

The Influence of Audit Firm Attributes on KAM Disclosures in FTSE100 in Malaysia

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ABSTRACT

Key audit matters (KAM) functions to optimise auditors' reporting transparency to emphasise the most pivotal audit matters occurring from auditors' perspectives. Although auditors substantially ascertain the KAM details to be documented in the auditor's report, the extent to which audit firm attributes impact its disclosures in Malaysia remain unaddressed given the paucity of studies on present KAM reporting patterns in the FTSE100 companies listed under Bursa Malaysia. This study aimed to examine KAM reporting trends and assess the correlation between audit firm characteristics and KAM disclosures in FTSE100. Content analysis quantified KAM reporting in audit reports following the yearly reports issued by sample companies between 2017 and 2019. The number of KAM reporting proved to be similar annually with an average of 2.36 KAM issues per company. A significant and positive connection was identified between audit fees, leverage, and complexity with the number of KAM disclosure while a significant and negative counterpart was highlighted between female audit partners, audit firm tenure, and the number of KAM. Overall, the present study expanded the current body of literature with significant outcomes that support auditors, regulators, and policymakers who provided a sound comprehension of KAM disclosures in Malaysia.

Keywords: Key Audit Matter, External Auditor, Audit Fees, Audit Firm Tenure, Malaysia

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INTRODUCTION

The compulsory inclusion of KAM improves audit quality following the assumption that highly-informed auditor's report demonstrate improved quality (DeFond & Zhang, 2014). Specifically, changes in auditor reporting could alert external auditors on the most crucial aspects to mitigate financial reporting risks (Reid et al., 2019). Auditors could resolve such complexities by conducting current procedures with high professional skepticism by emphasising key areas and other audit quality catalysts (IAASB, 2013).

The KAM strives to optimise auditor's report communicative value, thus rendering the audit to be more transparent for high user trust in audited financial statements (IAASB, 2013). The KAM implementation by the International Auditing and Assurance Standards Board (IAASB) has globally revolutionised auditing in recent years by incorporating novel IAASB principles to generate more informative, transparent, and explicit audit reports (CPA, 2016). In this vein, the KAM concept could positively impact the audit process (Cordos & Fulop, 2015). Empirical evidence disclosed that meticulously-documented KAM reports could facilitate a more holistic comprehension of audit reports than most general statements and disclosures (Sirois et al., 2018). Although it was contended that the new audit report prerequisites might encumber auditors and adversely impact audit quality (KPMG, 2015), KAM potentially affects auditors in terms of sustaining a reputation and complying with regulations. In other words, improved client satisfaction is imperative apart from high-quality audit.

Based on current archival research, audit firm characteristics (audit fees) and client attributes (complexity, size, profitability, and industry type) were related to KAM disclosure (Ferreira & Morais, 2019; Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020). Notwithstanding, the findings proved inconsistent concerning the audit firm characteristic-KAM reporting correlation. Shao (2020) proposed that audit partner gender and tenures and industry expertise substantially impacted KAM disclosures while Asbahr and Ruhnke (2019) contended that KAM disclosures did not influence auditors' skeptical judgments and audit efforts. As Abdullatif and Al-Rahahleh's (2020) qualitative study revealed audit firms to generally disagree with the nature and type of KAM, audit partners would be inclined to report an industry-specific KAM compared to an entity-specific

counterpart and avoid reporting governance and internal control concerns. Although companies and auditors possess a certain degree of impact on KAM during the audit process, the means by and extent to which the effect is reflected remain unexplored (Shao, 2020). Overall, multiple firm and auditor characteristics could influence the KAM disclosure characteristics.

The KAM in Malaysia

The novel ISA 701 (Communication KAM in Independent Auditor's Report) standard, which is mandatory for public listed companies in Malaysia, was adopted since the financial year-end on December 15, 2016. Past local research primarily emphasised the descriptive analysis of KAM reports (Riri, 2019; Ummi Junaidda et al., 2018). Wei Min and Lian Kee (2018) investigated whether the KAM documented in auditor reports parallels to the financial performance of financial statements while Hashim et al. (2019) examined whether the particular attributes of construction companies could impact KAM reporting in Malaysia. Meanwhile, Mohd Nasir (2019) explored and demonstrated that there are considerable disparities in the disclosure of KAM between those companies receiving an unqualified with going concern issues and qualified audit reports. Kitiwong and Srijunpetch's (2019) cross-country study encompassing Malaysia, Thailand, and Singapore implied that cultural attributes involving uncertainty avoidance and masculinity did not impact the number of disclosed KAM. Recent research by Abu & Jaffar (2020) asserted that the number of KAM could be reduced by regular audit committee meetings.

