

Analysis of the Factors Influencing the Disclosure Degree of Key Audit Matters from the Perspective of Auditors - Based on the Results of a Questionnaire Survey

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Abstract: This paper, against the backdrop of strengthening capital market regulation, analyzes the different factors influencing the degree of disclosure of key audit matters. The study finds that the characteristics of the audited entity have the most significant impact on the disclosure degree, while the characteristics of the accounting firm, auditors, regulatory environment, and investor demand also play important roles. By quantifying the impact of each factor, this study provides important references for improving the audit theory system and optimizing audit practice operations.

Keywords: Key Audit Matters; Disclosure Degree; Influencing Factors; Capital Market

1. Introduction

The high-quality development of the capital market is the driving force for advancing a strong financial sector and high-quality economic development. High-quality audit reports are the cornerstone of trust and a key guarantee for the high-quality development of the capital market. In recent years, with China's economy transitioning from high-speed growth to high-quality development, the regulation of the capital market has also entered a stage of strong supervision and high quality. The deep-seated contradictions of the capital market formed during the high-speed economic growth phase have gradually become prominent, and malicious financial fraud cases have been continuously exposed. As the "gatekeepers" of the capital market, the audit industry's ecosystem and credibility have been continuously weakened and eroded, and the industry's predicament urgently needs to be improved. In April 2024,

the State Council issued the "Several Opinions on Strengthening Regulation, Preventing Risks, and Promoting the High-Quality Development of the Capital Market," also known as the new "Nine National Articles." The China Securities Regulatory Commission (CSRC) also quickly formulated and revised supporting documents and systems with relevant departments, forming a "1+N" policy system. This system comprehensively reconstructed the basic systems, regulatory framework, and underlying logic of the capital market, aiming to resolve contradictions, improve the ecosystem, reshape trust, maintain the stability of the capital market, and enhance the quality and efficiency of its high-quality development. The relevant top-level design has pointed the way for the theoretical exploration and practical operations of the audit industry.

In the process of standardizing the development of the capital market, audit reports, as the key link connecting corporate financial information and investor decision-making, have become increasingly important. Key audit matters, as the core part of the audit report reform, carry significant expectations. Current literature mainly focuses on the impact of single factors on the disclosure of key audit matters, with few studies exploring the differences in the impact of various factors on the degree of disclosure of key audit matters. In audit practice, auditors find it difficult to accurately grasp the "degree" of disclosing key audit matters, thereby affecting the quality of audit reports and the effectiveness of information transmission.

This study, from the perspective of auditors, focuses on four theoretical dimensions: firm characteristics, auditor characteristics, the characteristics of the audited entity, and

external pressure, to systematically analyze their impact on the degree of disclosure of key audit matters. Through statistical tests, the study reveals the intrinsic relationship between each factor and audit disclosure degree, aiming to provide theoretical support and practical guidance for improving the quality of audit disclosures.

2. Research Design

This study employs the questionnaire survey method to comprehensively and deeply collect the practical situations of auditors in deciding to disclose key audit matters under a strong regulatory environment.

2.1 Determination of Observation Variables

Based on extensive literature research and expert interviews, a series of observation variables were determined, including firm characteristics, auditor characteristics, the characteristics of the audited entity, and external pressure. The selection of firm characteristic variables is based on existing research on the impact of firm size, professional standards, and internal quality control processes on the degree of disclosure of key audit matters. Auditor characteristic variables focus on the auditor's professional experience, the extent of knowledge of the specific industry in which the audited entity operates, and the familiarity with accounting and auditing standards. Company characteristic variables include the organizational structure, ownership structure, governance structure, business model, industry situation, legal environment, regulatory environment, financial condition, strategic goals, effectiveness of internal control, role of internal audit, and the completeness of risk management processes of the audited entity. External pressure variables mainly consider the demand of investors for information disclosure, the media's attention to the audited entity, and the attitude of the management of the audited entity.

2.2 Indicator Revision

After the initial determination of measurement indicators, in-depth interviews were conducted with auditors from different intermediary institutions. Combining the

current rich literature research results, a comprehensive discussion and analysis of the initially determined measurement indicators were carried out. Based on the feedback from practicing auditors and literature research, the measurement indicators were revised and improved. Some vague or unclear indicators were redefined and refined to ensure that the indicators accurately reflect the connotation of the research variables.

2.3 Questionnaire Improvement

The survey questionnaire was designed based on the revised measurement indicators and was professionally evaluated by three experts deeply involved in audit research and five auditors with more than five years of rich audit experience. Experts assessed the structure, logic, and scientific nature of the questionnaire from a theoretical perspective. Auditors evaluated the practicality and comprehensibility of the questionnaire from a practical experience perspective. Based on the feedback from experts and auditors, the survey questionnaire was comprehensively optimized and improved.

