.00	393	30		
Audit opinion type	0.41	0.00	251	172		
Panel E: Distribution of KAMs' Topics						
KAMs' Topics				Number	%	
Inventories				26	9	
Property, plant and equipment (PP&E)				41	14	
Related party disclosures				13	5	
Impairment of assets				32	11	
Provisions, contingent liabilities and contingent assets				10	3.7	
Intangible assets				3	1	
Investment property				17	6	
Agriculture				6	2	
Discontinued operations				1	0.3	
Financial instruments				28	10	
Revenue from contracts with customers				100	35	
Leases				9	3	
Total				286	100	

Source: Authors' calculation

Examining 423 auditors' reports revealed that 201 (47.5%) contain certain KAMs (Table 3, Panel A). In 2021, the percentage share of KAMs reached a peak of 52%, after which it decreased to 47% in 2022 and 43% in 2023. The data in Panel A indicates that auditors were more inclined to communicate KAMs in situations where they were expressing an unmodified opinion on companies' financial statements.

Based on the data in Table 3, Panel C, the number of KAMs in the analyzed period ranged from 0 to 3, with the average value of 0.58, which is lower than the average of 3.8 reported in the United Kingdom, France and the Netherlands (Pinto & Morais, 2019). Moreover, Table 3, Panel B indicates a gradual year-to-year decline in disclosed KAMs, which is not encouraging given the later years of the new standard application, when greater progress would be expected. Furthermore, amid the pandemic and geopolitical instability, more KAMs were expected, as economic turbulence raises the likelihood of bias in financial reporting.

Table 3, Panel E, indicates the topics to which KAMs refer in the analyzed auditors' reports. In most cases, auditors identified revenue from contracts with customers as KAM (35%). As a key indicator of company's performance, revenue is a materially significant category exposed to high inherent risk. In our sample, auditors most often pointed to the risk of overstated revenues and to the accuracy issues arising from a large

transaction volume and the absence of adequate written procedures and internal controls over sales. Besides revenue, issues that attracted the special attention of auditors refer to PP&E (14%) and impairment of assets (11%).

Finally, Table 3, Panel C, presents descriptive statistics of continuous variables. The non-logarithmic value of company size indicates that the average total assets of companies is 5,666,734,534 RSD (the code for Serbian currency – Dinar), while the average for audit firms is 211,378,622 RSD. The audit firms in the sample have an average of about 23 years of experience in providing audit and audit-related services. Table 3, Panel D, which summarizes the descriptive statistics of dichotomous variables, indicates that unmodified opinions prevail and that the financial statements of the analyzed companies were mostly audited by audit firms outside the Big 4 group. In Serbia, local audit firms dominate, as the relatively small market size, long-standing relationships with domestic companies, lower levels of business complexity, and the higher costs of engaging Big 4 firms limit the role of global audit companies.

4.2 What drives the disclosure of KAMs in auditors' reports?

To examine the possible drivers of KAMs in the sample, we first present the correlation matrix with the number of KAMs. Since the dependent variable in Poisson regression is discrete and typically asymmetrically distributed, Spearman's correlation analysis was applied.

The data from Table 4, Panel A, indicate that four independent variables, such as company size, audit firm size, audit firm type and audit firm experience, are positively correlated with the number of KAMs, while audit opinion type indicates a negative correlation. Based on Spearman coefficients, there is no indication of multicollinearity among model variables, since all Variance Inflation Factor (VIF) values are lower than 10 and all Tolerance values exceed 0.1 (Table 4, Panel B).

Table 4: Correlation Matrix and Multicollinearity Diagnostic Statistics

Variable	Number of KAMs	Company size	Audit firm size	Audit firm type	Audit firm experience	Audit opinion type
Panel A: Correlation Matrix						
Number of KAMs	1.000					
Company size	0.201**	1.000				
Audit firm size	0.121*	0.226**	1.000			
Audit firm type	0.159**	0.229**	0.353**	1.000		
Audit firm experience	0.130**	0.147**	0.261**	0.199**	1.000	
Audit opinion type	-0.274**	-0.103*	-0.176**	-0.229**	-0.050	1.000
Panel B: Multicollinearity Diagnostic Statistics						
VIF		1.107	1.413	1.351	1.126	1.067
Tolerance		0.903	0.708	0.740	0.888	0.938

** . Correlation is significant at the 0.01 level (2-tailed)

* . Correlation is significant at the 0.05 level (2-tailed)

Source: Authors' calculation

Since correlation analysis only provides the presence of statistically significant correlations between variables, Poisson regression analysis was applied in order to determine the quantitative dependence between them.