The KAM reporting patterns in annual reports remain underexamined with lack of reviews following the paucity of past research on KAM reporting by FTSE100 listed companies. Audit reports on FTSE 100 companies that are of a high quality may serve as benchmarks within and across audit firms (Seebeck & Kaya, 2022). In addition, the extent to which audit firm attributes affect local KAM disclosures remains unexplored. Therefore, this study aimed to ascertain (i) the KAM disclosure trends on FTSE100 companies and (ii) possible audit firm attribute-KAM reporting correlations.

This study intended to provide precise and valuable empirical results to support regulators, policymakers, and professional bodies as they give a

better view in understanding KAM disclosures in Malaysia. Moreover, the results will also provide auditors in other markets with insights into KAM reporting and enable scholars to conduct new research in this area. The study has the potential to inform auditors in Malaysia about the overall effects of this reform for audit report preparers. The subsequent sections describe the literature review, the research methodology, the results and discussion, and then the conclusion of this study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Most scholars employed multiple input-oriented proxies to understand the variances in KAM reporting following past research on the aforementioned dimensions. For example, a significant number of studies that utilised the Big 4 as proxies in examining the correlation to the number of KAM demonstrated inconsistent outcomes. Positive connections were documented through the quantitative research performed in Brazil (Ferreira & Morais, 2019), Australia (Kend & Nguyen, 2020), the United Kingdom (Sierra-García et al., 2019), and Thailand (Wuttichindanon & Issarawornrawanich, 2020), however, insignificant findings were found in China (Shao, 2020).

Given that KAM reporting could affect audit fees following the additional knowledge needed to be incorporated into the auditor's report, it is deemed essential to assess the costs related to novel auditor reports and the net benefit of KAM reporting (Li et al., 2019). Past literature revealed the number of KAM and its entity-level to be associated with high audit fees (Pinto & Morais, 2018; Sierra-García et al., 2019) as such amounts are generally paid by larger, riskier, or more complex companies under the agency theory viewpoints. Regardless, Almulla and Bradbury (2018) proposed that audit fees would not increase as clients might hesitate to cover the additional costs, thus compelling auditors to absorb such expenditure in profit margins. Conversely, a negative number of KAM-audit fees link was highlighted in a Brazilian study (Ferreira & Morais, 2019). In sum auditors might have to select between their reputability and retaining an acceptable amount of return while deciding to report KAM or otherwise.

Auditors' KAM-oriented determinations frequently differ across audit partners given the individual trait impacts on auditors' professional judgments (Jermakowicz et al., 2018). Recent studies employed audit partners' gender to examine the implications on the number of KAM (Abdelfattah et al., 2020; Wuttichindanon & Issarawornrawanich, 2020), KAM entity-level (Shao, 2020), and KAM readability (Abdelfattah et al., 2020; Wuttichindanon & Issarawornrawanich, 2020). In comparison, Shao's (2020) study in China incorporated multiple audit partner attributes (audit partner gender and specialisation) to comprehend variations in the number of KAM.

Audit Firm Characteristics and Number of KAM

Concrete proof of KAM disclosure in the United Kingdom, France, China, and the Netherlands have indicated that audit firm attributes (audit firm size, audit fee, audit firm tenure, gender, and firm specialization) impacted the KAM number, types, descriptions, and readability. Although companies and auditors demonstrated a certain degree of influence on KAM during the audit process, its implications remain relatively underexplored (Shao, 2020). In this regard, multiple companies and auditor characteristics could influence that of KAM.

