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Key audit matters for listed companies included in the Ibex35 index

Las cuestiones clave de auditoría de empresas cotizadas incluidas en el índice Ibex35

Salvador Marín Hernández[1], Esther Ortiz Martínez[1*], Inmaculada Medina Marín[1], Francisco Ballina Ríos[2]

[1]Universidad de Murcia, España
[2]Universidad Nacional Autónoma de México, México

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Abstract

As a consequence of the adaptation to the IAS 701, we study the most frequently used key audit questions and if there is a relationship with the sector in which the company operates or auditing firm as the primary research questions of this study. We have analyzed a sample including all the companies listed on one of the main stock exchange indexes (Ibex35). As the main obtained results, we can point out that the key audit questions that are most commonly used are coincidental with the ones obtained in the existing background. The sectors with more key audit questions are banking and energy, and there is a significant relationship between the sector and some key audit questions. The key audit questions are an essential indicator to be used by regulators and professionals to harmonize financial information because they allow the identification of those problems that require a more significant effort to be normalized.

JEL Code: M40, M42, M48
Keywords: key audit questions; auditing firms; company´s sector; audited firms

* Corresponding author.
E-mail address: esther@um.es (E. Ortiz Martínez).
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Resumen

Ante la adaptación de la normativa española de auditoría a la NIA 701 analizamos las cuestiones clave de auditoría más frecuentes y si existe relación con el sector, o la firma de auditoría, entre otras preguntas de investigación. Hemos analizado una muestra compuesta por uno de los principales índices bursátiles (Ibex35) para determinar las cuestiones clave más frecuentes y si existe relación con el sector o la firma. Como resultados generales podemos destacar que las cuestiones clave más frecuentes y su número coinciden con las obtenidas en los antecedentes. Los sectores con mayor número de cuestiones clave son el bancario y aerolíneas. Además, se destaca que suele haber una relación significativa entre el sector y algunas cuestiones clave. Estas cuestiones son un indicador de gran importancia para los reguladores y profesionales a la hora de armonizar la información empresarial y detectar problemáticas que requieren de una mayor atención por su parte.

Código JEL: M40, M42, M48
Palabras clave: cuestiones clave de auditoría; firmas de auditoría; sector empresarial; empresas auditadas

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Introduction

The auditing sector is highly relevant, even more so after the recent financial crisis, and is constantly adapting to evolving realities due to ongoing regulatory changes. Although the regulations are based on the International Standards on Auditing (ISA), each Member State adopts and adapts them individually. In Spain, the regulatory body for accounting and auditing (ICAC; Spanish: Instituto de Contabilidad y Auditoría de Cuentas) issued, as its latest action in this area, a Resolution on December 23, 2016, amending certain Technical Auditing Regulations and the Glossary of Terms. The aim was to adapt the revised ISAs to the national legal framework, replacing the existing ISAs with the published ISA-ES. Their entry into force was set for financial statements for financial years beginning on or after June 17, 2016 (General Council of Economists, 2018).

One of the changes that came about because of the 2016 Resolution consists of the introduction of ISA-ES 701, Communication of Key Audit Matters in the Independent Auditor's Report. This regulation required auditors to introduce a new paragraph on key audit matters for public interest entities and, where applicable, a paragraph on the most relevant aspects of the audit for entities that do not have this characteristic, in addition to comprehensively regulating the aforementioned scope. The development of this paragraph or section is based on determining the risks considered most significant during the auditing work, including a summary of the auditor's own response to those risks and, in certain cases, some essential observations. These will usually refer to the corresponding information in the audited financial statements to gather specific, concrete information.

Therefore, key issues are selected from all the issues communicated to the entity's management; that is, the auditor chooses those that represent the most relevant risks and includes them in the report as key audit matters. Communicating this information in the report will provide greater transparency and confidence in the auditor's work.

Hence, this paper focuses on the analysis of these key audit matters (KAMs), which are a relatively recent topic in auditing in Spain and have only been incorporated into audit reports in recent years, a trend also observed in many other countries worldwide. Various research questions will be posed to better understand how auditors study companies to determine which key issues to raise and what variables influence their decision-making.

