

Audit regulation and auditor disclosures

Essays on the consequences of ISA 701

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2. Hosseinniakani, S. M. (2019). The effects of the key audit matter disclosure requirement on the capital market: Evidence from the European Union. *European Accounting Association Congress (EAA)*, 29–31 May 2019.
3. Hosseinniakani, S. M., Samani, N., & Overland, C. (2020). Management's and auditors' disclosures of significant accounting estimates and the role of audit committees. *European Accounting Association Congress (EAA)*, (Accepted for presentation in a parallel session).
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Auditing regulations have changed over time, with the aim of increasing the quality of the audit process and audit report that assist stakeholders in decision-making. Such changes include the recent revisions and introduction of International Standards on Auditing (ISAs), which aim to enhance transparency and the value of information presented in the audit report. The recent ISA 701 standard should meet the aims by requiring auditors to provide additional disclosures in their audit reports since 2016. The additional disclosures contain information regarding Key Audit Matters (KAM) that auditors face during their audit of financial statements, and include risk-related information. This thesis examines several possible consequences of the ISA 701 requirement in four essays, which primarily focus on the European Union (EU).

The first essay's results reveal a significant increase in audit quality of EU-listed companies, as measured by abnormal accruals—or specifically, in the United Kingdom, Ireland, and the Netherlands, where auditors have some experience in disclosing KAM before 2016. Consequently, these auditors charged higher audit fees after the ISA 701 introduction. Further, Essay 2 reveals that requiring the auditor to disclose KAM is associated with decreased liquidity in the capital markets of early adopters' countries, as measured using a liquidity factor and the bid-ask spread, but not in other EU countries. Moreover, Essay 3 provides detailed evidence of the potential treatment effects on management disclosures of significant accounting estimates using data from Swedish-listed companies. The results demonstrate that per se, both the ISA 701 requirement and KAM disclosure affect management disclosures. Further, these effects are contingent upon characteristics of the board of directors, such as the existence of an independent audit committee on the board. Finally, the results from examining 16 EU countries (in Essay 4) reveal a significant shift towards real earnings management, and specifically for companies with accrual-based earnings management constrained after the ISA 701 introduction. These findings contribute to recent research investigating these new audit standards' consequences.

Keywords: Audit regulation, auditor disclosures, key audit matters, ISA 701, audit quality, capital market, management disclosures, earnings management

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