Audit Firm Size and Number of KAM

Past literature revealed inconsistent findings on the quantitative results of the Big 4-number of KAM disclosure correlation in comprehending the KAM disclosure variances. Several studies highlighted positive outcomes (Ferreira & Morais, 2019; Kend & Nguyen, 2020; Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020) while insignificant counterparts were revealed in China for the Big 4 albeit with positive outcomes for the Big 8 and number of KAM (Shao, 2020). Likewise, Kend and Nguyen (2020) also implied significant differences between Big 4 and non-Big 4 auditors regarding the number of KAM documented per client, the addressed topics (crucial risks), and the number of audit procedures executed on every KAM. As such, the following hypothesis was developed:

H₁: There is a positive relationship between audit firm size and the number of KAM disclosure.

Audit Fees and Number of KAM

The compulsory inclusion of KAM in auditor reports perceivably affected the cost-benefit assessment given that additional information could increase audit fees (Mock et al., 2013) parallel to Li, Hay and Lau (2019). Specifically, novel reporting requirement adoptions in New Zealand induced a substantial rise in audit fees, thus implying that auditors might be pricing the audit owing to high auditor liabilities. Such outcomes corresponded to Pinto and Morais's (2018) cross-country research, which documented a positive correlation between the number of KAM disclosure and audit fees in the United Kingdom, France, and the Netherlands. Nevertheless, both Almulla and Bradbury (2018) and Gutierrez et al. (2018) implied insignificant relationships between the variables as clients might be reluctant to pay for KAM disclosures, thus compelling auditors to undertake any additional costs incurred in profit margins. As such, the following hypothesis was developed:

H₂: There is a positive relationship between audit fees and the number of KAM disclosure.

Audit Firm Peak Season and Number of KAM

Auditors may struggle to cope with peak or busy audit seasons as such time constraints would pressure them to simultaneously finalise multiple audit engagements (Yan & Xie, 2016). Regulatory authorities, such as the Public Company Accounting Oversight Board (PCAOB) have emphasised that large-volume audit tasks could deter audit partners from performing high-quality audits (PCAOB, 2015). In line with Gul et al. (2017), audit partners with heavy workloads are prone to compromise on evidence-gathering duties towards audit completion following the limited timeframe and high work pressure, thus leading to low-quality audit output. Similarly, Heo et al. (2021) perceived that audit companies tend to reduce senior auditors' involvement during peak audit seasons, which is linked to poor audit quality (high discretionary accruals and misstatements). As such, the following hypothesis was developed:

H₃: There is a negative relationship between the audit firm peak season and the number of KAM disclosure.

Female Audit Partner and Number of KAM

Female audit partners demonstrate stringent legal compliance with higher moral rationalisation levels and ethics (Karjalainen et al., 2018). Based on past evidence, the presence of women partners who spend more time planning the engagement with additional tests and procedures alleviate earnings management possibilities (Garcia-Blandon et al., 2019; Mnif & Cherif, 2022; Nekhili et al., 2021) and enhance audit quality. Research involving sample companies from the United Kingdom denoted that female audit partners reflected a significant number of KAM compared to their male counterparts (Abdelfattah et al., 2020). In other words, women partners observed and document potential risks at a higher rate compared to male ones, which paralleled past audit partner studies on gender effects (Garcia-Blandon et al., 2019; Hardies et al., 2016). As such, the following hypothesis was developed:

H₄: There is a positive relationship between female audit partners and the number of KAM disclosure.

Audit Firm Tenure and Number of KAM

Audit tenure could be positively related to auditor competence where auditors could understand internal company controls, accounting information systems, and company-specific hazards under the agency theory (Fitriany et al., 2019). Lennox and Wu (2018) stated that a long tenure could lead to high-quality audit as a partner could gradually acquire more client- and industry-specific expertise. Kamarudin et al.'s (2021) outcomes complemented the information impact where the gradual accumulation of client-specific knowledge in a long auditor-client relationship could induce optimal audits and financial reporting. Regarding KAM, companies with over four years of audit tenure generally issue longer and higher numbers of KAM and industry-specific KAM (Shao, 2020). A longer audit tenure could prove beneficial for partners to disclose more KAM following the gradually-accumulated information and determine substantial matters as reflected in KAM. As such, the following hypothesis was developed:

H₅: There is a positive relationship between audit firm tenure and the number of KAM disclosure.