To this end, a literature review of background information on this subject will be conducted first. Secondly, the methodological procedures used to carry out the analysis will be presented. Finally, the results will be analyzed through a descriptive analysis of the sample, incorporating variables such as key audit issues, sector, and audit firms, among others, and concluding with the findings.

State of the art

The transparency and reliability of the companies' financial information are a requirement for their stakeholders, so that trust and certainty can be guaranteed (Asare & Wright, 2012; Francis, 2011; Maijoor & Vanstraelen, 2012; Pérez Pérez, Camacho Miñano, & Segovia Vargas, 2019; Schneider & Church, 2008). The field of auditing has had to evolve to provide this transparency, resulting in higher-quality work. In Spain, the regulatory body, the ICAC, aims to achieve these objectives through a series of modifications, such as the introduction of ISA 701 into Spanish law. Accordingly, communication with the KAM is included in the audit report, which is highly significant as it reflects both improved communication between the auditor and the company's governing body and greater transparency toward stakeholders (Dobija & Cieslak, 2013; ICAC, 2016; Rejón, 2017; Turner *et al*., 2010; Vanstraelen *et al*., 2012). Among these stakeholders, investors stand out, as they benefit from a greater understanding of companies' economic and financial realities to carry out their activities. The key issues reported in audit reports are considered so important that they are even attributed with influencing the market value of the company or the profitability obtained (Alves Junior & Caio Galdi, 2019; Fayad Altawalbeh & Sleem Alhajaya, 2019; Gu & Ncuti, 2020).

Additionally, good interaction between the auditor and the Audit Committee is a key factor in the quality of the audit. While committees provide greater involvement in their work, they also benefit from the auditor's enhanced access to information. This feedback benefits both parties by creating a link among the audit functions, senior management, and the Audit Committee (Deloitte, 2016).

Various studies have examined key audit issues (a good review of the literature can be found in Gold and Heilmann (2019) and Velte and Issa (2019)). In the case of listed companies, a mean of 3.6 key issues is estimated, with the banking sector having the highest average, specifically five key issues (Alfaro, 2018), although there are usually between 1 and 5 key issues per company (Ismail *et al*., 2018). Compared to other countries, such as the United Kingdom, it is noteworthy that, for large or listed companies, the market is dominated by the four audit firms, known as the Big Four, as is the case in Spain (Financial Reporting Committee, 2019; Ismail *et al*., 2018).

Other studies analyze the key issues that arise most frequently, mainly in listed companies in different countries, with the most common issues being provisions for bad debts, losses of property, plant, and equipment, inventory depreciation, provisions, losses of intangible assets (mainly goodwill), and revenue recognition (Grosu, Robu, and Istrate, 2020; Ismail *et al*., 2018; KPMG, 2019; Li, 2020). Specifically, regarding KAMs in Spanish companies, the study by Gambetta *et al*. (2019) analyzes the number of KAMs included in the first year of their application in Spain based on data from the period 2013-2016, with the initial hypothesis that it will be similar to the case of the United Kingdom, as the structure of both audit markets is similar.

Furthermore, the study was based on previous literature seeking to determine whether the type of KAM is determined by the sector in which the audited company operates or by the auditing firm, as these may be variables that influence the appearance of different KAMs in the audit report. The influence of the sector is clearly demonstrated by results from other studies focusing on KAMs in listed companies, as these are the ones from which audit reports can be obtained relatively easily. This is the case in the studies by Ciger *et al*. (2019), Gambetta *et al*. (2019), and Ismail *et al*. (2018). There are also previous studies that have confirmed the influence of the audit firm on KAMs, such as that carried out by Shao (2020), which concludes that the gender of the auditor, the years of experience of the audit firm, and the fact that it has more experience in a sector determine the type of KAMs it includes in its report.