2.4 Questionnaire Distribution and Recovery

The survey questionnaire was distributed to auditors of different ranks in various intermediary institutions through the Wenjuanxing platform. During the questionnaire recovery stage, the questionnaires were strictly screened and identified according to established criteria. Questionnaires that were incomplete, logically chaotic, or showed obvious signs of perfunctory completion were eliminated. After systematic sorting and screening, a total of 188 valid questionnaires were obtained. The representativeness of the sample of valid questionnaires was analyzed from multiple dimensions, including education level, major, job level, and audit work experience. The results showed that the sample had a certain distribution in each dimension and could represent auditors with different backgrounds to a certain extent, providing a reliable data basis for subsequent research analysis.

3. Data Analysis

3.1 Reliability Test

The reliability test used Cronbach's α coefficient to assess the internal consistency of each dimension and the overall questionnaire (Table 2). The results showed that the overall α value of the scale was 0.908, higher than the excellent standard of 0.9, indicating that the questionnaire had extremely high internal consistency. The α values of each dimension, including firm characteristics (0.856), auditor characteristics (0.823), the characteristics of the audited entity (0.922), and external pressure (0.890), were all greater than 0.8, meeting the acceptable standard of 0.7, indicating that the item design of each dimension was reasonable and the measurement results were stable and reliable. The corrected item-total correlation (CITC) was greater than 0.5, and the α value did not significantly increase after deleting any item, further verifying the good fit between the items and dimensions.

Table 1. Basic Information of Respondents

| Item | Category | Frequency | Percentage |
|-----------------------|---|-----------|------------|
| Education Level | Bachelor's degree or below | 137 | 72.9 |
| | Master's degree | 46 | 24.5 |
| | Doctoral degree | 5 | 2.7 |
| Major | Economic Management | 156 | 83 |
| | Law and Finance | 10 | 5.3 |
| | Others | 22 | 11.7 |
| Job Level | Audit Assistant or Fieldwork Supervisor | 37 | 19.7 |
| | Project Manager | 96 | 51.1 |
| | Partner | 55 | 29.3 |
| Audit Work Experience | Less than 5 years | 41 | 21.8 |
| | 5-10 years | 68 | 36.2 |
| | More than 10 years | 79 | 42 |

Table 2: Descriptive Statistical Analysis and Correlation Analysis

| Variable | Mean | Standard Deviation | Disclosure Degree | Firm Characteristics | Auditor Characteristics | Company Characteristics | External Pressure |
|---------------------------------------|-------|--------------------|-------------------|----------------------|-------------------------|-------------------------|-------------------|
| Disclosure Degree | 3.250 | 1.286 | 1 | | | | |
| Firm Characteristics | 3.271 | 0.880 | .471** | 1 | | | |
| Auditor Characteristics | 3.167 | 0.922 | .417** | .496** | 1 | | |
| Characteristics of the audited entity | 3.627 | 0.768 | .529** | .265** | .217** | 1 | |
| External Pressure | 3.582 | 0.852 | .501** | .409** | .309** | .564** | 1 |

3.4 Regression Analysis

3.2 Validity Test

The principal component analysis method was used to extract common factors. The KMO test value was 0.895 (>0.7), and the significance of Bartlett's test of sphericity was 0.000, indicating that the data were suitable for factor analysis. After rotation, four common factors with eigenvalues greater than 1 were extracted, and the cumulative variance explanation rate was 68.207% ($>60\%$). The scree plot showed that the eigenvalues of the first four factors steeply declined, and then tended to flatten, consistent with the four theoretical dimensions. The rotated component matrix showed that each item had a loading greater than 0.5 on the corresponding dimension, and there was no double high loading phenomenon, indicating that the questionnaire had good structural validity and the items could effectively reflect the pre-set theoretical dimensions.

3.3 Descriptive Statistics and Correlation Analysis

This study conducted a correlation analysis between the four latent variables (firm characteristics, auditor characteristics, the characteristics of the audited entity, external pressure) and the dependent variable, the degree of disclosure. The results showed that the Pearson correlation coefficients between the four latent variables and the dependent variable were all greater than 0.1, and the corresponding significance P values were all less than the significance standard of 0.05, indicating that these correlation coefficients were statistically significant. This fully indicates that in this study, the four latent variables were significantly correlated with the dependent variable, the degree of disclosure.

A regression model was constructed to verify the significance of the impact of factors such

as CPA firm characteristics, auditor characteristics, the characteristics of the audited entity, and external pressure on the degree of disclosure. Therefore, variables such as the respondents' major, job level,

work experience, and education level were included in the analysis as control variables to eliminate the interference of these factors on the research results.