RESEARCH METHODOLOGY

Sample and Data Collection

The current research sample encompassed companies listed under the top 100 FTSE Bursa Malaysia Index (entailing FTSE Bursa Malaysia KLCI and the Mid 70 FTSE Bursa Malaysia Index) that published financial information between 2017 and 2019. This index was selected as top 100 companies are more likely to have KAM than smaller companies (Abu & Jaffar, 2020; Gutierrez et al., 2018) and the listed forms constituted 79% of the highest market capitalisation in Bursa Malaysia. Notably, KAM reporting is only compulsory for listed companies as they are primarily audited by Big 4 audit companies that are cognizant of the novel KAM reporting criteria (Asbahr & Ruhnke, 2019).

This research utilised the annual report data between 2017 and 2019 following the ISA 701 implementation from December 15, 2016 onwards. Data from 2017 were first employed in this assessment for data sampling to ensure fairness in the sample since, in 2016, companies with fiscal years ending before December are not obligated to comply with the new requirement (Wei Min & Lian Kee, 2018). In the study context, a KAM requires reporting during the duration period to establish the disclosure pattern. Thus, it was deemed relevant to utilise a constant sample encompassing the same companies audited by the same audit firm and audit partner gender throughout the study period. The population under analysis involved the FTSE100 companies for three consecutive years with a total of 300 observations. The final research sample involved companies across multiple sectors and sizes, was derived upon omitting companies without annual reports during the three-year study (see Table 1). The sample distribution is presented industry-wise in Table 2. Specifically, companies from financial, industrial, and consumer goods sectors constituted the sample majority with 21.84%, 20.69%, and 12.64% respectively. The financial industry was included in the study to be consistent with prior researchers investigating KAM disclosure in the UK, France, Netherlands, China and Thailand (Pinto & Morais, 2018; Shao, 2020; Wuttichindanon & Issarawornrawanich, 2020).

Table 1: Sample composition

FTSE 100 Index Companies	Observations
Listed throughout the study period (2017 - 2019)	300
Unavailability of annual report (six companies)	(18)
Audit firm switches (seven companies)	(21)
Final samples with KAM reporting for three consecutive years (87 companies)	261

Table 2: Sample Distribution based on Industry

Industry	No. of company	Percentage
Financials	19	21.84%
Consumer Goods	11	12.64%
Healthcare	7	8.05%
Industrials	18	20.69%
Telecommunications	5	5.75%
Utilities	7	8.05%
Basic Materials	4	4.60%
Consumer Services	8	9.20%
Oil & Gas	4	4.60%
Technology	4	4.60%
Total	87	100.00%

The KAM incorporated into the audit reports were determined by content analysis while the audit firm attributes were derived from their financial statements. The financial data were extracted from the Thomson Reuters DataStream database and audited financial statements published on each company website. The KAM details were elicited from the auditor’s reports released for every company.

Research Design and Measurements

The dependent variable was assessed following the number of KAM employed by past literature (Abdelfattah et al., 2020; Abu & Jaffar, 2020; Kend & Nguyen, 2020; Shao, 2020; Wuttichindanon & Issarawornrawanich, 2020) while the independent counterparts implied audit firm size (Pinto & Morais, 2018; Shao, 2020), audit fees (Almulla & Bradbury, 2021; Ferreira & Morais, 2019), peak season (Abu & Jaffar, 2020), female audit partner

(Abdelfattah et al., 2020; Wuttichindanon & Issarawornrawanich, 2020), and audit firm tenure (Chu et al., 2018). Table 3 thoroughly outlines the the study variable measurement.

Table 3: Measurements of Variables

Variables	Definition	Measurement
KAM	Number of KAM	Number of KAM denotes the cumulative number of issues denoted in the KAM section of the audit report.
AF Size	Audit Firm Size	The dichotomous attribute equals to 1 if the company is audited by a Big 4 auditor and 0 otherwise.
Audit Fees	Current-year audit fees	Demonstrates what is charged for audit services by the auditor to the client.
Peak Season	The financial year end of the company	The indicator variable is equal to 1 if the fiscal year-end of the company is during the month of December and 0 otherwise.
Female	Female audit partner	A dummy variable is equal to 1 if the audit partner is female and 0 otherwise.
Tenure	Audit firm's tenure	Assessed by the number of consecutive years an auditor is engaged with the same client.
Profitability	Profitability of the company	Evaluated through return on equity.
Company Size	Total assets of the company	Measured as total assets.
Leverage	Leverage of the company	Measured by total debts divided by total assets.
Complexity	Complexity of the company's business	Assessed by the number of segments the audited company business line is divided into.