This study aims to contribute to the analysis of key auditing issues in companies listed on one of the main stock market indices (Ibex 35), with the main research questions being: What is the most frequent KAM? and Is there a relation between them and the sector in which the companies or the auditing firm operate? The timing of this study will provide relevant information to audited companies, auditing firms, and regulators, as the conclusions obtained will be useful for the evolution of this key issue, namely KAMs, and future changes in their regulation.

Methodology

To carry out the proposed analysis, this study focused on companies listed on the Ibex 35, an international benchmark stock market index. Specifically, the sample will comprise the 35 companies that made up this index as of November 2019.

The variables considered in the conclusion will be the KAMs included in the audit reports, the sectors to which the companies in the sample belong, and the audit firms that audited their accounts for 2017 and 2018.

As mentioned, the introduction of KAMs will occur in fiscal years starting on or after June 17, 2016. This information helps to limit the analysis of the sample exclusively to the audit reports for fiscal years 2017 and 2018, where this paragraph appeared in the companies' respective reports.

Data on KAMs was obtained from the audit reports included in each company's annual report for both years. These reports were downloaded from the websites of the companies included in the sample, where all types of financial and non-financial information related to each company can be found.

The first variable to be analyzed is the type of KAM, which has been grouped into 17 categories, following a detailed preliminary analysis, to facilitate its study. The sector to which the companies in the sample belong was then coded, including the categorization of both variables in Table 1.

Table 1
Types of KAM and sectors included in the sample

KAM		Sectors	
KAM1	Impairment of financial assets	Sector1	Banking
KAM2	Impairment of goodwill	Sector2	Energy
KAM3	Recoverability of deferred tax assets and liabilities	Sector3	Textile
KAM4	Provisions	Sector4	Telecommunications
KAM5	Information systems	Sector5	Technology
KAM6	Incorporation of IFRS 9	Sector6	Infrastructure
KAM7	Valuation of pension, personnel, or other commitments	Sector7	Airport
KAM8	Acquisitions and mergers with companies	Sector8	Construction
KAM9	Inventory impairment	Sector9	Pharmaceutical
KAM10	Impairment of investments	Sector10	Airline
KAM11	Revenue verification	Sector11	Real Estate
KAM12	Capitalization of technology expenses	Sector12	Insurance
KAM13	Approval of new regulatory documentation	Sector13	Steel industry
KAM14	Impairment due to credit risk	Sector14	Distribution of packaging
KAM15	Additions, disposals, and valuation of property, plant, and equipment	Sector15	Communication
KAM16	Different accounting policy for accreditation in another country	Sector16	Technology Consulting
KAM17	SOCIMI tax regime	Sector17	Hospitality

Source: created by the authors

Finally, the audit firms that audit the companies' annual accounts in the selected sample will be considered. As the sample consists of large, listed companies included in the Ibex35, all of them are audited by one of the Big Four: Deloitte, PWC (PricewaterhouseCoopers), E&Y (Ernst & Young), and KPMG, in order of revenue, respectively (Muñoz, 2019).

It should be noted that, for greater representativeness, the audit reports on the consolidated annual accounts have been used rather than those on the individual annual accounts. Therefore, when referring to audit reports or KAMs, reference will be made to those extracted from these consolidated accounts.

The variables to be analyzed are intended to verify which KAMs are most commonly formulated in listed companies, and conversely, which are the least common, to find out if there is a relation between the KAM and the year in which they are drafted, to check if the sector to which the companies belong is related to the KAM used, to detect if there is a relation with the audit firm, which audit firm has audited the most companies, and with how many key matters on average, among other things.

Therefore, the research questions will be as follows:

- The frequency observed in each key audit issue, checking which one's auditors choose more or less frequently, and why.
- The relation between the KAMs and the year in which they were formulated. Verify whether there are any differences in the issues that were formulated in 2017 and 2018, or in their overall frequency.
- The possible relation between audit firms and the sectors to which the companies belong.
- Whether there is a relation between audit firms and the key questions they ask.
- Whether there is a relation between the proposed KAMs and the sector in which the company operates.