The first model examined the number of disclosed KAMs as a dependent variable in relation to four independent variables: company size, audit firm type, audit firm experience, and audit opinion type. An identical procedure was performed in the situation where the number of disclosed KAMs was the dependent variable, while the independent variables were: company size, audit firm size, audit firm experience and audit opinion type.

Table 5: Poisson Regression Results

Parameter	Model 1			Model 2		
	B	Sig.	Exp(B)	B	Sig.	Exp(B)
(Intercept)	-4.283	0.000	0.014	-3.369	0.001	0.034
Company size	0.133	0.000	1.142	0.132	0.000	1.142
Audit firm size				-0.046	0.364	0.955
Audit firm type = 0	0.136	0.544	1.146			
Audit firm type = 1	0a		1			
Audit firm experience	0.021	0.037	1.021	0.023	0.025	1.023
Audit opinion type = 0	0.619	0.000	1.857	0.627	0.000	1.871
Audit opinion type = 1	0a		1	0a		1
Goodness of Fit – Deviance	0.842			0.841		
Omnibus Test – Sig.	0.000			0.000		

Source: Authors' calculation

Goodness of Fit - Deviance is 0.842 in Model 1 and 0.841 in Model 2, indicating that both models fit the data well (Table 5). The Omnibus Test confirms this, as both models have p-values below 0.05. Based on the unstandardized regression coefficients (B), exponential coefficients (Exp(B)) and p-value (Sig.), we conclude that the company size, audit firm experience and audit opinion type are statistically significant determinants of KAMs disclosure in the analyzed auditors' reports.

The results demonstrate that the company size is positively and significantly associated with the number of disclosed KAMs (Table 5, Models 1 and 2). Specifically, a rise in total assets increases the number of KAMs by 14.2%. Our findings are consistent with those of Velte (2018), Sierra-Garcia et al. (2019), Bepari et al. (2022), and Federsel & Horner (2025). Larger companies require greater auditor effort and professional judgment due to their complexity, specific transactions, and affiliation with different industries. Moreover, increased regulatory scrutiny and public visibility make auditors more cautious when identifying KAMs. The importance of disclosing issues that require auditor's special attention is also underscored by corporate experience, as most major financial scandals in multinational companies stemmed from concealed or insufficiently disclosed information.

The obtained results indicate a positive and statistically significant association between the audit firm experience and the number of disclosed KAMs (Table 5, Models 1 and 2). As the number of years of operation of the audit firm increases, KAMs rise by 2.1% and 2.3%. Consistent with Shao (2020) and Bepari et al. (2022), more experienced audit firms tend to disclose more KAMs. Firms with a longer tradition emphasize professional responsibility, ethics, and reputation, which leads to greater auditor diligence in gathering evidence, identifying key issues, and forming audit opinions.

Our findings suggest that the changing the audit opinion from modified to unmodified increases the number of disclosed KAMs by 85.7% and 87.1%, indicating this variable has the greatest relative influence on KAMs disclosure (Table 5, Models 1 and 2). From the perspective of unmodified opinions, auditors disclose more KAMs to highlight areas requiring significant judgment, audit difficulties, or significant transactions (Todorovic & Vuckovic Milutinovic, 2018), which increases the transparency of the auditor's report without burdening it with formal modifications. Similarly, Ferreira & Morais (2019) and Alduneibat (2024) find a negative association between KAMs and MAOs, indicating that auditors usually disclose fewer KAMs when material misstatements occur, omitting matters that form the basis of the modification.

Although previous studies indicate that the size and type of audit firm may influence the scope and content of KAMs disclosure (Sierra-Garcia et al., 2019; Fulop et al., 2024; Federsel & Horner, 2025), the results of this study do not confirm the existence of a statistically significant association between these variables in the sample of Serbian companies. These findings can be explained by the specific and regulatory characteristics of the domestic audit market.

The auditing environment in Serbia is characterized by a high degree of regulation and strong alignment with International Standards on Auditing (ISA), which contributes to a relatively uniform practice of KAMs reporting, regardless of the size or international affiliation of the audit firm. Furthermore, cooperation between local audit firms and internal networks, as well as the application of their audit methodologies, reduces differences in the structure and quality of auditor's report. On the other hand, given that the practice of disclosing KAMs is relatively new, auditors may exhibit a tendency toward a conservative and standardized

reporting approach. Finally, the absence of statistically significant results may be partly attributable to sample limitations and low variability in the number and type of disclosed KAMs, indicating the need for future research based on larger samples and longer observation periods.