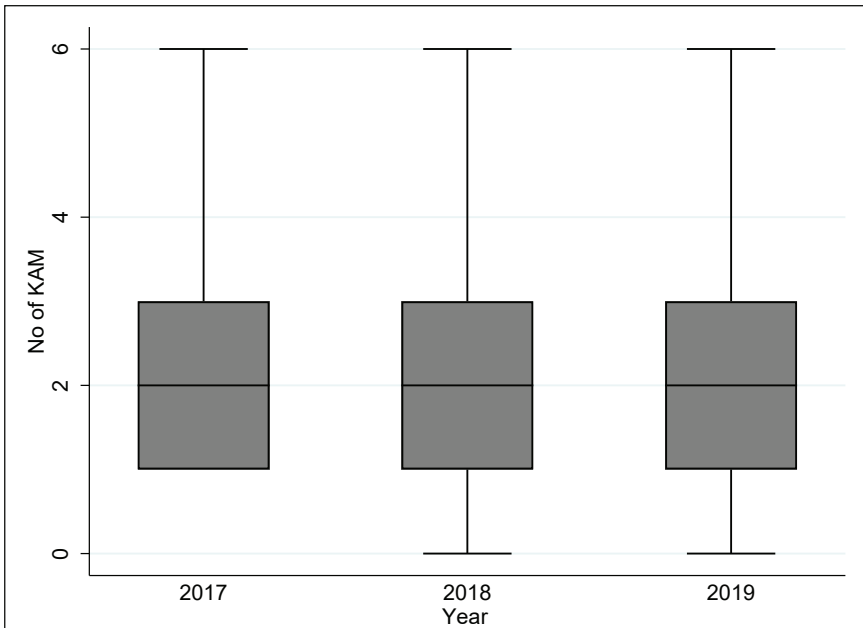
The empirical model formula is presented below to attain the study objective and investigate the audit firm attribute impacts on the number of KAM:

$$KAM = \beta_0 + \beta_1 AFSize + \beta_2 AuditFees + \beta_3 Peak + \beta_4 Female + \beta_5 Tenure + \beta_6 Profitability + \beta_7 CompSize + \beta_8 Leverage + \beta_9 Complexity + \theta_{1-n} Industry effects + \theta_{1-n} Year effects + \epsilon_{it}$$

RESULTS AND DISCUSSION

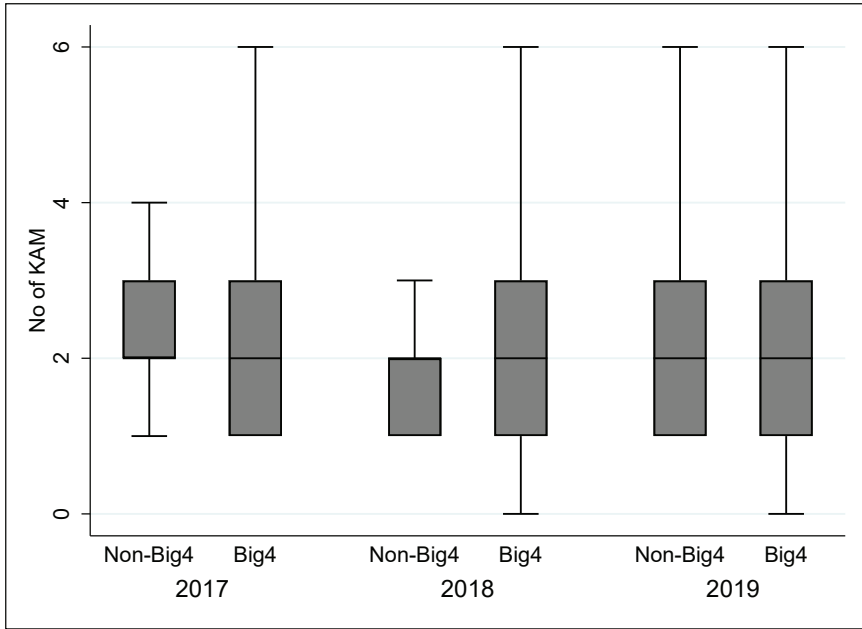
Descriptive Analysis

Although the number of KAM reporting trends in Bursa Malaysia FTSE 100 companies demonstrated a similar mean of two KAM annually between 2017 and 2019, one company revealed zero KAM for two consecutive years as outlined in Boxplot Graph 1. Meanwhile, there were also a few companies with six KAM. Perceivably, the description of KAM with a higher range is entity-oriented with a more detailed KAM than other companies.