These research questions will be verified by analyzing the data using SPSS and conducting an initial descriptive analysis of the sample, which will involve calculating variable frequencies. Cross-tabulations will then be performed using contingency tables (Ciger *et al.*, 2019), to which the chi-square statistic will be applied with a significance level of at least 10%.

Results and discussion

Descriptive analysis of the sample

Figure 1 shows that some KAMs appear very frequently, while others are rarely used, based on the total frequency of their use in the two years analyzed, 2017 and 2018.

The key issue that stands out par excellence is KAM 2 (Impairment of goodwill) (54.3%), followed by KAM 11 (Revenue recognition) (31 times, a frequency percentage of 44.3%); KAM 4 (Provisions) (26 times), and KAM 3 (Recoverability of deferred tax assets) (23 times). The KAMs that appear in the top four places in terms of total number of times coincide with those obtained in previous studies, regardless of whether they refer to companies from other countries and in other years (Grosu *et al*., 2020; KPMG, 2019; Li, 2020), which means that these are issues whose accounting treatment is complex. In the case of goodwill impairment, it accounts for 17% of the total key issues identified in the limited sample. As it is an intangible concept, its valuation and impairment are very difficult to assess. Furthermore, when discussing large companies, most of them have an accounting budget item, as they have likely acquired shares in other companies and thus recorded goodwill, which is usually a considerable amount. As for revenue recognition (14% of the total key issues), this also tends to occur in almost all companies. Revenue recognition is often an area susceptible to material misstatements, especially due to its timing. The risk stems from accrued but unbilled revenue or billed but unaccrued revenue that may be incorrectly calculated or recorded in the wrong fiscal year. When forming a group of companies, the risk is multiplied by their involvement in the consolidated accounts for most of the companies in the sample. Provisions (12% of the total key issues) often lead to complex judgments or estimates, as this is a widespread risk across most companies. The recoverability of deferred tax assets represents 10% of the total key issues identified in the sample. The complexity arises because meaningful judgments must be made, and estimates must be made as to the tax recoverability of that asset by crediting it in advance against future earnings (Table 2).

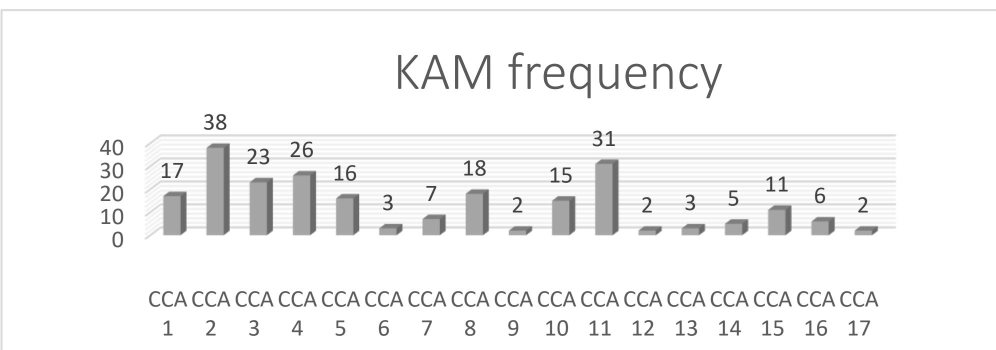

Figure 1. Frequency of use of KAMs in the period analyzed
Source: created by the authors

Table 2
Ranking of the four most frequent KAMs based on their frequency of use in the sample

KAM	Frequency	%	Cumulative %
KAM2	38	54.3	100
KAM11	31	44.3	100
KAM4	26	37.1	100
KAM3	23	32.9	100

Source: created by the authors

Following the sector variable, the banking and energy sectors are the most prevalent in the sample, with 6 and 8 companies, respectively. Following these two sectors is the technology sector, which comprises three companies. The remaining sectors are underrepresented in the sample, with only 1 or 2 companies each. As for the audit firms that prepare the audit reports, they are the Big Four. The four audit firms in the sample all audit companies in the sample, and usually the companies audited by an audit firm in 2017 tend to choose the same firm for 2018.