Table 3. Regression Analysis of Various Influencing Factors on Disclosure Degree

| Variables | Unstandardized Coefficients | | Standardized Coefficients | t | Significance | Collinearity Statistics | |
|---|-----------------------------|----------------|---------------------------|--------|--------------|-------------------------|-------|
| | B | Standard Error | Beta | | | tolerance | VIF |
| Constant | -1.556 | 0.407 | | -3.825 | 0.000 | | |
| Firm Characteristics | 0.328 | 0.098 | 0.224 | 3.353 | 0.001 | 0.681 | 1.468 |
| Auditor Characteristics | 0.254 | 0.090 | 0.182 | 2.839 | 0.005 | 0.740 | 1.352 |
| Company Environment and Characteristics | 0.565 | 0.112 | 0.338 | 5.043 | 0.000 | 0.680 | 1.471 |
| External Pressure | 0.245 | 0.107 | 0.162 | 2.286 | 0.023 | 0.604 | 1.656 |
| R ² | 0.442 | | | | | | |
| Adjusted R ² | 0.429 | | | | | | |
| F | 36.191 (P<0.001) | | | | | | |

Dependent Variable: Disclosure Degree

The regression equation is: Disclosure Degree = -1.556 + 0.328*Firm Characteristics + 0.254*Auditor Characteristics + 0.565*the characteristics of the audited entity + 0.245*External Pressure.

In the regression model, the test value of F was 36.191, with a corresponding significance P value less than 0.001, indicating that the overall regression model was statistically significant, i.e., the independent variables in the model could effectively explain the changes in the dependent variable. The value of R² in the model was 0.442, meaning that all the independent variables in the model could explain 44.2% of the variation in the dependent variable, indicating that the regression model had a certain explanatory power.

The standardized regression coefficient of firm characteristics on the degree of disclosure was 0.224, with a t value of 3.353 and a P value of 0.001, less than the

significance level of 0.01, fully proving that firm characteristics had a significant positive impact on the degree of disclosure.

The standardized regression coefficient of auditor characteristics on the degree of disclosure was 0.182, with a t value of 2.839 and a P value of 0.005, less than the significance level of 0.01, indicating that auditor characteristics had a significant positive impact on the degree of disclosure.

The standardized regression coefficient of the characteristics of the audited entity on the degree of disclosure was 0.338, with a t value of 5.043 and a P value of 0.000, less than the significance level of 0.001, indicating that the characteristics of the audited entity had a significant positive impact on the degree of disclosure.

The standardized regression coefficient of external pressure on the degree of disclosure was 0.162, with a t value of 2.286 and a P value of 0.023, less than the significance level of 0.05, showing that external pressure had a significant positive impact on the degree of disclosure.

Table 4. Variable Definitions

| Variable Name | Influencing Factors |
|---------------------------------|--|
| Accounting Firm Characteristics | X11: Different professional standards and internal quality control processes of accounting firms |
| | X12: Resource allocation of the audit team |
| | X13: The intensity of regulatory oversight on audit quality affects the disclosure degree of key audit matters |
| | X14: Audit fees |
| | X15: Whether the audited entity is a major client of the accounting firm |

| | |
|--|--|
| | (independence) |
| Auditor Individual Characteristics | X21: The professional experience of the auditor in determining key audit matters has a significant impact on the degree of disclosure |
| | X22: The extent of the auditor's knowledge of the specific industry in which the audited entity operates |
| | X23: The auditor's familiarity with accounting and auditing standards and understanding of emerging business issues |
| Audited Entity's Environment and Characteristics | X31: The organizational structure, ownership structure, and governance structure of the audited entity |
| | X32: The business model of the audited entity (including the degree of utilization of information technology, such as digital transformation of enterprises) |
| | X33: The industry situation of the audited entity |
| | X34: The legal and regulatory environment of the audited entity |
| | X35: The financial condition of the audited entity |
| | X36: The strategic goals of the audited entity |
| | X37: The effectiveness of internal control of the audited entity |
| | X38: The role of internal audit of the audited entity |
| | X39: The completeness of the risk management process of the audited entity |
| External Pressure | X41: The demand of investors for information disclosure |
| | X42: The media's attention to the audited entity |
| | X43: The attitude of the management of the audited entity |
| Education Level | Dummy variable, 1 for bachelor's degree or below, 2 for master's degree, 3 for doctoral degree |
| Major | Dummy variable, 1 for economic management, 2 for law and finance, 3 for others |
| Job Level | Dummy variable, 1 for audit assistant or fieldwork supervisor, 2 for project manager, 3 for partner |
| Audit Work Experience | Dummy variable, 1 for less than five years, 2 for five to ten years, 3 for more than ten years |

4. Research Conclusions

This study focuses on the factors influencing the degree of disclosure of key audit matters under the background of strengthened regulation. By employing in-depth interviews and questionnaire surveys, it aims to clarify the extent of influence of each factor on the degree of disclosure of key audit matters, and to improve the theoretical and practical systems of key audit matter disclosure.