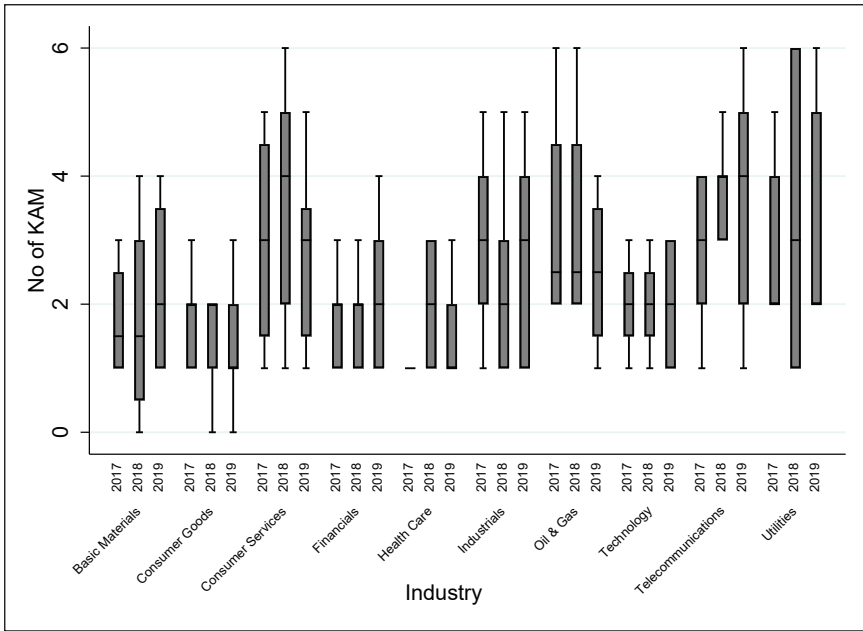
Graph 1: Trends in Number of KAM Reported

A total of 69 companies from the initial 87 were audited by Big 4 audit firms while the remaining 18 companies were audited by non-Big 4 counterparts. In comparing the number of KAM reporting by Big 4 and non-Big 4 audit firms, both companies reported the same mean value of two KAM for three consecutive years (see Boxplot Graph 2).



Graph 2: Trends in Number of KAM Reported for Big 4 and Non-Big 4 Audit Firms

Boxplot Graph 3 illustrates the minimum, maximum, and mean of number of reported KAM during the research period from 2017 to 2019. The consumer goods industry reflected zero reported KAM in 2018 and 2019 while the highest number of KAM (six) originated from oil and gas in 2017, oil and gas, consumer services, and utilities in 2018, and telecommunication and utilities in 2019. The financial institution trend proved to be consistent throughout the three years with auditors disclosing lesser KAM in this sector. In practice, banks are deemed to be more complex and closely monitored by regulatory bodies, thus leading to auditors finding a low-risk area (Pinto & Morais, 2018).



Graph 3: Trends in Number of KAM Reported between Industries

The descriptive statistics for all the continuous study variables are presented in Table 4. The mean value of the number of KAM reflected 2.36 with a standard deviation of 1.38. The Big 4 audit firms constituted top-ranked auditors appointed by 69 (79.31%) FTSE100 companies. In this vein, most publicly-traded businesses in Malaysia selected credible global audit firms that could provide high-quality audit services for financial report analysis (Waad et al., 2021). The average of audit firm tenure (with the same company) implied 10.35 years with a maximum tenure of 16 years and a minimum of one year. Companies with missing values for any of the aforementioned research variables were omitted. All continuous variables were winsorised at 1% (top and bottom) to alleviate the outlier impacts.