Relations between KAM and the year of formulation, and between KAM and the business sector

When analyzing the frequency of KAMs by year, they are very similar in both years (Table 3). The trend can explain the difference, which appears to include more KAMs in the first year of their application, with audit firms acting cautiously and highlighting the risks they encountered. The following year, with more experience in this area, they preferred to focus only on the areas of greatest risk, as described in ISA 701, leaving behind those areas that did not pose a considerable risk.

Table 3
KAM frequency based on the year of formulation

KAM	2017	2018	TOTAL
KAM 1	13	10	23
KAM 2	12	10	22
KAM 3	10	10	20
KAM 4	12	9	21
KAM 5	7	7	14
KAM 6	3	0	3
KAM 7	3	2	5
KAM 8	8	5	13
KAM 9	5	6	11
KAM 10	1	1	2
KAM 11	9	6	15
KAM 12	9	10	19
KAM 13	1	1	2
KAM 14	1	1	2
KAM 15	3	2	5
KAM 16	5	6	11
KAM 17	0	2	2
TOTAL	102	88	190

Source: created by the authors

Regarding the relation between the KAM and the year of formulation, it was found that, in general, there is no meaningful relation between the two variables. In other words, audit firms do not propose KAMs based on the year in which their annual accounts are formulated. Nevertheless, there are two situations in which the year may influence the result. On the one hand, companies may be affected by economic conditions at both national and international levels, leading audits to focus on specific key issues in certain years, depending on the companies' overall financial position and the risks they face. A clear example of this can be found in KAM 8, Acquisitions or mergers with companies. This KAM was used more in 2017 than in 2018, indicating more acquisitions and mergers during that year. This fact may be attributed to the widespread economic recovery in 2017, which, nevertheless, was impacted in 2018 by the economic uncertainty generated by the political situation in Spain. Other situations in which the key issue also depends on the year of formulation include new regulations or standards introduced each year. In this case, the risk will affect only the year in which they are introduced and must be adopted by the company for the first time, because adopting the new regulation entails a risk. An example is KAM 6, Incorporation of IFRS 9, which was introduced in 2017, not in 2018, as it is assumed to be established and control over its suitability within the company is in place.

To analyze the relation between KAM and the sector in which the company operates, the intersection of these two variables was calculated using the chi-square statistic with a significance level of 90% (Table 4), and the results were presented in a contingency table (Table 5). All the relations obtained between sector and KAM are statistically significant, except in the case of KAM6 (Incorporation of IFRS 9) and KAM8 (Acquisitions and mergers with companies), which are not determined by the sector in which the company operates (Table 4).

Table 4
Results of the X2 test for sector crossing and KAM

	X^2	g.l.	Asymptotic sign (bilateral)
KAM1	25.586	16	0.060**
KAM2	30.711	16	0.015**
KAM3	31.471	16	0.012**
KAM4	31.451	16	0.012**
KAM5	46.724	16	0.000***
KAM6	15.149	16	0.514
KAM7	29.259	16	0.022**
KAM8	15.359	16	0.499
KAM9	70.000	16	0.000***
KAM10	20.381	16	0.204
KAM11	37.239	16	0.002***
KAM12	21.961	16	0.144*
KAM13	27.338	16	0.038**
KAM14	26.026	16	0.054**
KAM15	25.958	16	0.055**
KAM16	22.148	16	0.138*
KAM17	33.971	16	0.005**

*p<0.1 **p<0.05 ***p<0.001.
Source: created by the authors

Sector 1 (Banking Sector) has the most distinct key issues, with 10 out of 18. It is a sector where many key issues of different natures are addressed. Based on their frequency in the sector, two stand out: KAM4 (Provisions) and KAM5 (Information Systems).