In terms of research methods, this study fully refers to previous research results in the questionnaire design process and combines the results of Delphi expert interviews. After several rounds of revision and improvement, the scientific and effective nature of the questionnaire is ensured. Through a series of rigorous data analysis methods, including reliability and validity tests, descriptive statistical analysis, correlation analysis, and

regression analysis, a solid data foundation is provided for the research conclusions.

In terms of the factors influencing the degree of disclosure of key audit matters, this study has made rich and valuable discoveries. At the level of auditors and accounting firms, both firm characteristics and auditor characteristics have a significant positive impact on the degree of disclosure of key audit matters. Factors such as different professional standards and internal quality control processes of accounting firms, resource allocation of audit teams, the intensity of regulatory oversight on audit quality, audit fees, and whether the audited entity is a major client of the accounting firm (independence) all play a role in the disclosure of key audit matters. Larger accounting firms, with their more comprehensive professional standards and internal quality control processes, can disclose key audit matters in more detail.

The increased intensity of regulatory oversight on audit quality also promotes accounting firms to enhance the sufficiency of key audit matter disclosure. The professional experience of auditors, their extent of knowledge of the specific industry in which the audited entity operates, and their familiarity with accounting and auditing standards and understanding of emerging business issues also positively impact the degree of disclosure. Auditors with a high degree of industry specialization can, with their professional literacy, more accurately and comprehensively disclose key audit matters.

In terms of the company and regulation, the environment and characteristics of the audited entity and external pressure also significantly influence the degree of disclosure of key audit matters. The organizational structure, ownership structure, governance structure, business model, industry situation, legal environment, regulatory environment, financial condition, strategic goals, effectiveness of internal control, role of internal audit, and completeness of risk management processes of the audited entity are all closely related to the degree of disclosure of key audit matters. When the audited entity faces a complex organizational structure or unstable financial conditions, auditors tend to disclose more key audit matters. In terms of external pressure, the demand of investors for information disclosure, the media's attention to the audited entity, and the attitude of the management of the audited entity also influence the disclosure of key audit matters to a certain extent. With the increasing demand of investors for information disclosure and the rising media attention, auditors are more likely to fully disclose key audit matters to meet the information needs of all parties.

Through regression analysis, the differences in the extent of influence of each factor were further clarified. The standardized regression coefficient of the characteristics of the audited entity on the degree of disclosure of key audit matters was the largest at 0.338, indicating that among the many influencing factors, the environment and characteristics of the audited entity have the most significant impact on the degree of

disclosure. This means that the characteristics and conditions of the audited entity itself are one of the core factors determining the degree of disclosure of key audit matters. The standardized regression coefficients of firm characteristics, auditor characteristics, and external pressure were 0.224, 0.182, and 0.162 respectively. Although their influence was relatively lower than that of the characteristics of the audited entity, they also played an indispensable role in the disclosure of key audit matters.

In summary, this study not only verified the associations between various influencing factors and the degree of disclosure of key audit matters mentioned in previous studies but also further quantified the extent of influence of each factor and clarified their order of importance in the disclosure process of key audit matters. This research result is of great significance for the improvement of audit theory and the optimization of audit practice. At the theoretical level, it provides more in-depth and quantitative analytical content for the theoretical system of key audit matter disclosure, helping subsequent studies to further expand and deepen on this basis. At the practical level, it offers more targeted guidance for auditors, accounting firms, regulatory agencies, and other participants in the capital market. Auditors and accounting firms can optimize audit processes and disclosure strategies in a targeted manner based on the extent of influence of each factor; regulatory agencies can formulate more targeted regulatory policies based on the research results, strengthen regulatory efforts on key factors, and thereby improve audit quality and the transparency of information disclosure, maintaining the stability and healthy development of the capital market.

There are also certain limitations in this study. The questionnaire survey samples mainly come from auditing personnel of intermediary institutions, and the views and opinions of other relevant stakeholders are insufficiently collected. Future research can further expand the sample scope to include the perspectives of more stakeholders such as enterprise management and investors, in order to more comprehensively explore the factors influencing the degree of disclosure

of key audit matters. In addition, this study is mainly based on the current market environment and regulatory policies. With the continuous development of the capital market and the ongoing adjustment of regulatory policies, as well as the development of artificial intelligence and its application in auditing, the factors influencing the degree of disclosure of key audit matters may change. Subsequent research can focus on these dynamic changes and update the research content in a timely manner to provide continuous theoretical support and practical guidance for the development of the auditing field.

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