Table 4: Descriptive Analysis

Panel A				
Variable	Mean	Std. Dev.	Min	Max
KAM	2.36	1.38	0.00	6.00
AF Size	0.79	0.41	0.00	1.00
Audit Fees	3111.26	4573.92	116.00	26007.00
Peak Season	0.56	0.50	0.00	1.00
Female	0.19	0.39	0.00	1.00
Tenure	10.35	4.90	1.00	16.00
Profitability	19.13	31.75	-22.23	214.97
Company Size	44438059	1.14	445436.00	7.64
Leverage	0.26	0.17	0.00	0.68
Complexity	3.38	1.55	1.00	8.00

Panel B		
	Frequency	Percentage
Big4	69	79.31
Non-Big4	18	20.69

Based on Table 5, no multicollinearity issues were demonstrated between independent variables from the Pearson correlation indicators. The highest correlation was between audit fees and number of KAM at 0.466 while correlations with other explanatory variables fell below 0.466. The tolerance factors (TF) varied between 0.603 and 0.934. Likewise, the variance inflation factor (VIF) outcomes ranged from 1.11 to 1.32 with a mean of 1.20, thus implying no multicollinearity issues in the model.

Table 5: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) KAM	1.000									
(2) AF Size	0.063	1.000								
(3) Audit Fees	0.466*	0.180*	1.000							
(4) Peak Season	0.065	0.294*	0.080	1.000						
(5) Female	-0.015	0.252*	0.221*	0.142	1.000					
(6) Tenure	-0.017	0.194*	0.166*	0.008	-0.083	1.000				
(7) Profitability	-0.222*	0.049	-0.218*	0.035	0.011	-0.127	1.000			
(8) Comp Size	0.066	0.161*	0.290*	0.134	-0.004	0.135	-0.113	1.000		
(9) Leverage	0.370*	-0.051	0.158	-0.043	0.025	-0.047	0.027	-0.147	1.000	
(10) Complexity	0.251*	-0.047	0.254*	0.079	0.223*	0.114	-0.259*	0.274*	0.117	1.000

Note: INDUSTRY and YEAR are not reported for brevity. Variable definition and measurements are exhibited in Table 3 *** p<0.01, ** p<0.05, * p<0.1

Multivariate Regression Analysis

Table 6 presents the estimation outcomes of pooled OLS (POLS), random effects (RE), and fixed effects (FE) regression. Regarding the Pooled OLS model, the Breusch and Pagan Lagrangian Multiplier test (Breusch Pagan, 1980) demonstrated a p-value < 0.05 , hence indicating the RE model preference over POLS. Theoretically, this study aimed to determine the audit firm attributes that ascertain the number of KAM that may present firm-specific implications in the data. As such, the preferred model method was random effect as the Hausman test (Hausman, 1978) reflected a p-value > 0.05 , which indicated random effect as the model selection criteria. Regarding the RE outcome, 37.3% of the variability in number of KAM was justified by the independent and control variables in the regression equation.

The number of KAM disclosures by audit firm size which is Big 4-audited companies reflected no significant variations with the non-Big 4 counterparts in Malaysia contrary to Ferreira and Morais (2020) and Wuttichindanon and Issarawornrawanich (2020). Based on the descriptive analysis, the mean of KAM disclosure for three consecutive years remained the same at two KAM with statistically insignificant correlations that did not support H1. Meanwhile, the evidence in Malaysia showed that high audit fees led to high KAM disclosure levels. Audit fees denoted client risks where higher risks implied higher audit fees and a positive audit fee-number of KAM link (Pinto and Morais, 2018). The KAM needed to be integrated with the auditor's report following its implications on the cost-benefit evaluation: more information might instigate increased audit costs (Mock et al. 2013). Notably, this finding corresponded to that of Pinto and Morais (2018), Wuttichindanon and Issarawornrawanich (2020) and Suttipun (2020) and supported H2 at the 1% significance level.

More than half of the listed companies in the FTSE100 had a fiscal year-end date of December, creating a condition known to auditors as the peak season. However, the end of the fiscal year on 31 December (the peak season) did not affect the amount of KAM disclosure. In other words, the peak season did not influence auditors on KAM disclosure (Pinto & Morais, 2018) and failed to support H3. Surprisingly, a negative female audit partner-number of KAM correlation was identified in this study at

the 5% significance level despite not supporting H4. The gender impact could be justified by male respondents who responded more defensively compared to their female counterparts amidst ambiguities and potential detriments to auditors' autonomy (Asbahr & Ruhnke, 2019). The findings paralleled Shao's (2020) China-based samples albeit with contradictions to the outcomes in the United Kingdom (Abdelfattah et al., 2020).