Table 5
Contingency table for sector and KAM (number of observations)

	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	S13	S14	S15	S16	S17	Total
KAM1	7	8	0	0	2	1	0	0	0	0	2	2	1	0	0	0	0	23
KAM2	5	2	0	1	2	0	0	1	2	1	0	2	4	0	0	2	0	22
KAM3	6	1	0	1	3	2	0	2	0	0	0	0	4	0	0	0	1	20
KAM4	10	4	0	0	2	0	0	1	0	2	0	2	0	0	0	0	0	21
KAM5	10	1	2	0	0	0	0	0	0	1	0	0	0	0	0	0	0	14
KAM6	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
KAM7	1	0	0	0	0	0	0	0	0	2	0	0	2	0	0	0	0	5
KAM8	2	3	0	0	3	0	0	1	1	0	1	0	1	0	0	1	0	13
KAM9	0	5	0	1	0	4	0	0	0	1	0	0	0	0	0	0	0	11
KAM10	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
KAM11	5	4	0	2	0	0	0	1	0	0	3	0	0	0	0	0	0	15
KAM12	0	3	0	1	4	0	1	2	0	2	0	0	0	2	2	2	0	19
KAM13	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	2
KAM14	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	2
KAM15	4	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5
KAM16	0	4	2	0	1	0	0	0	0	1	0	0	2	0	0	0	1	11
KAM17	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	2
Total	53	36	6	6	19	7	2	8	3	10	6	7	14	2	2	5	4	190

Source: created by the authors

KAM4, Provisions, is highly relevant for financial institutions. Specifically, provisions for litigation or legal contingencies are common in most of the financial institutions in the sample. Regarding KAM5, Information Systems, it is worth noting that the complexity of today's information systems, which are increasingly dependent on new technologies, poses a challenge for banks; hence, it is a key audit issue common to the various banks in the sample chosen for this study. The banking sector needs to leverage information technology to remain competitive in a rapidly evolving world. Furthermore, it is noteworthy that the most frequent key issues do not usually arise in the banking sector at this level; rather, auditors in this sector tend to focus on other issues due to its specific characteristics. Nonetheless, compared with other sectors, it is noteworthy that the key issue closely related to the sector is KAM6, specifically the adoption of IFRS 9, which is unique to the banking sector. This situation arises because their activity is based on the use of financial instruments, particularly financial assets at amortized cost. In the case of Sector 2 (Energy Sector), there are various types, similar to the banking sector, with a total of 11 key issues (Table 5). This may also be because both sectors include more companies than the rest, with this sector representing the largest number, thereby increasing the probability of key issues being identified.

The following points can be highlighted regarding the relation between KAM and sectors (Table 5):

-In sector 3 (textile sector), there is only one company representing it, and no key issue stands out in terms of quantity, as the three key issues it raises occur with the same frequency.

-In sector 5 (technology sector), KAM12 stands out, which refers to the capitalization of technology expenditure incurred by large technology companies for the automation of their processes and the development of platforms.

-Continuing with Sector 11 (Real Estate), in relation to the frequency of key issues, KAM11, Revenue Recognition, stands out, since in this case, real estate companies apply the percentage of work completed to prove the corresponding revenue.

Relations between the audit firm and the sector, and between the audit firm and the type of KAM

Among the firms that audited the companies in the sample during the two years analyzed, PWC audited the largest number (22 companies), followed by Deloitte (21), KPMG (16), and E&Y (11).

The total number of KAM raised may lead to erroneous conclusions, as it does not account for the relation to the number of companies, but rather the total. Therefore, to improve overview and representativeness, the average number of key audit matters per report for each audit firm is calculated. The result is shown in Figure 2, which considers data from both 2017 and 2018.

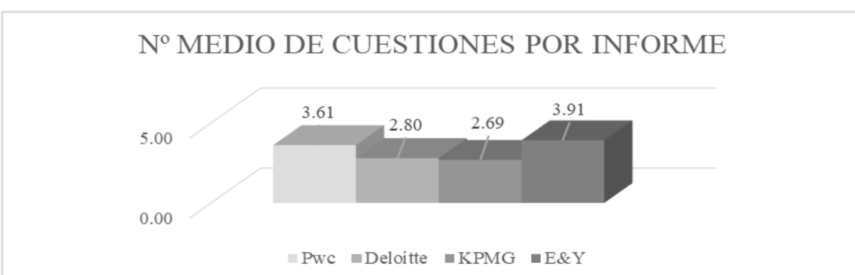

Figure 2. Average number of KAMs per report based on the audit firm

Source: created by the authors

E&Y uses the most key issues per report on average, which may come as a surprise given that it is coincidentally the firm that has audited the fewest companies in the sample. On the other hand, PWC stands out, averaging 3/4 key issues per report; the rest average only 2/3.