Conclusion

This study focused on the research of determinants that influence the level of disclosure of KAMs in auditors' reports of companies listed on the regulated market of the BSE in the period 2021-2023 led us to several conclusions. Hypotheses H1, H4 and H5 were confirmed, while for H2 and H3 the statistical significance of the independent variables was not found. The main findings supporting these results are as follows.

First, the obtained results indicate that larger companies attract more auditor attention due to a large volume of capital employed, a large number of employees, a large number of business units, significant transactions, and consequently a larger number of risky business areas. Moreover, audit firms with longer experience and broader operations also tend to disclose more KAMs. Finally, changing the audit opinion from modified to unmodified significantly increases the number of reported KAMs. Since issuing a MAO may negatively affect the client, auditors often use KAMs to emphasize high-risk areas without burdening the report with formal modifications.

Secondly, auditors most often identified revenue from contracts with customers as KAM, given its materiality and significant inherent risk. In addition, misleading financial reporting often manifests itself through the manipulation of earnings. Premature revenue recognition, sales to related parties and fictitious revenue recognition are used to overstate the company's results. A notable share of KAMs also relates to PP&E and impairment of assets, reflecting the "unfavorable economic reality of many companies" (Vuckovic Milutinovic, 2019, p. 212). These findings are expected, as these high-value items significantly influence the company's performance image and carry a high risk of material misstatements in valuation and disclosure.

Third, the average number of KAMs is considerably lower than in developed countries. Despite increased business risk and financial instability caused by the pandemic and geopolitical tensions, their number has not risen; instead, it continues to decline each year. This trend suggests that the objectives of the new auditor reporting model have not yet been fully achieved and likely reflect the challenges auditors face in adopting new standards. As the model is still in its early stage of implementation in Serbia, practical experience remains limited.

The findings of this study are relevant for investors, managers, regulatory bodies, and auditors, i.e., for all those who interpret KAMs in auditors' reports. For investors, an adequate understanding of the auditor's report is a crucial prerequisite for making informed economic decisions. The results may help them compare different audit firm practices in KAMs disclosure and identify characteristics of related companies. Consequently, KAMs can contribute to strengthening confidence in financial statements, reducing information risk, and improving the efficiency of capital market functioning. From a managerial perspective, the results provide valuable insights into business areas that auditors identify as most susceptible to material misstatements. This information may serve as a basis for strengthening internal control systems, improving the financial reporting process, and proactively addressing issues that are likely to attract increased auditor attention in future audits. The particular importance of this study lies in its clarification of the current state of auditor reporting in Serbia and in its confirmation that further improvement remains necessary. The results are therefore relevant for regulators, who should continuously improve accounting and auditing standards and monitor their application. Considering the public nature of financial statements and auditors' reports, it is clear how much responsibility regulatory institutions bear and how dangerous the lack of thoughtful solutions and strict control mechanisms can be. Finally, the findings provide useful insights for auditors in other countries by illustrating common areas identified as KAMs, differences in disclosure practices across audit firms, and potential approaches to improving the clarity and consistency of KAMs communication.

The limitation of this study is the relatively short observation period (2021-2023), since the analysis relied on the years for which financial and audit information was available at the time the research was conducted. Anyway, the year 2020 could not be included in the analysis because it coincides with the onset of the Covid-19 pandemic and a period of pronounced economic instability, which could significantly affect both companies' financial reporting behaviour and auditors' professional judgments in identifying and disclosing KAMs. Although this study has contributed to the audit literature in a certain way, further research is needed to extend the results obtained. Since the analysis was carried out in the context of one national economy, the following research can include other former Yugoslav countries, given that they all once formed one country, and today they are at different levels of development not only in the domain of accounting and auditing, but also at the level of the entire national economy. In this way, the experiences of other countries where the disclosure of KAMs is mandatory for listed companies can be discussed. Alternatively, the next study can consider KAMs as a starting determinant in order to analyze the consequences of their disclosure on audit quality, which would contribute to a more complete understanding of this issue.

Acknowledgements

This research of the first author was financially supported by the Ministry of Science, Technological Development and Innovation of the Republic of Serbia (Contract No. 451-03-136/2025-03/200371).

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Received: 2025-11-05

Revision requested: 2025-12-15

Revised: 2025-12-17 (1 revision)

Accepted: 2025-12-18



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