Similar unexpected negative audit firm tenure-number of KAM correlation was found in this study at the 10% significance level. Nevertheless, H5 was not supported in contradiction to past literature (Shao, 2020). A long audit tenure could influence auditors' autonomy and objectivity following the familiarity between auditors and the company management. Concerning the companies-related control variable impacts on the number of KAM disclosure, both leverage and complexity proved to be statistically significant at 1% and 5% levels. This finding also indicated a negative correlation between profitability and size with the number of KAM. As such, high audit fees with an intricate business structure induced a significant number of KAM disclosures. Furthermore, female audit partners and long audit firm tenures negatively correlated with the number of KAM reported by the FTSE100 companies in Malaysia.

Table 6: Multivariate Regression Results

Variables	Dependent Variable: Number of KAM		
	POLS	FE	RE
AF Size	0.293 (1.518)	0.000 (.)	0.302 (0.969)
Audit Fees	0.000*** (7.362)	0.000 (1.481)	0.000*** (4.772)
Peak Season	0.135 (0.918)	0.000 (.)	0.122 (0.510)
Female	-0.654*** (-3.387)	0.000 (.)	-0.627** (-2.026)
Tenure	-0.037** (-2.459)	-0.043 (-0.966)	-0.038* (-1.750)
Profitability	-0.006** (-2.396)	-0.004 (-0.795)	-0.005 (-1.594)
Company Size	-0.000 (-1.330)	0.000 (1.552)	-0.000 (-0.652)
Leverage	2.279*** (5.410)	0.832 (0.933)	1.846*** (3.368)

Complexity	0.139*** (2.719)	0.098 (0.809)	0.151** (2.213)
Industry	Included	Included	Included
Year	Included	Included	Included
Constant	1.257*** (4.500)	1.590*** (2.654)	1.350*** (3.326)
R-squared	0.376	0.050	0.375
Observations	261	261	261

Note: t statistics in parentheses, * p<0.10, ** p<0.05, *** p<0.01

CONCLUSION

The current study implied two substantial outcomes. The first finding encompassed the KAM disclosure trends following the FTSE100 companies under Bursa Malaysia. The number of KAM reporting demonstrated the same mean for three consecutive years between 2017 and 2019 regardless of reports from Big 4 or Non-Big 4 firms in Malaysia. However, in 2017 and 2018, companies audited by Big 4 reported a higher number of KAM with a maximum of six KAM compared to non-Big 4. Additionally, the range number of KAM were reported at zero KAM in the consumer service sector and six (the highest) in the utilities, telecommunications, oil and gas, and consumer service sectors. Next, the second result presented the audit firm characteristic impacts on KAM disclosure.

The findings on the influence of audit firm characteristics shows that audit fees, female audit partner and audit firm tenures significantly affect the number of KAM disclosure in the auditor’s report. A positive correlation between audit fees and the number of KAM disclosure denotes that increased audit costs are parallel with the audit effort. The effort to reveal more KAM to increase transparency in the auditor’s report requires additional time and resources, especially when it requires a thorough discussion between the auditors and those charged with governance.

In addition, the results also revealed unanticipated negative relationships between female audit partners and audit firm tenure and the number of KAM reported by the top 100 companies in Malaysia. This indicated a gender differential in responses to KAM requirements, with female audit partners tend to report lower number of KAM. Furthermore, the

majority of companies audited by female partners were consumer services and healthcare, suggesting that industries may impact the total number of KAM disclosures. With regard to firm tenure-number of KAM correlation, as audit firm tenure increases, the familiarity threat may become detrimental as partners reveal fewer KAM and the auditor's report becomes less transparent.

This study encountered certain limitations. For example, the study outcomes might not be extensively generalised as only the top 100 Malaysian companies were selected for data analysis. Thus, future studies could utilise a bigger sample size and longer observation periods to ascertain the degree to which this conclusion applied to the general population. The study outcomes could also be extended by examining the additional factors influencing KAM disclosure, such as audit firm industry expertise, the audit partner specialisation industry, and audit partner tenure. Potential scholars could perform qualitative research on the audit partner impacts on KAM disclosure to provide more information on why and how KAM reporting differs.

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