If audit firms have any specialization in one sector or another, this will be verified by analyzing the sectors represented by more than 2 companies in the sample, using reliable, representative data. These sectors are shown in Table 6 for 2017 and 2018.

Table 6
Contingency table showing the number of companies audited by sector, audit firm, and year (number of companies)

	Banking (Sector 1)				Energy (Sector 2)			
	PWC	Deloitte	KPMG	E&Y	PWC	Deloitte	KPMG	E&Y
2018	4	0	1	1	2	1	3	3
2017	3	1	1	1	2	1	3	2
Total	7	1	2	2	4	2	6	5
	Telecommunications (Sector 4)				Technology (Sector 5)			
	PWC	Deloitte	KPMG	E&Y	PWC	Deloitte	KPMG	E&Y
2018	1	0	1	0	1	1	0	1
2017	1	0	1	0	1	1	0	1
Total	2	0	2	0	2	2	0	2
	Infrastructure (Sector 6)				Real Estate Agencies (Sector 11)			
	PWC	Deloitte	KPMG	E&Y	PWC	Deloitte	KPMG	E&Y
E2018	0	2	0	0	1	1	0	0
2017	0	2	0	0	1	1	0	0
Total	0	4	0	0	2	2	0	0
	Steel industry (Sector 13)							
Auditor	PWC	Deloitte	KPMG	E&Y				
2018	1	1	0	0				
2017	1	1	0	0				
Total	2	2	0	0				

Source: created by the authors

In the banking sector, the most popular auditing firm is PWC (PWC, 2016). In the energy sector, KPMG stands out, although E&Y is also important. The infrastructure sector shows a clear preference for Deloitte. The other sectors analyzed (Table 6) do not have a clear relation with any audit firm. It should be noted that, although these are IBEX-35 companies, there appears to be clear market concentration around the aforementioned audit firms. Thus, the call by various organizations representing auditors for the need to open to other audit firms or even co-auditing could impact the issues being analyzed here, which would be highly interesting to examine (Consejo General de Economistas, 2020).

Moving on to audit firms and the key questions they ask, it is worth noting that statistically significant relations were found between eight KAMs and the audit firm (Table 7).

Table 7
Results of the X2 test for the cross-check of the audit firm and KAM

	X^2	g.l.	Asymptotic sign (bilateral)
KAM1	2.721	3	0.437
KAM2	1.815	3	0.612
KAM3	8.088	3	0.044**
KAM4	10.206	3	0.017**
KAM5	6.424	3	0.093**
KAM6	6.405	3	0.093**
KAM7	1.746	3	0.627
KAM8	2.389	3	0.496

KAM9	5.147	3	0.161*
KAM10	1.436	3	0.697
KAM11	9.931	3	0.019**
KAM12	5.147	3	0.161*
KAM13	0.668	3	0.881
KAM14	5.998	3	0.112*
KAM15	1.948	3	0.583
KAM16	3.750	3	0.29
KAM17	1.309	3	0.727

*p<0.1 **p<0.05 ***p<0.001
Source: created by the authors

Additionally, analyzing the intersection between the KAM type variable and the audit firm, as included in Table 8, it can be noted that PWC is the audit firm with the most KAMs, most frequently using the first five KAM types. KAM6, which relates to IFRS 9 and is used more widely in the banking sector, is primarily used by PWC, which audits most companies in this sector.

Regarding Deloitte, KAM12, capitalization of technology expenditure, stands out, which corresponds to the audits carried out by this firm in companies in this sector. In the technology sector, the number of audits carried out by PWC, Deloitte, and E&Y is equal; nonetheless, Deloitte is second among audit firms in terms of the most use of these KAM. Regarding KPMG, it is the one that uses KAM 16 (different accounting policy in another country) the most, along with Deloitte. The company considers that adopting new accounting rules or techniques poses a control risk, as the experience factor does not come into play during the adoption process. In addition, KPMG tends to formulate KAM1, Valuation of financial instruments, and KAM2, Impairment of goodwill, more frequently than PWC does. KAM14, impairment due to credit risk, and 17, SOCIMI (Spanish: *Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario*) tax regime, are only used by PWC and KPMG. In general, most relations between key issues and the companies that formulate them are due to the sector to which the companies belong, with the aforementioned relation taking a back seat.

Table 8
KAM contingency table by audit firm (number of observations)

	PWC	Deloitte	KPMG	E&Y	Total
KAM1	8	3	6	6	23
KAM2	8	5	6	3	22
KAM3	8	8	1	3	20
KAM4	7	2	5	7	21
KAM5	7	2	2	3	14
KAM6	3	0	0	0	3
KAM7	1	2	0	2	5
KAM8	5	3	1	4	13
KAM9	1	5	2	3	11
KAM10	0	2	0	0	2

KAM11	7	3	4	1	15
KAM12	2	8	4	5	19
KAM13	0	2	0	0	2
KAM14	1	0	1	0	2
KAM15	3	0	0	2	5
KAM16	4	2	4	1	11
KAM17	1	0	1	0	2
TOTAL	62	47	41	40	190

Source: created by the authors

Conclusions, recommendations, and final considerations

This study has shown that there are key issues that are common to companies of all kinds, as the difficulty of control is inherent to that issue independently of the year, sector, or other variable, such as the most frequent key issues, highlighted throughout the study, which occurred in all companies in the sample for both 2017 and 2018 and which in turn coincide with the most frequent key issues analyzed in other studies conducted in other countries and on other dates (Grosu *et al*., 2018; KPMG, 2019; Li, 2020).

Nevertheless, other key issues are strongly influenced by the sector in which the company operates, as this is a clearly determining variable (Ciger *et al*., 2019; Gambetta *et al*., 2019; Ismail *et al*., 2018). Examples of this obtained in the study include KAM6, related to IFRS 9 and used to a greater extent in the banking sector, and KAM12, which involves capitalizing technology expenses and corresponds to the performance of audits in companies in this sector.

As for whether there is a relation between audit firms and key issues, according to the data analyzed, it is not possible to affirm that there is a direct relation, although there is an indirect one, since it was found that a given audit firm formulates certain questions more frequently than others depending on the sector to which the audited company belongs, not on the key issue. Additionally, it was noted that in some cases, audit firms audit multiple companies within the same sector, specializing in a particular area. Thus, it will depend to a greater extent on the sector in which the company specializes to obtain a higher frequency of certain key issues, rather than on the key issue itself, as other background information on the subject, such as Shao (2020), suggests. Nevertheless, and bearing in mind that this study has focused on IBEX-35 companies, it would be interesting to examine in future studies the effects that the opening up of the audit market, advocated by various organizations representing the industry, would have, as opposed to its concentration, or even co-auditing, analyzing how both situations would affect the data studied.

One limitation of the study is the sample size. Although, a priori, the results obtained in this study may be a good indicator of the current situation in Spain, and listed companies included in relevant indices tend to have similar characteristics overall, regardless of the country in question, future work projects will include more companies in the sample, extending the time series, and even other variables to try to establish relations with the types of key issues raised. Thus, to ensure that the results are not limited to Spain and to facilitate clearer extrapolation of the findings to the international level, a comparative empirical study incorporating indices from different countries is being considered for the future, following the methodology employed in this study. Furthermore, given the ongoing globalization of business, the increasing adoption of new technologies, and the ever-growing demands for information and transparency from both financial and non-financial corporate stakeholders, the audit report remains a vital tool for addressing these needs. Key audit matters can be a crucial indicator for regulators and professionals in terms of harmonizing corporate information and identifying issues that require greater attention.

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